CHAPTER I

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The agricultural sector has been playing an important role in the national economic progress in general and in rural economy in particular. In fact the rural development in India is heavily dependent on the development of agricultural sector of the economy. Not only that the pace of industrial progress also largely depends upon the agricultural sector as the latter caters to the need of various industries like sugar, textile, vanaspati/solvent extraction, food & beverage processing etc., through supply of raw materials. Therefore, the agricultural development has always been given strategic importance in all the major economies of the world and India is no exception to it. However, the economy of India, whose major part consists of rural population needs different kinds of treatment to help the farmers in the shape of finance, technology, education and of other inputs such as seeds, fertilizers, irrigation, insecticides, pesticides etc.

The most crucial help for agricultural development can be provided by the Government through agricultural credit facilities to the needy farmers. This chapter is devoted to the discussion of agricultural credit comprising of its role, classification, features, estimates, structure, objectives and importance after discussing the place of agriculture in the national economy.

The Place of Agriculture in National Economy

Needless to say the Indian civilization has dominating character of agriculture. The rural area of India mainly depends on agricultural
and allied occupations and activities. Basically, the agriculture's contribution in the economy of any nation is via heterogeneous activities, operations and products. It may be of interest to discuss the role of this sector with regard to national income, employment, industrial development, national and international trade and consumption.

(i) The Indian agriculture had a lion's share in the national income of the country since the times immemorial. Agriculture comprised nearly 67 per cent of national income upto 1918. Due to the progress of primary, secondary and tertiary sectors of the Indian economy, the share of agriculture showed the declining trend. This fact is supported by the data given in Table 1.1.

Table 1.1
Contribution of Agriculture in National Income

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1914-18</td>
<td>67.0</td>
</tr>
<tr>
<td>1925-29</td>
<td>57.0</td>
</tr>
<tr>
<td>1931</td>
<td>53.0</td>
</tr>
<tr>
<td>(Great Depression)</td>
<td></td>
</tr>
<tr>
<td>1950-51</td>
<td>55.4</td>
</tr>
<tr>
<td>1960-61</td>
<td>52.0</td>
</tr>
<tr>
<td>1979-80</td>
<td>41.2</td>
</tr>
<tr>
<td>1983-84</td>
<td>39.8</td>
</tr>
<tr>
<td>1990-91</td>
<td>30.9</td>
</tr>
<tr>
<td>1996-97</td>
<td>26.1</td>
</tr>
<tr>
<td>1997-98</td>
<td>29.2</td>
</tr>
<tr>
<td>1998-99</td>
<td>29.2</td>
</tr>
<tr>
<td>1999-2000</td>
<td>27.8</td>
</tr>
</tbody>
</table>

Source: Compiled from C.S.O., Economic Survey
Rural Credit and NABARD, March 2000
The share of agriculture has been declining because of the increasing income from non-agriculture sector in national economy. For instance, in 1950-51 out of the total national income of Rs.42871 crores, share of agriculture was Rs.23741 crores (55.4 per cent). In 1996-97, the agriculture contributed Rs.77564 crores in total national income of Rs.296845 crores (26.1 per cent). This declining trend is a positive sign of growth because in developed countries like U.K., U.S.A., Canada, Australia and France, the contribution of agriculture to National Income has been 2 per cent, 3 per cent, 4 per cent, 5 per cent and 7 per cent respectively. To reach to this level of advanced economies, the Indian economy needs ‘miles to go’. The high share of agriculture in national income and employment is a sign of its backwardness.

(ii) As far as existing employment level and the employment generation are concerned, the agriculture provides an overwhelming magnitude of employment in the rural area. At the time of independence, near about 70 per cent of the population in the economy was working in agriculture and allied activities. This obviously is because of the absence of vast opportunities in other sectors like industry, service, etc. Table 1.2 provides the figures of employment in agricultural sector.
## Table 1.2
Employment in Agricultural and Allied Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment (in per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1901</td>
<td>71.7</td>
</tr>
<tr>
<td>1921</td>
<td>76.0</td>
</tr>
<tr>
<td>1951</td>
<td>72.1</td>
</tr>
<tr>
<td>1961</td>
<td>71.8</td>
</tr>
<tr>
<td>1971</td>
<td>72.1</td>
</tr>
<tr>
<td>1981</td>
<td>68.8</td>
</tr>
<tr>
<td>1991</td>
<td>66.9</td>
</tr>
<tr>
<td>2000</td>
<td>71.0</td>
</tr>
</tbody>
</table>

*Source:* Compiled from C.S.O., Economic Survey

As per the Census of India, 1981, the agriculture workers (cultivators, labourers, and engaged in livestock, forestry, fishing, hunting, plantation and orchards etc.) were 68.8 per cent of the total main work force of 220.7 million. It was 66.9 per cent as per 1991 census (C.S.O., 1999, p.6) which shows a little decrease. The total number of agriculture workers was 276 million in 1996 showing a decreased percentage but increase in absolute number. It again increased even in percentage terms in the year 2000.

(iii) Industrial development is *heavily* assisted by the agricultural sector in the sense that the supply of raw materials to many types of industries is catered to by this sector. As already stated in the beginning of this chapter, many kinds of industries such as solvent extraction, textile, sugar, vanaspati, paper, food processing and rubber etc. (small
as well as large size) obtain their raw materials from the agricultural sector. The generation of national income, thus through industrial sector is made possible with the direct and indirect support of agriculture. That is why, in every Five Year Plans, the agricultural sector is allocated a good amount of investment for its better development. Table 1.3 shows the picture of such investment.

**Table 1.3**

<table>
<thead>
<tr>
<th>Plan</th>
<th>Percentage</th>
<th>Plan</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Plan</td>
<td>31</td>
<td>6th Plan</td>
<td>24</td>
</tr>
<tr>
<td>2nd Plan</td>
<td>20</td>
<td>7th Plan</td>
<td>22</td>
</tr>
<tr>
<td>3rd Plan</td>
<td>21</td>
<td>8th Plan</td>
<td>22</td>
</tr>
<tr>
<td>4th Plan</td>
<td>23</td>
<td>9th Plan</td>
<td>23</td>
</tr>
<tr>
<td>5th Plan</td>
<td>22</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Various Five Year Plans*

The industries that depend on the agricultural products are known as ‘Agro-based industries’. These agro-based industries constitute a big portion of the ‘total manufacturing sector’ of the Indian economy. This works out about 50 per cent of the gross national industrial product. So, one fact that comes on the surface is that in an economy like India agricultural progress and industrial growth go together. Therefore, the development of agriculture sector needs equal amount of efforts for its development through making available the adequate, sufficient and timely supply of credit, seeds, fertilizers,
machines and instruments, irrigation facilities etc. Already National Seeds Corporation (NSC), State Farms Corporation of India (SFCI), State Seeds Corporations (SSC), Seed Certification Agencies (SCA), and State Seed Testing Laboratories (SSTL) and several private sector agencies are making their efforts in this regard. The capital formation in agriculture is in fact the pre-condition for the better development of industrial sector of the country. This capital formation in agriculture was to the tune of Rs.13523 crore (both public and private sectors) in 1993-94 which escalated to Rs.16457 crore in 1998-99 (Economic Survey: 1998-99 and 1999-2000). Its contribution in industrial development is manifold in the country.

The agriculture also contributes in the growth of industries other than mentioned earlier through its backward linkages. These industries are in the production/manufacture of fertilizers, improved seeds, sprinklers, pesticides, plantation, storage and agriculture equipments.

Further, the agricultural sector has been contributing in India's foreign trade through exports and imports. The agricultural trade of India (internal and external) is of high volume.

The share of agricultural and allied products in the total exports has been ranging from 14.6 per cent to 44 per cent during 1960-61 (44.2 per cent) to 1999-2000 (14.6 per cent). Thus share was 31.7 per cent, 30.6 per cent, 21.6 per cent and 18.2 per cent and 21 per cent in

The agricultural sector also acts as backbone of the Indian economy which also supports the infrastructural development. It helps the railways and road transports who get a big volume of business from the movement of agricultural items from one place to another place and thus earning substantial reverse. Better performance of agriculture leads to high purchasing power of the farmers which generates more demand for manufactured goods.

Role of Credit in Agriculture

Use of better and advanced techniques of credit are necessary for agricultural development. A big chunk of Indian agriculturists is poor. The use of machinery, equipments and other inputs is not possible for the farmers without getting the financial help in the form of loan and advances from the government and its sponsored financial institutions. This help to the farmer is in the shape of credit/loans and subsidies. Undoubtedly, credit has played very significant role in the progress of agriculture in India since independence.

The farmer's requirements are determined on the basis of their capacity to borrow and return. All inputs like seeds, fertilizers, small equipments, hired labours, pesticides, fodder etc. can only be arranged by a majority of farmers, with the help of borrowed funds. Most of
these loans are of short period nature say 15 months or so and NABARD provides such help through its financial institutions at various levels.

As to the medium term credit (from 15 months to 5 years), it is generally used by the farmers for the purchase of agricultural implements, cattle as well as for construction and repairs of tubewells. The credit finance given by the financial institutions for the purpose of permanent improvement of land, purchase of tractors and other big sized equipments are known as long term credit and is given upto 5 years. All these three types of time based credits are required to be given by Co-Operative Bank, Regional Rural Bank and Commercial Bank.

It may further be stated that the agricultural credit plays its role in capital formation and its maintenance, storage, marketing and processing activities in the economy. Therefore to modernise our agriculture, the introduction of earmarked institutions for agriculture credit who can work in an organized manner are essentially required. The National Bank should provide the refinance support to co-operative banks, commercial banks and RRBs. The loans should also be given to the state governments and NGOs for increasing the agricultural credit. The short term credits are given by the state cooperative bank for seasonal agricultural operations to the farmers. Various schemes like approved agriculture purposes, conversion of loan credit authorization
schemes and other investment credits are provided by the financial institutions sponsored by NABARD. Presently, the credits are being given to farmers for various purposes such as minor irrigation, land development, farm mechanization, horticulture, poultry, fisheries, and dairy development etc.

**Classification of Agriculture Credit**

The agriculture credit is generally classified on the basis of direct and indirect, period, purpose, security and debtor. This classification is presented in the following Table 1.4.

<table>
<thead>
<tr>
<th>Table 1.4</th>
<th>Showing the Types of Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>I(A) Direct</td>
<td>I(B) Indirect</td>
</tr>
<tr>
<td>It is provided directly to the farmers for crop production, land improvement, irrigation, farm mechanisation, plantation and horticulture, dairy, poultry, fisheries, bullock and bullock carts etc.</td>
<td>It is provided to the organisations who use the credit for distribution of farm inputs, financing various cooperatives, banks, boards, corporations and units</td>
</tr>
</tbody>
</table>

**II Period-Base**

(i) *Short-Term*
- Upto 15 months
- For working capital
- For seasonal agricultural operations (SAOs)
- Demand increases at the time of sowing and harvesting.

(ii) *Medium Term*
- 15 months to 5 years
- For purchasing the implements, live stock and machinery etc.
- Seasonal cum years
- Maintenance and new investment purposes

(iii) *Long Term*
- More than 5 years
- Big amounts of loans
- Used for land and its development, construction of buildings on farms, drainage system etc.
- Repaid in annual instalments.
• Crop, fertilizers and seed loans are main.
• The security is anticipated crop.
• Given with credit limits

III Purpose-Base

(i) For Farm Business
• Only for the operations of agriculture.
• May be of any term.

(ii) For Non-Farm Business
• Only for non-farm operations.
• May be of any duration

(iii) For Family
• For household expenditure
• May be of any duration

IV. Security Base

(i) Secured Credit
• Farm mortgage, security of crops, machines, any other tangible property of the loanee.
• For any duration

(ii) Unsecured Credit
• These are granted on the basis of personal security
• For any duration

V. Basis of Creditor

(i) Institutional
• Cooperative Banks
• Regional Rural Banks (RRBs)
• Commercial Banks
• Agricultural Development Finance Companies
• Government
• NABARD
• IFCI
• IDBI
• IFCI
• SIDBI
• NHB
• ICICI
• IRBI
• UTI

(ii) Non-Institutional
• Professional Money lender
• Commission Agents
• Neerars and Dearers
• Chit funds
• Nidhis

It is the category of source of income for the loanees such as farmers, dairy farmers, fisherman etc.
The credit system for agricultural sector should be based on needs, interests, timely help, controlled and feedback system. In fact, there should be dynamic credit system for this sector so that after maturity of the loan (credit), there should be substantial progress in the area for which the credit was provided. Such types of view were given by Belshowed (1965). RBI and AICSC (1952) and Nakhi Ram (1980) have suggested various characteristics for a sound agricultural credit system.

According to RBI, credit system should have following features:

(i) The credit system for modern agriculture should integrate the credit with services for ensuring the arrangements of inputs and services alongwith credit. The absence of credit is better than facile credit, because the farmer may be used to wasteful consumption purposes which may impose an extra burden on him. On the other hand facile credit is more dangerous because it may lead the borrower to avail credit without any basic needs.

(ii) For the small and marginal farmers under the credit system, all areas should be covered.

(iii) The loan for production purposes should be given under a good system of issue loans. But the consumption loan should not be prohibited completely. The loan should be provided on the basis of anticipated production or increased income which
would occur due to the use of credit rather than tangible security or existing income. It will help the small farmers to avail the credit and implement their plan of cultivation.

(iv) The cost of handling credit and services should be lowered in the credit system. Without this, most of the farmers will be denied credit which may cause a burden beyond their repaying capacity.

(v) The credit system shall be such which mobilises sufficient resources to provide finance for the purpose of investment required for modern agriculture.

All India Rural Credit Survey Committee in its survey of 1951-52 determined certain features of an effective agriculture system as²:-

The credit system should provide an alternative to the private credit agencies, the adequate resources and trained personnel needed for credit system, the security should be of land and anticipated crops, and the borrower’s needs and interest.

NABARD has been making a lot of efforts to improve the rural and agricultural credit by providing the credits at ground level by its funding banks and agencies. The Government of India initiates the number of measures to augment the credit flow through Micro Rural Development Fund, Self Help Groups and strengthening the RRBs etc.
The agricultural credit should also be made smooth in delivering the credits for different types of rural farming and non-farming system.

**Estimates of Credit Need**

The planned way of providing the credit for the different activities belonging to agricultural and rural areas, the requirements of the farmers must be assessed in advance for short and long periods. While determining the estimates, the concerned authorities considered the problems, sources, needs of the beneficiaries, government policies, national investments and the organisational set-up of the institution/agency working in the field. The growth rate is also considered in this regard. Moreover, the estimated productions during the particular period for food grains, capital formation and role of agriculture and allied products in exports/imports are also taken into account while estimating the credit needs.

The estimations of credit need have been made from time to time. All India Rural Credit Survey Committee, All India Rural Debt and Investment Survey, Working Group on Agriculture Credit Committees, All India Rural Credit Review Committee, National Commission on Agriculture and Banks do the good job in estimating the rural credit needs for agriculture and allied services. The estimates made by these above mentioned bodies are listed in the following table:-
<table>
<thead>
<tr>
<th>Year</th>
<th>Organisation</th>
<th>Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-52</td>
<td>All India Rural Credit Survey Committee</td>
<td>750</td>
</tr>
<tr>
<td>1961-62</td>
<td>All India Rural Debt and Investment Survey</td>
<td>1034</td>
</tr>
<tr>
<td>1970-71</td>
<td>Working Group on Agricultural Credit</td>
<td>1421</td>
</tr>
<tr>
<td>1970-71</td>
<td>The Committee of Economists headed by Prof. Dantwal</td>
<td>1460</td>
</tr>
<tr>
<td>1973-74</td>
<td>Fourth Five Year Plan</td>
<td>2000</td>
</tr>
<tr>
<td>1974-79</td>
<td>Fifth Plan</td>
<td>3000</td>
</tr>
<tr>
<td>1978</td>
<td>The Working Group on Rural Credit and Cooperation</td>
<td>3246</td>
</tr>
<tr>
<td>1983</td>
<td>-do-</td>
<td>4780</td>
</tr>
<tr>
<td>1978-83</td>
<td>The Working Group on Agriculture Credit from Commercial Bank</td>
<td>6290</td>
</tr>
<tr>
<td>1985</td>
<td>National Commission on Agriculture (NCA)</td>
<td>16549</td>
</tr>
<tr>
<td>1992-97</td>
<td>The Working Group on Agriculture Credit and Cooperation</td>
<td>98850</td>
</tr>
<tr>
<td>1997-98</td>
<td>The Working Group on Agriculture Credit and Cooperation</td>
<td>33375</td>
</tr>
<tr>
<td>1998-99</td>
<td>The Working Group on Agriculture Credit and Cooperation</td>
<td>38645</td>
</tr>
<tr>
<td>1999-2000</td>
<td>The Working Group on Agriculture Credit and Cooperation</td>
<td>44780</td>
</tr>
<tr>
<td>2000-2001</td>
<td>The Working Group on Agriculture Credit and Cooperation</td>
<td>52708</td>
</tr>
<tr>
<td>2001-2002</td>
<td>The Working Group on Agriculture Credit and Cooperation</td>
<td>60842</td>
</tr>
</tbody>
</table>

Sources: S.K. Misra and V.K. Puri - Indian Economy : Himalya Publishing House, Delhi
Rural Credit and NABARD, Planning Department, Head Office, Mumbai, March 2000.
The total ground level credit for agriculture and allied activities was estimated to have reached a level of Rs.52,708 crore during 2000-2001 and is projected to reach a level of Rs.60,842 crore during 2001-2002.

A Working Group on Agriculture Credit and Cooperation for 9th plan was set up by the Planning Commission in 1995 under the chairmanship of Shri P. Kotaiah, Chairman, National Bank for the purpose of estimating credit flow to agriculture sector under 9th Plan period and to assess development of SF/MF, SC/ST and weaker sections and backward regions. One of the major recommendations of the working group was that credit flow would rise from Rs.33375 crores in 1997-98 to Rs.60842 crores in 2001-2002. The credit could double during 9th plan period. It was also suggested that the enhancement of credit flow for agriculture, particularly weaker sections, reduction of regional/sectoral imbalance by exploiting potential with appropriate credit and development packages, greater investment of NGOs and SHGs and strengthening of co-operative through DAP/MOU with necessary government support was desirable for future growth of the economy.
REVIEW OF LITERATURE

Many studies have been conducted on the issue of rural and agricultural financing both at micro and macro levels. The studies were based both on primary as well as secondary information. The role of various institutions has also been studied by various scholars from different angles. In fact, the area of rural credit and agricultural financing offer such a large scope that scholars may attempt to investigate various new issues. Hence, in every study one finds a different approach and different aspects which were not covered by earlier studies. There is still a large scope of research in this area.

Before finalising the scope and objectives of the present study, the researcher made an attempt to scan the available literature. A review of a few important and relevant studies in this area, has been made in the section.

Dandekar³ (1956) focussed the private money lenders’ position in wielding an element of social coercion in the matter of repayment which gives him an essentially monopoly power over the borrowers. Raj⁴ (1968) indicated that when the percentage of borrowings from agricultural or professional money lenders for consumption increases the percentage borrowed from them at more than 18 per cent interest rate also increased substantially.
Panandikar⁵ (1959) revealed that saving capacity of the agriculturists, who make up the larger portion of the Indian community, is very small even in good years. The few well to do agriculturists, who can save substantially in good years, use their savings for the purchase of land or ornaments or for the money lending operations. Panandikar suggested that banks should increase the popularity of investment in trust securities, by lowering their charges to the public for the purchase and sale of these securities and for the collection of interest, safe custody, and other services regarding them and by offering favourable terms to the public for the purchase of needy issued securities in instalments. He further suggested that the larger sized primary credit societies should institute a mutual help chit fund.

Menon⁶ (1961) emphasised that various schemes started by the Reserve Bank of India equate rural credit with agricultural credit. A rural community may acquire an additional wealth only in so far as its produce is sold outside itself and conditions are, therefore, conducive to economic stagnation in the rural areas. He suggested that a sound rural credit scheme may provide finance not only for agriculture as in the bank scheme but also for animal husbandry, fishery, rural industry, rural trade, rural transport and all other economic activities of the country.
Singh\(^7\) (1963) emphasised that major portion of the total credit of farmers went to ceremonies and domestic consumption and that only a small portion was used in ways which increase agricultural production. Singh concluded that resources of money lenders may be used to increase agricultural production rather than encourage consumption and ceremonial expenses. The money lenders should be incorporated and the government should device a scheme to utilise to the full funds of money lenders for the betterment of agricultural and rural economy.

Naidu\(^8\) (1968) revealed that cooperative credit movement has registered a significant progress during the decade under review (1951-61). The credit supplied by cooperatives is biased in favour of the big and influential cultivators. The small cultivators got only 11 to 12 per cent of their total borrowings from the cooperatives. Chanana\(^9\) (1969) examined the role of commercial banks in financing agricultural credit in rural sector in India. He depicted that farmers require credit not only for economic heads of expenditure but also for social and uneconomic ones. He suggested that for the stamp duty on agricultural credit, the farmer may receive the same treatment as he gets in the case of loans from cooperative banks.

Ghosh\(^10\) (1969) depicted that the banking policy evolved from time to time in making the banking system an effective instrument of development. Ghosh concluded that an appraisal of the role of banking
system in economic development may not be divorced from the socio-political framework in which the economy functions. Ghosh suggested that monetary institutions have a unique role in economics, should be centrally directed and controlled, banking system should be fitted into the scheme of development to make the process of saving and their utilisation.

Nakra\textsuperscript{11} (1970) revealed that one of the hopeful factors of the present position of cooperative credit magnitude of credit is sizeable and growing. He emphasised that efforts are being continuously made to persuade these institutions to adopt production oriented lending policies to improve their operational efficiency to promote the growth of viable units at all levels and above all to coordinate their working with the marketing and processing of agricultural produce and supply of agricultural requisites.

Prasad\textsuperscript{12} (1970) indicated that the president of the central bank exercised the leadership of the central bank, the procedures of advancing the recovery of loans at the primary society level contributed to undue delay in the flow of funds and the techniques of inspection at the different levels were the same.

Rao\textsuperscript{13} (1971) studied the problem of bank finance in relation to small farmers and confirmed the popular impression that it is large farmers who have taken the main advantage of bank credit. To bring in
more and more small farmers, the author would like banks to provide extension services in relation to credit and fix some minimum share of bank finance to small farmers. Pandey\textsuperscript{14} (1972) revealed that the small, medium and large farmers comprised 40 per cent, 33.33 per cent and 26.67 per cent of the total selected farmers - respectively. Against these the respective share of each size of holding in the total loans advanced were 21.08, 32.60 and 43.32 per cent respectively which indicated that the large-size cultivators enjoyed larger share of the total loans advanced, than the medium and small farmers. He further depicted that the distribution of resources and central functions entrusted to the banking system in India are an integral part of the methods and policies of national economic management of the centrally planned economies.

Lal\textsuperscript{15} (1972) evaluated the role of institutional and non-institutional credit agencies in eastern U.P. He concluded that only the substantial and well to do farmers benefitted from various facilities in the region due to involvement of politics and politicians in the proper dispensing of agricultural credit in the region. The important source of dispensing rural credit was the agency of agriculturist money lenders who accounted for 45.7 per cent of the whole borrowings and the percentage of the borrowings from commercial banks was only 0.7 per cent the lowest in the region. Gupta\textsuperscript{16} (1972) analysed inter-district variation in per capita credit with the help of econometric models.
Gupta concluded that the proportion of agricultural credit in total credit were to decline in course of time (the regression coefficient of time variable was found negative and significant) has not come true.

Kumar and Kahlon\(^7\) (1973) concluded that small farmers were defaulters because of poor repaying capacity whereas large farmers were simply wilful defaulters. Jain\(^8\) (1973) depicted that rural economy of Bhilwara (Rajasthan) has been benefitted as a result of loan provided by nationalised banks. It suggested that quantum of banks loans for poultry, fisheries, animal husbandry and allied activities may be increased to raise the income level of households in rural areas. The author suggested that a clear cut demarcation on the basis of geographical areas should be made of each branch for intensive credit effort for the area.

Ames et al.\(^9\) (1973) concluded that over 69 per cent of all defaulters were large farmers and they accounted for over 74 per cent of all overdues of short-term credit in the poor and very poor repayment categories. Further, the small farmer defaulters advanced the following reasons for their overdue short-term loans; 46 per cent natural calamities, 5 per cent fall in agricultural prices, 5 per cent limited resources and 44 per cent gave other reasons such as diseases and medical expenses for the family, no marketable surplus, and the
misutilisation of cooperative credit for litigation, marriage and livestock purchase. But the point to be noted, however, is that large farmers too have reported similar repayment problems.

Ghakhar and Gangwar\textsuperscript{20} (1975) indicated that a major portion of credit borrowed by small farmers was diverted to meet domestic requirements in terms of food, medicine, marriages, litigation paying of old debts and other social obligations. Lavana\textit{et al.}\textsuperscript{21} (1976) depicted that although 21.53 per cent of the total sample borrowers (65) were small farmers they accounted for hardly 4.00 per cent of the total bank loans; whereas large farmers who were 41.54 per cent of the total number of sample borrowers accounted for a little more than 83.00 per cent of the total bank loans. The study also indicated that all the institutional agencies are biased towards large farmers. Laxminarya\textsuperscript{22} (1977) attempted to examine the socio-economic conditions of agricultural labour households in three villages in Punjab, Haryana and Western Uttar Pradesh. According to him, literacy is spreading to cultivating households while the progress is very disturbing in the case of labour house-holds. Green revolution appears, to have contributed to increase in wage income from cultivation.

Belshow and Gadgil\textsuperscript{23} (1978) emphasised that the institutional credit differs from non-institutional credit mainly on the ground of
supervision over the end use of credit. It may be stated that lack of supervision leads to mis-utilisation of credit and sometimes results in non-repayment of institutional dues.

The results of the Reserve Bank of India\textsuperscript{24} (1971-78) survey decennial indicated that borrowings from three institutional agencies, were 2.17 per cent of the total cash borrowing of the cultivator household. Despite some differences in the results of both these surveys, it is inferred that compared to 1961-62 borrowings of cultivators from institutional agencies have increased in the early seventies in the country and also the supply of institutional credit for agriculture. RBI Review Committee\textsuperscript{25} (1981) revealed that the aggregate study of institution for credit agriculture during the Fifth Five Year Plan has been evaluated in the two publications of the RBI. In this context, the committee commented that the primary agricultural credit societies had almost achieved the level of total lending expected to be achieved by 1979 by the end of June 1977, itself and judging from the progress made by the commercial banks in the last five years, they could be expected to achieve the target.

Jacob\textsuperscript{26} (1978) evaluated that work done by the banks in the sphere of agricultural credit and also examined the pattern and extent of credit disbursement by nationalised banks over a period of time. Prasad\textsuperscript{27} (1978) revealed that the cost of borrowing from institutional sources was maximum on marginal farms and relatively low on large
and small farm and farmers in the area used agricultural loans for non-agricultural purposes. Repayments per small and marginal farms to cooperative credit societies were higher than the similar repayments by large farms.

Gupta et al (1978) assessed the extent of uneven distribution and concentration of cooperative credit in different states in India in the period between 1970-71 and 1975-76. The cooperative credit when measured in terms of per capita or per hectare, appears to be very unevenly distributed among the states. The contributory factor for such distribution is the difference in technological progress between developed and under-developed regions. Reddy (1978) revealed that the defaults ratio is higher for the primary cooperatives in the less developed region as compared to those in the developed region in Andhra Pradesh.

Desai (1979) observed that eleven relatively well banked states and union territories have appropriated over 50 per cent of the additional bank branches opened since 1969. It is also observed that rural branches of commercial banks have failed to mobilise deposits even in areas where postal savings banks have recorded significant progress. It is also observed that opening of commercial bank branches in rural areas is often mere of a ritual meant mainly to fulfil physical targets but without any firm commitment or even the fair test notion of serving rural areas and customers. Many of these rural branches are
starved of required staff inputs. It is also observed that about 40 per cent of the agricultural loans are concentrated in the four southern stages which however account for only about 25 per cent of the total population of the country.

Patel and Chawla\(^3\)\(^1\) (1979) observed that only 6 per cent of the total bank credit has gone to borrowers in priority sector. They also reported that the rate of increase in total credit to the priority sector declined during the period 1974-1976. Small and marginal farmers appear to be neglected as a client group.

Basu\(^3\)\(^2\) (1979) investigated the regional pattern of distribution of the scheduled commercial banks credit to agricultural and allied activities exclusively for plantations. The study concluded that for all districts, the coefficient of variations of agricultural credit per hectare of net shown area is 2.32 as against only 1.39, 1.26 and 0.73 for per capita outstanding credit, per capita deposit and number of bank office, per lakh of population respectively. Further, it indicated that the inter-district range of agricultural credit per hectare of net shown areas is as wide as 12 paise to Rs.1120,80. In other words Basu found that while commercial banks have successfully increased the share of agriculture in their total outstanding credit several-fold, it has failed to maintain minimum degree of uniformity in its regional distribution. He further analysed the impact of selected socio-economic (including
banking) variables to reflect inter-personal as well as inter-regional disparities of wealth and income on the regional distribution of lending operations of commercial banks in agriculture.

Wadhwa\(^{33}\) (1980) revealed that (i) Regional Rural Banks inherited complicated procedural formalities from their sponsoring banks and (ii) studied Regional Rural Banks were not able to meet the targeted disbursement of credit (Rs.5 crores in a year) set by the government of India. The study indicated some probable reasons for the shortfall in meeting the targeted level of loan business. These were limited scope in the areas of their operation, the absence of their (RRB’s) effective links with the Primary Agricultural Credit Societies and the Farmer’s Service Societies and lack of adequate support from the government for expanding business.

Malya and Rao\(^{34}\) (1980) emphasised that major benefits of the banking schemes went to the better off categories viz., medium and large farmers. The shortage of finance has been identified as the major constraint on cases of marginal and small farmers to shift over to the new methods of cultivation. It concluded that over the years, dependence on money lenders has decreased considerably and dependence on old loans, however, has increased. Therefore, creation of adequate credit facilities has been identified as the principal solution for all Indian agricultural problems.
Singh and Sandhu\textsuperscript{35} (1980) estimated the extent of overdues of different categories of farmers and the cause of such overdues. They concluded that out of 34 (84.17 per cent) small, 29 (85.29 per cent) medium and 14 (82.25 per cent) large farmer borrowers, 26 (66.65 per cent) small, 14 (41.17 per cent) medium and 5 (29.40 per cent) large farmers were found to be defaulters. The overdues position per hectare was Rs.93.00, Rs.56.88 and Rs.17.27 for small, medium and large farmers respectively and hence indicated negative correlation with the size of holdings. It further indicated that the wilful defaulters was mainly large farmers because they did not repay loans inspite of their repaying capacity of Rs.7717 per defaulter as against the overdues amount of Rs.3597 per defaulter.

Pandey and Muralidharan\textsuperscript{36} (1980) emphasised that even though the number of defaulters is higher amongst marginal and small farmers as compared to the medium and large farmers, their share in the total amount of overdues is very much less as compared to the medium and large farmers. Again, among the different categories of defaulters, medium and big farmers were the major chronic ones i.e. with overdues for three years and more. The study further revealed and bulk of the defaulters were wilful accounting for a high percentage of the total defaulters (59.63 per cent), wilful defaulters mainly belonged to the higher castes (73.85 per cent), the literate group (75.68 per cent) and had higher operated size of holdings (85.29 per cent), whereas non
wilful defaulters belonged to the middle-class (67 per cent) were illiterate (74.29 per cent) and had lower size of holdings (73.68 per cent).

Pandhy\textsuperscript{37} (1980) critically examined the rural development experiment in relation to the Indian Commercial Banks and also analysed the problems arising out of their presence in rural areas and their possible solutions from different angles for the much needed development and modernisation of the rural sector in India. The Reserve Bank of India conducted a study on the viability of Regional Rural Banks\textsuperscript{38} (1981). The Committee found that performance of the Regional Rural Banks is encouraging. While 4 out of 15 selected Regional Rural Banks have already become viable, others may reach viability in the next two or three years.

Rangarajan\textsuperscript{39} (1982) concentrated on evaluation of the performance of commercial banks on two main planks i.e. deposit mobilisation and purveyance of credit. The author revealed that the importance of bank deposits seems to be increasing among the financial assets held by the rural households. The author also observed that the degree of substitution between commercial bank deposits and other financial assets is quite weak. While endorsing the Dantwala Committee’s observation that commercial banks had essentially supplied additional finance in the same areas where cooperatives were
serving well the author's analysis revealed that commercial bank credit has played a complementary role in terms of distribution of credit between short term and long term in these states.

Virmani (1982) analysed various forms of government intervention in the loan market in terms of their effect on efficiency. It revealed that the credit market differs fundamentally from the market for ordinary goods and services. Memoria (1982) concluded that the poor have not adequate knowledge of the IRDP/financial assistance programme nor do they have the required understanding of the role of the banks. He suggested that the loan assets should be made available to the beneficiaries immediately in order to maximise the output and for the proper utilisation of loans. Dewan (1982) emphasised that India possesses a vast potential for utilising unemployed and under-employed labour force for the development of land and water resources.

Bhalla and Chadha (1983) revealed that 1974-75 was rainfallings a bad year for better part of India including Punjab which recorded 37 per cent belong is normally low rainfall or the order of 600 mm per year. They concluded that irrigation expansion in Punjab seems to have reached its saturation limits and institutional finance played a vital role in the explosive growth of private tubewells.
Gaikwad and Parmar (1983) provided an overview of the peasant economy in India tracing the efforts made at various stages to institutionalise rural credit through the multi-agency approach. The authors concluded that the collaboration for an economic production oriented programme would be effective if the knowledge is transferred to the group as a whole and not to one or two persons so that the individual member would continue his economic operations in future without depending upon other members, if necessary. The author rightly suggested that the FSS must strengthen its organisation as the present organisation cannot cope up with the additional functions which the FSS has to undertake.

Choubey (1983) emphasised that the National Bank for Agriculture and Rural Development (NABARD) is required to pay special attention on the de-politicisation of the agricultural credit infrastructure and professionalise the management of credit agencies, particularly the cooperative credit structure though systematic manpower development plans. He suggested that NABARD may help the agricultural and rural sector in raising their productivity at a reasonable faster rate and it may not become another addition to the already long chain of Institutional Agencies for giving farm credit.

Agarwal (1983) conducted that in a number of plots, more than one technique is used for ploughing, saving, irrigation, and threshing operations in the cultivation of HYV wheat. The zonal
analysis indicates that where as zone III is the least mechanised, zone I is more mechanised than zone II in ploughing, saving, and threshing but less 50 in irrigation. Bhandhopadhoy47 (1984) analysed the relative role of various factors underlying inter-farm variations in the rates of interests, often from the same lender. He considered the following factors for studying this relationship; (i) nature of security offered; (ii) purpose of the loan; (iii) duration of the loan; (iv) size of the loan; and (v) the size of the operated holding of the borrowers.

The study conducted by NABARD48 (1984) concluded that the level of overdues was higher for investment credit (term loans) than for crop loans (short-term credit). A consideration proportion (30 per cent to 50 per cent) of the default in respect of investment credit extended by Primary Land Development Banks (PLDBs) was over five years old, whereas in the case of short-term crop loans borrowed from Primary Agricultural Credit Societies it was typically less than 2 years. One wonders, therefore, whether the greater and prolonged default in respect of investment credit is associated with the less frequent need for its borrowing. Large farmers defaulted more than small farmers. Members who made partial payment, and those who defaulted on the entire amount, constituted 25 per cent and 35 per cent respectively of the total borrowers.
Desai's (1984) study has been found perceptible change in the cropping pattern, cropping intensity, cost structure, income pattern, marketable surplus of the borrowing farmers, vis-a-vis non-borrowers. He suggested that unhealthy competition between the branches of commercial banks, regional rural banks and farmers service societies may be avoided in lending to weaker societies. They should build up storage facilities and take up the marketing agricultural goods of their members. He emphasised that in the case of viable farmers, agricultural institutions have not faced much difficulties in dealing with them, but it is potentially viable and non-viable small and marginal farmers where difficulties are innumerable, require special attention and assistance.

Kuchhal (1985) concluded that the practice of capitalising long term interest violates the conventional accounting standards and overstretches the legal interpretation of the term long term debts. Its benefits are immediate and tangible but its costs lower the business standards and will be felt in the long run. The author has, therefore, suggested that either the Supreme Court or the Government of India should take a firm stand against the practice of capitalisation of long term interest. Singh (1985) examined the role of banking in the development of rural sector in India. He revealed that after nationalisation, the commercial banks have realised the importance of rural development and their responsibilities towards the rural society. He suggested that 40 per cent of the total advances may be disbursed
among priority sectors, of this percentage at least 25 per cent should go to weaker section. There may be stepping up of the present 3000 beneficiaries per block to about 4000-5000 per block. Further, a better rapport through public relations approach may help in the return of loan amount.

Sharma\textsuperscript{52} (1986) constructed an economic model to test quantitatively the role of bank credit in promoting the growth of gross national product. It revealed that before nationalisation of the banks, the bulk of direct finance to farmers have taken in the form of crop loans. Sharma concluded that commercial banks have not followed a well concerned approach to bring about a balanced interregional development of agricultural credit. He suggested that in order to reach the target groups, there should be a link between development programmes and credit programmes in the context of integrated approach of rural development. Such crop loans consist of both cash and kind components but banks were hesitant in supplying medium and long term loans. It was found that agricultural credit schemes in most cases have neglected locational specific reality and have not dealt with the real issue and other problems that farmers come across in particular areas.

Naidu\textsuperscript{53} (1986) assessed the impact of bank finance on income and employment of the weaker sections in India. Though the beneficiaries were benefitted by the financial assistance the benefit was
not significant in terms of increment in net value of output per every hundred rupees of loan in the post loan period. Similarly, the increment in the value of output per person, per day of employment in different sectors was also not appreciable, the positive role played by financing economic development programmes by commercial banks in enabling the weaker sections to improve their income and employment position deserves appreciation.

Singh\textsuperscript{54} (1986) examined the impact of long-term credit use on short-term credit needs of the farms and also the adequacy of the existing use of capital including credit and to determine the demand for additional credit. Rao and Anjanayoin\textsuperscript{55} (1987) depicted the bank credit made an impressive contribution to the implementation of IRD programme. It may be stated that public banks in 1986-87 disbursed a total of Rs.600 crores to nearly 3.5 million beneficiaries under this scheme. In addition, cooperative banks are estimated to have disbursed Rs.3757 crores as credit in rural areas in 1985-86. The Regional Rural Banks (RRBs) with their 12,852 branches had outstanding advances of Rs.1,540 crores at the end of June, 1986. The recently created NABARD has helped by refinancing the operations of cooperatives, commercials and Regional Rural Banks. The refinance distributed by NABARD in 1985-86 amounted to Rs.1192 crores.
Verma (1988) revealed that the banker's position with regard to recovery of these loans has been found quite happy. The loans under IRDP and other programmes have created a crisis of character from identification of beneficiaries to repayment of loans. He suggested that development consciousness should be created among the rural masses. He analysed the impact of rural banking on the masses in Rajasthan. He revealed that rural branches encountered various difficulties in raising primary deposits in their areas due to socio-economic structure, religious beliefs, limited range of customer service, lack of access to large institutional deposits, overlapping and multiplication of financial institutions, hostile attitude of big farmers, towards branches of regional rural banks. Recovery of loans, especially of agricultural loans is posing a serious problem in the state. The recovery position in command area development is poorer rather disappointing. The percentage of overdue loans in agricultural sector is as high as 58 per cent. The study revealed that quantum of credit advanced per office has increased year after year but the quantum of credit per office of nationalised banks, regional rural banks and other commercial banks has always been lower than the average.

Negi (1989) identified various problems relating to institutional credit. These are, failure on the part of member borrowers to repay the loan promptly, in efficient management and inadequate supervision over the working of primary societies, mis-utilisation of
cooperative credit and its diversion from productive to unproductive uses, problem of overdues forced lending policies implemented merely for achieving statistical targets, lack of coordination between cooperative institutions and nationalised bank, insignificant role of land development banks etc. The study concluded that 101 borrower out of 135 utilised full part of the loan for the required purpose and the remaining 34 borrowers out of 135 had partially spent the loan on consumption items.

Vishwanathan (1989) emphasised that cooperatives are facing keen competition from the commercial banks which have a large network of rural branches providing banking and credit services of the rural population apart from competition, the land development banks are also facing the problem of resource constraints for lending because they have no resources of their own being non-banking financial institutions. Velayudham (1989) emphasised that the bretton wood system set the stage for an environment of unparalleled stability in the financial markets in the post war period, which was generally characterised by fixed exchange rates, low inflation, low real interest rates, high growth and very little competition within the banking system. He further revealed that various factors which are shaping the current financial environment are: (i) globalisation as reflected in the Industrial World being dominated increasingly by small number of multi-national corporations; (ii) massive investment in information technology arising from the paramount need for immediate and
accurate information; (iii) deregulation and internationalisation leading to the entry of new players and increased competition; and (iv) disintermediation as indicated by borrowers and lenders by-passing the banks and securitisation. He concluded that a bank must either have global aspirations, i.e. it should view its business area as a worldwide integrated market, or alternatively be a rice player.

Ranga Reddy (1990) depicted that of the 192 sample defaulters, 36 per cent are wilful defaulters. There is a significant variation in the level of default between different size groups of farmers and between regions (divisions). This incidence of defaulters is more among growers of food crops rather than non-food crops households. Nearly two-third of the defaulters have agriculture as their main occupation. Social consumption and crop failure are the major factors affecting the delinquency of unwilful defaulters. 63 per cent of the defaulters are literates. Attitudinal factors relating to the willingness to repay are quite favourable among the samples. Misallocation, variability in incomes and defects in credit organisation are cited as the crucial factors accounting for delinquency of the sample defaulters.

Iyer (1990) stated that unless the farmer finds a vocation profitable, he would not be interested in adopting technology. It stated that the farm support activities embracing transfer of technology delivery of inputs, including credit, irrigation and moisture conservation services. Chakravarty (1990) revealed that the strategy for agricultural development is proposed to focus on increasing output
in rainfed and semiarid areas through greater investment in irrigation land development and soil and moisture conservation. It is proposed to adopt on agricultural policy resolution in order to lay the basic foundations of agricultural development. Constitutional amendment will be introduced for inclusion of land reforms legislation in the ninth schedule of the Constitution.

Besides the above mentioned research work, various scholars have published numerous articles on different aspects of rural and agricultural financing in general and the role and contributions of NABARD in particular.

SCOPE OF THE STUDY

The present study is a modest attempt to evaluate the role of NABARD in the field of agriculture and rural credit. The study also brings out the strength and weakness of the NABARD.

OBJECTIVES OF THE STUDY

While the overall objective of the present study is to evaluate the role of NABARD in the agriculture and rural development, the specified objectives of the study may be enumerated as follows:-

(i) To study organisation and management of NABARD.

(ii) To study sources of funds and financial analysis of NABARD.

(iii) To study the procedure and terms and conditions of refinancing.
(iv) To study efforts made by NABARD in fulfilling the gaps and deficiencies regarding agricultural and rural finance.

(v) To study distribution of refinance in terms of region/state-wise, agency-wise, purpose-wise, and under Integrated Rural Development Programme (IRDP).

(vi) To study the developmental role of NABARD.

(vii) To study the coordinating role of NABARD.

**METHODOLOGY**

In order to attain the aforesaid research objectives the following procedure has been adopted:

(i) **DATA REQUIREMENT**

   The present study is based primarily on secondary data. The primary data were collected only to clarify various aspects of financing/refinancing/ developmental functions/coordinating functions of agricultural and rural development. Our main reliance was the secondary data which will reveal the trends and progress of NABARD in the areas of agricultural and rural development.

(ii) **SOURCES OF DATA COLLECTION**

   The secondary data were collected from the Annual Reports of NABARD and the Reserve Bank of India, the records of NABARD, Reserve Bank of India and Commercial Banks, concerned offices of the Central and State Governments, newspapers, magazines and journals.
The Primary data wherever required were collected by way of personal interaction with the officials of NABARD, RBI, Commercial Banks and the concerned Central and State Government Departments.

(iii) TIME PERIOD

The present study covers a period of 19 years starting from the year of inception of NABARD in the year 1982 to the year 2000.

ORGANISATION OF THE STUDY

The present study has been divided into six chapters.

The study begins with the introduction of the topic. It contains the importance of agriculture in the economy, role of credit in agriculture, classification of credit for agriculture, and the estimation of credit needs. This chapter also outlines the objectives and scope of the study based on review of literature. In the end this chapter describes the methodology used in the present study. Chapter two of the study is about the genesis, objectives, management, organisational set-up and the schemes of finance of NABARD. Third chapter of the study deals with the lending terms and refinance operations of the NABARD. The co-ordination role of NABARD finds place in the fourth chapter. The fifth chapter discusses the developmental role of NABARD and also the supervision and control over the banks and other financial institutions. The sixth chapter contains the summary of the major findings and suggests a few lines for the efficient working of the rural and agricultural credit system.
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