CHAPTER – II
REVIEW OF LITERATURE

2.1. INTRODUCTION

Agriculture is the cornerstone of economy and contributes greatly to the gross domestic product of a country. In developing countries, where about 25 per cent of GDP is derived from the agricultural sector, agriculture plays a pivotal role. Even the governments of various countries are quite aware of this fact and this is the reason why different types of agricultural policies are made at different levels. There are many needs of agricultural sector for the fulfillment of which finance is required. Most of these needs pertain to farmers.

Finance is incumbent on the farmers for the purchase of different types of agricultural implements, for the purchase of high quality seeds, for making marketing arrangements and for storing, it is very important to understand that apart from the agricultural activities, finance is also provided to different types of allied agricultural activities like apiculture, horticulture etc. In each country, there is a separate department at the federal level that takes care of all the agricultural development activities in the nation. This department makes all the policies regarding agriculture finance and ensures that all the financial programs are executed in the proper manner. These agencies help farmers by providing different types of financial assistance at the required time. While formulating policies and providing finance to agricultural sector, the government takes into consideration all the types of farmers, whether small farm holders or big farm holders.

Financial institutions like banks owned by the Government and other agricultural finance centers are required to open their branches in the rural sector so
that agriculture finance is easily passed on to the farmers. Even there are specialized branches that provide agricultural loans only. All the agricultural finance programs aim at fulfilling certain objectives. First objective is the development of local sources for agriculture. For the development of agricultural sector, it is required that there are developed local sources regarding manures, seeds, and irrigation implements, so that these can easily be procured by farmers. Next objective is the proper utilization of manpower in the rural areas. In case of intensive farming, there is more requirement of manpower and the agricultural finance programs must aim at the utilization of the same.

2.2. FOREIGN REVIEW

Joseph L. Masawe (1994) in his study on “Agricultural Credit as an Instrument of Rural Development in Tanzania: A Case Study on the Credit Programme for Tractorization of Small Scale Agriculture in Morogoro Region” pointed out that agricultural credit is considered an important factor in stimulating agricultural production, particularly among small farmers. This research provides the findings from a study on a formal agricultural credit programme sponsored by the government in Morogoro Region. The credit programme supplied tractors to small farmers in the region is to improve production. Through a field survey conducted among small farmers who received the credit, it was found that the performance of the credit programme was below the expected level because of insufficient examination of the socioeconomic situation of the farms and lack of provision of supportive services to the programme.

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Monsur et. Al. (1995) in their study on “Methods of Financing and Recovery of Agricultural Credit – A Case Study of Some Rural Banks Branches of Bangladesh” studied the procedure of disbursing institutional credit is time-consuming and cumbersome. Delay in the disbursement of credit tells on the utilisation of credit for productive purposes and affect the recovery performance. They have also stated that the repayment performance of short term loans were better than long term loans. The large farmers have mainly received long term loans and they are the main defaulters. Further most of the rural bank branches are under staffed with supervisory personnel, which is responsible for poor recovery of agricultural credit. They have concluded that despite the interest rates from institutional sources being low, the real cost of borrowing was much more when compared to usual interest rates charged by banks. Unless effective interest rate is kept at low level, the small farmers would avoid taking institutional credit.

Joseph Made (2000) in his study on “Financing Smallholder Farmers” stated that the smallholder agricultural sector plays an essential role in ensuring food security, economic growth and employment creation. Therefore financing smallholder farmers has become an important undertaking for poverty reduction in developing countries, especially those in Sub-Saharan Africa. There is ample evidence to show that smallholder farmers use land and other inputs just as efficiently as large-scale farmers. This justifies the need to finance and invest in the smallholder sector. This paper discusses the merits and de-merits of different means of financing smallholder farmers in Sub-Saharan Africa, with special reference to Zimbabwe. This financing includes inter alia multilateral and bilateral agreements with governments and other

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agencies, micro-financial institutions coming from both the private sector and non-governmental organizations\(^4\).

**Kadidia Konare (2001)** in his study on “Challenges to Agricultural Financing in Mali”, analysed that in Mali, like in many Sub-Saharan countries, inadequate access to credit has remained a central concern for farmers and a key constraint to the modernization and diversification of their activities. The commercial banks’ limited participation in agricultural financing and the hard terms and conditions for obtaining individual loans have penalized many smallholders and small traders. The vast majority of these people have little to no access to financial services, limiting their productivity, income, investment and overall quality of life. Inadequate regulatory or legal frameworks, monetary policies, inappropriate agricultural loan evaluations and threats to sound microfinance activities are constraining agricultural financing in Mali\(^5\).

**Muhammad Iqbal, Munir Ahmad, and Kalbe Abbas (2003)** in their study on “The Impact of Institutional Credit on Agricultural Production in Pakistan”, suggested that the commercial banks and other financial institutions are encouraged to expand agricultural credit and extend the net of institutional credit to a larger proportion of the farming community especially, the small farmers. These institutions are required to extend consumption loans to the needy farmers in case of a large-scale crop failure especially to farmers with good loan records and these loans be granted in addition to the credit required for their farm operations. Moreover, a crop insurance

\(^4\) Joseph Made, “Financing Smallholder Farmers” Agricultural and Rural Development Authority, Zimbabwe, 2000

scheme may be launched to provide cover to farmers against losses incurred from
drought, pest attacks, hailstorm, thunderstorm, heavy rains, and other natural hazards
on payment of small premium in addition to credit markup⁶.

Dr. G. N. Ssemogerere (2004) in his study on “Agricultural Sector Credit and
Structural Adjustment” analysed that the policy recommendation is to design and
efficiently administer strategic interventions that raise profitability, lower risks and
address those specific constraints that prevent the sector’s access to credit. The three
policy regimes in Uganda were overall: although they improved the credit
environment, they were not sufficient to impart comparative advantage to agriculture
to enable the sector to compete for credit, along with other non-agricultural sectors⁷.

Kim, Young-Chul (2004) in their study on “Improving the Agricultural
Finance System: The Changing Role of Agricultural Cooperatives in Korea”
expounded that the factors contributing to the high growth of deposit mobilization of
agricultural cooperative system in the country include: productivity improvement and
increase in farmer's income due to favorable price policy; and a high interest rate
policy especially for deposits and institutional efforts to tap saving's potential. Under
the changing economic environment, and with the opening of the Korean market,
including the rural financial market, the country has adopted an enhanced
competitiveness as its main agricultural development policy by: promoting production
of high-quality and high-safety farm products; modernizing agricultural cooperative

⁶ Muhammad Iqbal, Munir Ahmad, and Kalbe Abbas, “The Impact of Institutional Credit on
pp. 469–485.

⁷ Dr. G. N. Ssemogerere, Agricultural Sector Credit and Structural Adjustment: Uganda’s Experience
under SAPs 1990/91 – 1996/97; and Beyond, Into Poverty Reduction 1999/00 – 2003 / 04. Makerere
marketing system; and establishing effective supervised credit system especially for agricultural credit supply. As for the agricultural finance system, every country must address the following development issues: enhancing capital market flexibility through the continuous improvement of banking services and techniques, and adopting reforms towards a universal banking system catering to both farm and nonfarm credit, improving management efficiency through effective monitoring and evaluation system and development of cost-effective financial innovation; and strengthening supervised credit system.

Navjot Sandhu (2005) in his study on “Finance Gap amongst Smaller farmers in India, Punjab” examined that the finance gap literature relating to farmers in general and specifically in India; reviews the financial provision and investigates the lending policies of the financial institutions. The study investigates the relationship between education, level of income, social class and the relationship between farmers and financial institutions. The results show that credit limits adversely impact on the efficiency of smaller farmers; information asymmetry and underdevelopment of financial markets for small farmers leads to financial exclusion and negatively impacts on economic development.

Dr. M. A. Olaitan (2006) in his study on “Finance for Small and Medium Enterprises: Nigeria’s Agricultural Credit Guarantee Scheme Fund” stated that a major challenge facing many developing countries, especially in Africa, is devising

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appropriate development strategies that will capture the financial services requirements of farmers and small and medium entrepreneurs who constitute about 70 per cent of the population. The Federal Government of Nigeria considers this segment critical for its development efforts to be fully realised. The Government has instituted various policies to achieve its aims, including a commercial bill financing scheme; regional commodity boards (later called national commodity boards); an export financing and rediscount facility (1987); the Nigerian Agricultural Cooperative and Rural Development Bank Ltd; community banks, People’s Bank; the Agricultural Credit Guarantee Scheme Fund (ACGSF); and the Small and Medium Enterprises Equity Investment Scheme among others. These policies have contributed to improving in livelihoods of farmers and entrepreneurs.10

Saeed Yazdani (2006) in his study on “Analyzing the Impact of Structural Change in Iranian Agricultural Credit System” stated that Replacement of the traditional interest based credit system with an Islamic credit system was one of the fundamental changes in Iran since 1979. The Islamic credit system, offers the prospect of risk sharing between the borrower and the lender. Small farmers are likely to be risk averse and they are reluctant to go heavily into debt in order to finance investments in new technology and capital intensive methods of production which they perceive to be risky. Farmer’s decision making behaviour with regard to risk under the Islamic and interest based credit systems are explored with the aid of a simple conceptual model. Analysis of attitudinal data suggests that the majority of small farmers prefer credit provided under the Islamic credit system. Farmers’

preferences for taking out loans from an Islamic credit system were found to be related to a number of factors. Risk sharing and religious acceptability of the profit and loss sharing loans over the interest based loans were two significant reasons\(^{11}\).

**Yogendra Prasad Acharya, Uma Acharya (2006)** in their study on “Sustainability of Microfinance Institution from Small Farmers’ Perspective: A Case of Rural Nepal” stated that the performance of microfinance institutions in terms of institutional sustainability in Nepal seems not encouraging despite the fact that international and national development programs being given high priority on sustainable microfinance for poor for many years. This study is a case of rural Nepal. Our data came from in-depth individual interviews, and focus group discussions carried out in three farmers’ cooperative organizations (the most successful, the least successful and the median) from the same geographical area and demonstrate how local understandings and views of rural small farmers can contribute towards sustainable microfinance and poverty alleviation in rural Nepal\(^{12}\).

**Betty Kibaara and James Nyoro (2007)** in their book “Expanding the Agricultural Finance Frontier: A Kenyan Case” pointed that agriculture is the mainstay of the Kenyan Economy. However, agriculture has experienced low productivity over the years. Poor access to agricultural finance has been identified as a contributing factor to low crop productivity. Kenyan agriculture has undergone some fundamental changes which have profoundly affected agricultural financial services.

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In addition, most financiers shy away from lending to the agricultural sector because of the co-variant risks related to rain-fed agriculture. Given this background, a comparative analysis of emerging models of agricultural finance that have expanded the agricultural finance frontier to the smallholder farmers. Key findings indicate that demand for farming credit takes the highest proportion of the credit needs among the rural households, thus accentuating the importance of agricultural finance. The state run model of agricultural financing has the lowest financial sustainability. On the contrary, the community financing models are the most likely drivers of change in the rural finance landscape.

**Lena Roussenova and Dimiter Nenkov (2007)** in their study on “Agricultural Finance and Institutional Reforms in Bulgaria” revealed that agriculture has traditionally played a significant role in the Bulgarian economy. Since 1997, the government has made rapid progress in implementing a wide-ranging reform program in agriculture, the financial sector and in the economy in general. Most of these programs are continuously undergoing changes, consistent with the developments in the agricultural and banking sectors. With continuing recovery of public trust in banks, and with more than 70 per cent of banks’ assets owned or controlled by foreign private banks, the sector is expected to overcome conservative lending.

**Tanvir Ahmed and Zulfiqar Ahmad Gill (2007),** in their study on “Role of Agricultural Credits and Efficiency of Commercial Banks in Pakistan” affirmed that

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the agricultural sector is the largest contributor to Pakistan’s GDP. Commercial banks are the most important component of Pakistan’s financial sector and at the same time an important source for agricultural credit. This study estimated the technical efficiency of commercial banks operating in Pakistan by employing an intensive agricultural lending by commercial banks. For this purpose, inputs and outputs of the commercial banks were defined on the basis of intermediation approach. After the estimation of technical efficiency, tobit model was used to develop its relationship with bank specific variables. The result shows that the assets, ownership characteristic and after merger year affects are significant contributors to the technical efficiency, while agricultural lending has no significant impact over time on the efficiency of commercial banks.

J. A. Afolabi (2008) in his study on “Analysis of Loan Repayment among Small Scale Farmers in Oyo State, Nigeria” analysed that loan repayment among small scale farmers in Oyo State, Nigeria. It specifically identified socio-economic characteristics of the respondents and quantitatively determined some socio-economic characteristics of these farmers that influence their level of loan repayments. A multi stage sampling technique was used to select 286 respondents in the study area and structured questionnaire administered on them to collect data. The result showed that 60.23 per cent of the respondents were more than 50 years old and 92.35 per cent of them were males. Analysis also revealed that 83.92 per cent of these farmers operated 4.9 hectares or less as farmland. About 82.17 per cent of the respondents obtained their loans from informal sources while 17.83 per cent patronized formal

sources. The result of the repayment function revealed that the included regressors explained 68.4 per cent in the variation of the regress and growth\textsuperscript{16}.

**J. O. Oladeebo and O. E. Oladeebo (2008)** in their study on “Determinants of Loan Repayment among Smallholder Farmers in Ogbomoso Agricultural Zone of Oyo State, Nigeria” examined that socio-economic factors influencing loan repayment among small scale farmers in Ogbomoso agricultural zone of Oyo State of Nigeria. Data collected from 100 farmers from 10 villages in 2 Local Government Areas from the zone through multistage random sampling techniques were analyzed using descriptive statistics and Ordinary Least Square multiple regression analysis. Results disclosed that farmers were on the average 47 years with fewer years of farming experience with credit use (average of 4 years). The average farm sizes of 3 hectares cultivated by the respondents indicate the small scale nature of their farming business. Results of multiple regression analysis revealed that amount of loan obtained by farmers, years of farming experience with credit use and level of education were the major factors that positively and significantly influenced loan repayment. However, age of farmers influenced loan repayment negatively but significantly. The study recommends that for effective farm management and increase in agricultural production, further disbursement of loans should be targeted at young and better educated farmers who are more likely to pursue new innovations in agricultural production than their older counterparts\textsuperscript{17}.

O.O. Adebayo and R.G. Adeola (2008), in their study on “Sources and Uses of Agricultural Credit by Small Scale Farmers in Surulere Local Government Area of Oyo State” set out that the role of credit in agricultural economy is crucial and its constraint which can affect farmer’s investment behaviour necessitated the investigation of sources of agricultural credit and its uses in Surulere Local Government area of Oyo State. One hundred and twenty respondents were randomly selected from twenty villages, interviewed using structured questionnaire. The study found that most of the respondents obtained loans through informal sources with cooperative societies being the most popular source. The results also indicated that payment for labour wages consumed the larger percentage of the credit obtained by most of the respondents. Accessibility to agricultural credit was constrained by certain factors identified in the study. However, to ensure effective utilization of available sources of credit, establishment of agricultural and community banks in the rural areas with simple procedures of securing loans were recommended. Also, mobilization of farmers into formidable groups in order to enjoy the benefit of collective investment of group savings was also recommended.\(^{18}\)

Waqar Akram, Zakir Hussain, M.H. Sial and Ijaz Hussain (2008) in their study on “Agricultural Credit Constraints and Borrowing Behavior of Farmers in Rural Punjab” brought out the fact that the government of Pakistan introduced several agricultural credit programmes through institutional sources. The impact of these programmes was less than optimal due to rambling credit policies. The farmers were facing many constraints to avail agricultural credit in a timely fashion. The collateral

inter alia was one of the major constraints. The objective of the paper is to identify constraints and suggest remedial measures to make efficient use of agricultural credit schemes. Majority of the farmers revealed that they could not avail credit because of needed the collateral security to be produced. The hard hits were tenants and share croppers who do not own land, and thus were unavailable to avail credit. The results showed that the coefficients of transitory income, education level, and predicted interest rate have important bearing on borrowing behavior. The household consumption expenditure was positively and significantly determined by operational holding and value of implements.19

Abedullah, N. Mahmood, M. Khalid1 and S. Kouser (2009) in their study on “The Role of Agricultural Credit in the Growth of Livestock Sector: A Case Study of Faisalabad” stated that, this study employed stratified random sampling approach to collect the input-output and socioeconomic data set to see the impact of credit on the growth of livestock sector in the rural areas. It was observed that credit availability expanded the livestock sector more than double (economies of size), which increased per family per month income from livestock sector by 181 per cent. The elasticity values of family size, literacy rate (schooling years) and credit were 0.18, 0.05 and 0.06, respectively. The elasticity of family size was highest, followed by credit and literacy rate, indicating that adequate potential exists that can be explored to utilize unemployed and untrained rural labour in the agriculture sector. It would help in mitigating the increasing population pressure on mega cities of

Pakistan by providing employment opportunities at the door steps of rural community\textsuperscript{20}.

\textbf{Dr. Jason L. Johnson (2009)} in his study “The Financial Condition and Sources of Financial Risk for Agriculture in 2009” divulged that agricultural stakeholders throughout the U.S. and within Texas indicated a high probability that the volatility of input prices, commodity prices, and profit margins in agriculture will likely to lead increased levels of financial stress in the coming years. The resulting business climate will place even more emphasis on superior financial management skills and documentation to secure external funding for operations. All agricultural producers should begin (or continue) their process of examining the many risk factors that threaten their future profitability and survival. If necessary, new or expanded risk management skills and strategies should be developed by farm and ranch managers to ensure that they are able to remain viable through this period\textsuperscript{21}.

\textbf{M.A.Y. Rahji and S.B. Fakayode (2009)} in their study on “A Multinomial Logit Analysis of Agricultural Credit Rationing by Commercial Banks in Nigeria”, pointed that the determinants influencing Commercial banks decision to ration agricultural credit in South-Western, Nigeria. Data for the analysis were sourced from the agricultural credit transactions of the banks. Evidence from the multinomial logit model estimated shows that the borrowers are heterogeneous. Farm size, previous income, enterprise type, cooperative membership, household net-worth and


agricultural commercialization level are positive and significantly associated with the classification of the two groups relative to the reference group. The significant variables have a bearing on both the probability of classification and the utility of the banks in their decision making. The partial elasticities of farm size are elastic at 1.5380, 1.2796, and 1.0065 for the groups as classified. The quasi elasticities for the household net-worth and agricultural commercialization variables are all elastic for all the groups. The quasi–elasticity for the income variable for the first group is elastic at 1.4278 and for the second group at 1.2551. This variable is inelastic for the reference group. It is recommended that Banks borrowing decisions must be group specific and not general. There is also the need to find an innovative way of meeting the needs of the rejected groups in terms of Micro finance arrangements. The blanket policy approach will not lead to the desired results of easy access to agricultural production credit by the resource poor farm households in Nigeria.

Mohammad Ghorbani and Hooman Mansoori (2009), in their study on “Factors Affecting on Loan Repayment Performance of Farmers in Khorasan - Razavi Province of Iran”, stated that, there is no doubt about the crucial roles of credit in economic development. Agricultural household models suggest that farm credit is not only necessitated by the limitations of self finance, but also by uncertainty pertaining to the level of output and the time lag between inputs and output. Recent studies show the growth rate of investment in agriculture is less than other economic sector. So financing agriculture is one of the most important factors to develop rural areas in developing countries. Banking system payment is a way of financing. Generally,

credit accessibility is important for improvement of quality and quantity of farm products so that it can increase farmer’s income and reduce rural migration. On the other hand, Lending is a risky enterprise because repayment of loans can seldom be fully guaranteed. Generally In spite of the importance of loan in agricultural production, its acquisition and repayment are fraught with a number of problems especially in the small holder farming. It is reported in empirical studies that large rate of default has been a perennial problem in most agricultural credit schemes organised or supported by governments. Most of the defaults arose from poor management procedures, loan diversion and unwillingness to repay loans. For this reason, lenders devise various institutional mechanisms aimed at reducing the risk of loan default (pledging of collateral, third-party credit guarantee, use of credit rating and collection agencies, etc.). This study investigated the factors influencing on repayment behaviour of farmers that received loan from agricultural banks by using a logit model and a cross sectional data of 175 farmers of Khorasan-Razavi province in 2008. Results showed that loan interest rate is the most important factor affecting on repayment of agricultural loans. Farming experience and total application costs are the next factors, respectively.  

**Seyed Jalal Sadeghi Sharif (2009)** in their study on “Financial Markets Barriers’ in Agricultural Sector: Empirical Evidence of Iran” examined that the relationship between financial market development and agricultural sector in Iran. The study attempts to answer these questions empirically and try to shed some light on the roles of financial development as well as other conditional variables in agricultural sector. The results of this study shows that the financial market in

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agricultural sector, however there is some weakness still. The authors arrive at a conclusion that for improving this vital sector in Iran the weakness should be removed or at least reduced as early as possible.\textsuperscript{24}

S. Bamidele Fakayode, I. Ogunlade, O. Ayinde, and P. Olabode (2010), in their study on “Factors Affecting Farmers Ability to Pay for Irrigation Facilities in Nigeria: The Case of Oshin Irrigation Scheme in Kwara State” found that over the years, large sums have been invested into the irrigation sub-sector of Nigerian agriculture. However the outcomes of these spendings have been that of dismal failures. This study therefore examined a public-private partnering initiative for providing irrigation facilities to farmers in Nigeria using farmers under the Oshin Irrigation scheme in Kwara state as a case study. Specifically, the study investigated factors influencing farmers’ ability to pay for irrigation facilities. The study sample comprised farmer households under the Oshin irrigation scheme. Data gathered for the study were analyzed using the descriptive statistics and logistic regression. The results showed that most of the farmers’ respondents are agile youths whose monthly household incomes dry during season. Factors identified as determinants of farmers ability to pay for irrigation facilities include the age of farmers, the type of education acquired by the farmer, farmers household income and the size of farmers household. The study therefore recommends a public-private partnership structure for irrigation service delivery in Nigeria, the need to incorporate other incomes generating activities

like fish production alongside crop production in commercial irrigation initiatives and the need to educate farmers\(^{25}\).

Rahji. M. A.Y and Adeoti A.I (2010), in their study “Determinants of Agricultural Credit Rationing by Commercial Banks in South-Western, Nigeria”, identified that the determinants influencing Commercial banks decision to ration agricultural credit in South-Western, Nigeria. Data for the analysis were sourced from the agricultural credit transactions of the banks. Evidence, from the estimated logit model indicated that farm size of the farmers, previous year’s income, enterprises type, household net worth and level of household agricultural commercialization are significant but negative factors influencing the banks decision to ration credit. Higher values of these factors decrease the probability that the borrowers will be credited rationed. The number of dependents in the household has a positive significant impact on the probability of being credit constrained by the banks. Hence higher values of these variables increase the likelihood of being credit rationed. The results also indicate that the larger the magnitude of the coefficient estimated, the bigger is its impacts on the odds of being credit-ration per unit change in its variable. On the other hand, the larger the parameter, the lower the percentage changes in the odds per unit change in the variable. Based on the results obtained farmland redistribution, farm income improvement, gender specific and credit allocation policies to the crop sub-sector were recommended\(^{26}\).


2.3. INDIAN REVIEW

Prasad (1969) in his study on “Capital Investment in Agriculture—A Study in Regional Variations” classified the factors responsible for variations in the investment pattern into internal and external factors. The internal factors included those on which the individual has control like cropping pattern, type of farming, the resource position and the progressive nature of the cultivator. External factors are those that create opportunities or the necessary infrastructure conducive to the individual for investing capital in agriculture such as, construction of irrigation projects and provision of cheap credit.

Surendranathan (1969) in his study on “Institutional Credit for Capital Expenditure in Agriculture” analysed the share of three institutional agencies in capital expenditure in agriculture in India. He concluded that the total amount of institutional credit to finance capital expenditure in agriculture amounted to Rs.26 crores or 8.3 per cent of the estimated aggregated capital expenditure in 1957-58 and rose to Rs. 43 crores or 10.9 per cent by 1960-61. The credit granted by institutional agencies for capital expenditure in agriculture formed 27 per cent of the total borrowing of agriculturists for that purpose in 1957-58 and the proportion rose to 35 per cent by 1960-61.

Desai, V. V (1970) in his study on “Some Aspects of Farm Loans by Commercial Banks” concluded that,

- Competition among the banks themselves has a positive impact on a village

• The banks met only short-term requirements
• Credits were increasing steadily due to increasing the inputs and their prices\textsuperscript{29}.

**Desai and Desai (1970)** in their micro level study on “Is Inadequacy of Institutional Credit a Problem in Changing Agriculture?” find out that the existing availability of working capital, including credit, was not inadequate to meet the requirements of technological changes in agriculture and even the existing availability of institutional credit was not short of credit required to adopt the new technology. The additional institutional credit required was substantially high only in the situation of new technology with expanded irrigation resources. There existed a scope for reallocation of existing credit facilities. They argued that withdrawal of institutional credit from the farmers with adequate owned resources and providing these facilities to the needy farmers would not increase efficiency of credit use\textsuperscript{30}.

**Dhawan and Kahlon (1978)** in their study on “Adequacy and Productivity of Credit on the Small Farmers in Punjab” while comparing the requirement and supply of credit showed that the farmers were not able to obtain the required amount of credit even to run farming at the existing level of technology on the small farms. They argued that farmers need large amount of credit even at the existing level of technology that other lending agencies were unable to provide. An estimate of credit requirements based on optimal production plan at the exiting technology level was provided by them. The capital requirement with and without irrigation purchasing activity was Rs. 989. 55 and Rs.1, 058.08 during the Kharif season and Rs.568. 88


and Rs. 951.07 and Rs. 256.27 during the Rabi season. Therefore, they concluded that the credit requirement in the Kharif season was Rs. 409.13 and Rs. 469.66 whereas it was Rs. 312.61 and Rs. 694.80 in the Rabi season respectively. The total credit requirement worked out to be Rs. 721.74 without irrigation and Rs. 1,164.46 with irrigation.

Haque and Maji (1978) in their study “Structure and Flows of Agricultural Cooperative Credit in India” analysed the structure and flow of cooperative credit in India. They found out that unproductive loans constituted the maximum percentage (90.6) of credit distributed by multipurpose and primary societies in Kerala during 1965-66 and it was reduced to 6.3 per cent in 1974-75. The corresponding all India averages were 76.1 and 5.5 for the respective periods. Fertilizer which shared 9.3 per cent of the credit in Kerala during 1965-66 increased to 82.9 during 1974-75, while the all India average registered a sharp rise from 21.6 per cent in 1965 to 86.7 per cent in 1974-75. It was argued that the importance of fertilizer in modern technology brought about such a phenomenal increase. In the case of Central Land Mortgage / Land Development Banks in Kerala, during 1965-66, debt redemption loans formed 90 per cent of credit disbursed, while sinking/repair of wells formed the major category (30.2) in all India basis. During 1974-75, land improvement (47.70 per cent) and sinking/repair of wells (18.9 per cent) were the major categories in the total credit disbursed in Kerala, while diesel engines and pumpset

(35.8 per cent) and sinking and repair of wells (33.6 per cent) formed major categories on all India basis\textsuperscript{32}.

\textbf{Paradhasarathi (1978)} in his work “Agricultural Finance by Commercial Banks Technicalities” stated that overdues had to be analysed by finding the reasons, which forced the loan to become overdue or debt. The causes might be the factors, which were controllable in nature as unsound lending policy, inadequate supervision by bank personnel, poor management by the farmers, or factors, which are uncontrollable in nature such as crop failure due to natural calamities\textsuperscript{33}.

\textbf{Balishter and Singh (1986)} in his work on “A Study on Institutional Finance in Agriculture” conducted a study in Uttar Pradesh to know the extent of institutional credit available, to examine the credit gap, to study the utilisation pattern of credit and also the repayment performance of loans availed from different institutional agencies. The study revealed that 46 per cent of the sample borrowed from commercial banks, 34 per cent from cooperative societies and 20 per cent from land development banks. The study shows that resourceful farmers are able to get loan from more than one source. There was no coordination among institutional finance agencies. The percentage of credit gap in case of marginal, small, medium and large farmers was 22, 29, 27 and 45 respectively. The study also reveals that 89 per cent of credit was used for productive purposes. The repayment position of loans is good in case of land


development bank in all categories of farmers and in case of commercial banks and cooperative societies the repayment was not satisfactory.\textsuperscript{34}

\textbf{Gadgil (1986)} in his article “Agricultural Credit in India: A Review of Performance and Policies” analysed the flow and stock of production credit form all credit institutions in India for the period 1973-74 to 1982-83 and found that the compound growth in nominal terms was 14.52 per cent while in real terms it was only 3.72 per cent. The corresponding figures for Kerala were 24.32 and 12.61 per cent respectively. The compound growth rates of flow and stock of investment credit in India for the period 1973-74 to 1982-83 in nominal terms and real terms were 17.12 per cent and 8.22 per cent respectively. The corresponding figures for Kerala were 18.85 per cent and 9.81 per cent respectively. Production credit per hectare in Kerala increased from Rs. 171.26 during 1973-74 to Rs. 500.67 during 1982-83, while the investment credit increased form Rs. 82.81 to 193.15, the total credit increased from Rs. 254.07 to Rs. 693.82.\textsuperscript{35}

\textbf{Kumar Arya (1986)} in his article “Overdues: Issues and Remedies” sees poor recoveries as a basic threat to the viability of banking operations in rural areas. He has suggested strengthening of the supervisory structure to see that assets acquired through bank loans are not transferred or sold without the banker’s knowledge. The linking of credit and marketing is also one of his recommendations to avoid overdues.\textsuperscript{36}

\textsuperscript{34} Balishter and Singh, “A Study on Institutional Finance in Agriculture”, Agriculture Situations in India, 24(11), 1986.


Ashok Kumar, Pandey and Sushita Kaul (1987) in their article “Study of Growth and Disparity in Agricultural Advances by Commercial Banks” stated the number of commercial bank branches and their advances to agriculture in Kerala have growth with a compound growth rate of 10.5 per cent and 28.49 per cent respectively during 1969 and 1982. They also found that the per hectare flow in agricultural credit from commercial banks in Kerala increased from Rs. 28.70 during 1969 to Rs. 714.11 during 1982\textsuperscript{37}.

Kewal Kumar (1987) in his book “Institutional Financing of Indian Agriculture with special reference to Commercial Banks” expounded that the development of agriculture was the kingpin of India’s development. This study included vivid description of the problems of agricultural finance, as it was the much needed input for the development of agriculture. He advocated that an integrated credit policy for the future should be pursued by the institutions supplying agricultural finance, as the provisions of agricultural credit in the context of modernisation of agriculture had become a necessity\textsuperscript{38}.

Rajendra Singh (1987) in his study on, “Mounting Arrears of Agricultural Credit” outlined that heavy and mounting overdues and poor recovery performance posed a serious threat to the process of institutionalising rural credit. The factors responsible for this state of affairs, according to him, were defective appraisal of loan applications and inadequate monitoring of credit utilisation, impact of natural


calamities, misutilisation of credit and weakness in recovery procedures. The bank had then no powers to exert pressure on defaulters\textsuperscript{39}.

**Sayeed and Kewarkumar (1987)** in their article, “A Problem of recovery in Agricultural Credit” studied the problems of recovery in agricultural credit. They indicated that the major cause for mounting overdues is the unforeseen expenses of the borrowers due to sickness, religious and social ceremonies, litigation and such other unproductive debts in the family\textsuperscript{40}.

**Dadibhavi (1988)** in his article “Dimensions of Regional Disparities in Institutional Credit to Agriculture”, observed that the quantum of total cooperative and commercial loan outstanding per hectare of net sown area in Kerala during 1982 was the highest in India with Rs. 2846 while it was the lowest in Assam with Rs.261 and the all India average was Rs. 715. In the case of short-term credit provided by the commercial banks in Kerala during 1985, 86.5 per cent of the total credit outstanding was for borrowers with holdings less than five acres and 55 per cent of medium term loans from commercial banks in Kerala were disbursed for borrowers having less than five acres of land. In case of cooperative short-term credit, during 1984-85, 59 per cent was advanced to borrowers with holding size of less than five acres\textsuperscript{41}.

**Desai (1988)** in his article “Institutional Credit Requirements for Agricultural Production 2000 A.D.” observed that the share of the institutional credit to the


\textsuperscript{40} Sayeed and Kewarkumar, “A Problem of recovery in Agricultural Credit”, Commerce and Management, 3 (2), December – 1987: 56.

outstanding debt of cultivator households in India increased from 12.3 per cent in 1951-52 to 63.3 per cent in 1981\textsuperscript{42}.

**Dr. Anuva Saikia (1988)** in her article “Adequacy of Agricultural Credit and Some Problems of Credit Utilisation” has analysed the adequacy of Agricultural Credit and some problems of credit utilisation arising as a result of the low scale of finance. She has also noted inter-relation between the scale of finance and the repayment behaviour of the borrowers. She has recommended revision and periodic review of the scale of finance especially in her native state, Assam\textsuperscript{43}.

**Dr. S. Balakrishnan (1988)** in his report, “Impact on the Multi-agency Approach on Agricultural Finance” has made an enquiry on the impact of institutional agencies on credit delivery to agriculture in Thanjavur District the granary of South India. He has made a strong plea for an increase of jewel loans both by the Central banks and Primary Agricultural Credit Societies. He has also made out a case for greater emphasis on meeting the long-term credit requirements without which expansion of short-term credit will not bear the desired fruits. He also suggests linking credit with marketing as a means of reducing overdues\textsuperscript{44}.

**Giri and Dasgupta (1988)** in their article “Some Aspects of Interstate and Intrastate Variations in the Flow of Institutional Agricultural Credit” have made attempt to know some aspects of interstate and intrastate variations in the flow of


\textsuperscript{44} Dr. S. Balakrishnan, “Impact on the Multi-agency Approach on Agricultural Finance”, the Publication Division, Annamalai University, Chidambaram, 1988.
in institutional agricultural credit by using available secondary data. The mean value of loan per borrower for all the 18 states together for 4 years was Rs. 815.44, Rs. 1137.44 and Rs.1131.88 respectively. They have also made an attempt to estimate the extent of inter-state and intra-state variations in the distribution of institutional credit and offered a few suggestions to eliminate the imbalance in the distribution of agricultural credit fixing of credit limits at variable proportions among the different size group of farmers and activities of commercial banks and RRBs should be extended to reduce imbalance in the distribution of credit arising out of unequal growth of cooperative movement\textsuperscript{45}.

\textbf{Haque and Verma (1988)} in his article, “Regional and Class Disparities in the Flow of Agricultural Credit in India” observed that the share of institutional credit to agriculture in Kerala increased from 44.4 per cent in 1971 to 78.6 per cent in 1981, while the corresponding figures for India were 29.2 per cent and 61.2 per cent respectively. In Kerala, during 1981-82, 34 per cent of total credit was disbursed by cooperatives, 37.1 per cent by commercial banks, 7.5 per cent by Government and the rest were supplied by non-institutional sources. The credit disbursed per hectare by PACBS in Kerala during 1984-85 was Rs. 1490 and amount per hectare was Rs. 1979. The short-term loans disbursed by scheduled commercial banks in Kerala during 1984-85 were Rs. 500 per hectare and the amount per borrower was Rs. 2482\textsuperscript{46}.

\textsuperscript{45} Giri and Dasgupta, “Some Aspects of Interstate and Intrastate Variations in the Flow of Institutional Agricultural Credit”,

Parihar and Singh (1988) in their work, “A Study into Institutional Finance for the Agricultural Sector in Punjab” concluded from a study conducted in Punjab that about 58 per cent of the total number of farmers obtained long-term loans from two or more agencies. They found that fixed cost per hectare, variable cost per hectare, per capita consumption expenditure and share of non-institutional credit were the important variables affecting the share of institutional credit in total farm investment. They found that with the increase in farm size, the percentage of farmers getting credit also increased47.

Ramasamy and Meskel (1988) in their article “Commercial Bank Lending to Agriculture-Some Lending Issues” found that the problems faced by borrowers were delay in the delivery of loans, insufficient time for repayment, inflexibility in the structure of repayment installments and the lack of technical guidance. The study also revealed that large farmers had better access to commercial banks credit. An econometric model estimated to identify the credit demand revealed that fertilizer use, intensity of irrigation and the proportion of area under cash crops created more demand for credit48.

R.B. Singh (1988) in his article “Disbursement, Overdue and Factors affecting the Repayment Capacity of Borrowers” has examined the trend of loan disbursement, overdues and factors influencing repayment capacity of dairy borrowers of Bhajpur Rohtas Gramin Bank (BRGB) in Bihar. A sample of 93 borrowers consisting of farmers was taken. The study revealed that the bank had exclusively financed the

neglected and weaker sections of the society and showed the image of a ‘small man’s bank’. Linear growth trend was fitted for analysing the disbursement of loans. It showed more positive trend in sheep and goat schemes. The recovery of loan in allied activities was around 62 per cent which was higher than the crop loan schemes\(^{49}\).

**R.S. Parithr and Narinder Singh (1988)** in their article “A Study on Institutional Finance for the Agricultural Sector in Punjab” examined the different sources of agricultural finance available, the extent of agricultural loans obtained by different categories of farmers and the factors impacting the share of institutional credit in total farm investment in Punjab State. This study observed that small farmers are still dependent on the non-institutional credit and other farmers obtain long-term loans from two or more agencies\(^{50}\).

**Sai (1988)** conducted a study on the “Flow of Institutional Credit to Agriculture in Deltaic Regions – A Case of West Godawari District, Andhra Pradesh” showed that 86 per cent of the total credit supplied in the sample farms was from institutional agencies and this proportion of credit also increased with the farm size, ranging form about 64 per cent on marginal farms to 98 per cent on large farms. The study also bring out that cooperatives were the main source of finance to the small and marginal farmers, followed by private sources and commercial banks whereas commercial banks and cooperative occupied the first two places in financing medium


and large farmers. The study revealed that the credit supplied per hectare was inversely related to farm size\(^5\).

Rath and Nilakantha (1989) in his article “Agricultural Credit for Agriculture in India” pointed out the unequal distribution of term loans among the states. The most affected states are West Bengal, Assam, Bihar, Orissa, Madhya Pradesh and Rajasthan, which accounted for 40 per cent of the agricultural land but received only 21 per cent of all term loan disbursed\(^6\).

S. A. Patel (1989) in his article “Recovery Performance of Direct Agricultural Advances of Scheduled Commercial Banks” has made a study of the Surendra Nagar District of Gujarat. He has recorded that the farmers themselves were ready to repay the loans if the harvests were good and agricultural prices were remunerative. They were also eager to have further finance and felt that due recognition for full repayment will induce early repayment\(^7\).

Shardha. H. M. (1989) in his article “Overdues and Cash Credit System in Financing Agriculture” reported that crop failure, low market price, repayment of old debts and short time-limit given for repayment were the major problems in the repayment of credit\(^8\).


Patil et.al. (1990) in their article “A Farm Level Study on Credit Requirement, Availability and its Gap in Thane District (Maharashtra State)” have made an attempt to know the extent of borrowing and its adequacy, sources of borrowing and their contributions to agricultural credit. They have classified the sample cultivators into three groups on the basis of size of operational holdings. Their study reveals that maximum number of cultivators had borrowed from institutional agencies and that too mainly from cooperative societies. Out of total borrowing, about 98 per cent was borrowed from institutional agencies. The share of land development banks in total borrowing was 34.49 per cent. The credit gap was found to be associated with the adoption of recommended technology. They have concluded that the motivation of cultivators is essential to adopt recommended technology in order to reduce the credit gap.

Singh. S. P. and Mruthyunjaya (1990) in their article “A Study of Cost of Short-term Agricultural Credit for Small and Marginal Farmers of Aligarh District in U.P” have made a strong plea for the simplification of loan-granting procedures and argued for a sincere implementation of the recommendations of the Talwar Committee regarding the issue of passbooks to landowners and tenants which serve as an evidence to the rights in the land of the agriculturists. This will save the farmer the trouble of running from pillar to post for certificates of ownership, eligibility etc. They have also argued for a stoppage of the levy of penal interest.

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Kandasamy (1991) in his article “Farm Credit Recovery” has conducted a study to know the recovery performance of primary agriculture cooperatives in Periyar district of Tamilnadu. The objective of the study is to measure the extent of overdues (dependent variable) of the sample societies. He has identified the following as the factors influencing the overdues of the societies. Cropping intensity of the area covered by the society, the percentage of area under irrigation, the percentage of area under cash crops, the percentage of borrowing members to total members, degree of supervision and size of loan business. He has also pointed out that the accumulation of overdue loans will result in the shortage of credit and needy members may have to go without credit. Mounting overdues may even bring the society to the verge of liquidation. He has used Hasyesian classification procedure to classify the borrowers into defaulters and non-defaulters based on certain socio-economic and physiological characteristics of borrowers.

The following suggestions were made to minimise the overdues:

- Members should be educated to cultivate cash crops in major areas
- Necessary additional personnel should be recruited to have effective supervision
- Efforts should be made to provide supplementary occupations such as poultry and dairy farming to the borrowing members to augment their income\(^57\).

Reddy (1991) in his study “Role of Institutional Finance in Indian Agriculture” has presented the agricultural credit structure and institutionalization of farm credit in India. The need for credit, demand and supply of farm credit and the progress of institutional credit in India are clearly shown. The variations in the

distribution of farm credit between size groups, between beneficiaries and non-beneficiaries and also the effect of farm credit on farm business, income of different size-groups were examined. One important finding of the study is that there is no significant effect of institutional credit on farm business income of the beneficiaries.58

Jugale (1992) in his study “Cooperative Credit in Indian Agriculture” has conducted a study on co-operative credit in shirol Taluk of Kolhapur district in Maharashtra. The study area has 195 Primary Agriculture Cooperative Societies to provide short-term credit and two Primary Land Development Banks to provide long-term loans. The study is based on the secondary data. His study reveals that rich peasantry is harnessing most of the credit benefits. According to him, efforts to motivate the farmers to borrow medium-term and long-term loans are essential because such borrowing is an indication of investment and capital formation in agriculture.59

Nair. C.V (1992) in his article “Rural Credit – Integrated Flow of Credit” has made a historical survey of the state of agricultural finance over the years, the recommendations of various committees and finally made out a case for effective co-ordination between short-term and long-term credit structures in the cooperative sector.60

Ramachandra Rao. B (1992) in his article “Some Critical Observations on the Agricultural and Rural Debt Relief Scheme” has studied the Agricultural and

Rural Debt Relief Scheme of 1990 from a critical angle. He sees loan waivers as inflationary in effect. He finds it as a fraud on the taxpayers. He wants, instead of waiver, a deferment of the repayment period and also quick settlement of bank cases through special courts and tribunals as means to improve the repayment culture\textsuperscript{61}.

**Upadhya P.R. (1992)** in his article “Recovery of Overdues - Grameena Banks” has made a study of recovery problems in RRBs and observed that all future recovery effort has been hit, as if by a missile, by the ARDA scheme of 1990. He records that the loan waiver has proved not a boon but a bane. It also affected the deposit position of the RRBs as the people are losing faith in them. He has suggested that subsidies be released only when 75 per cent of the loan has been repaid. He also pleaded for the replacement of the target oriented approach by a quality oriented approach in the implementation of rural development programmes\textsuperscript{62}.

**Desai (1994)** in his article “Contributions of Institutional Credit, Self-finance and Technological Change to Agricultural Growth in India” find that in the Pre-Green Revolution phase institutional credit financed only three per cent of expenditure of labour, intermediate inputs, private and public capital stock. In the Pre-Green Revolution phase this proportion was 11 per cent. This proportion was 14 per cent in the second half of 1980s as the demand for inputs went up. The proportion of intermediate inputs financed by institutional credit increased less rapidly than compared to other demands. This proportion was stagnant and extremely low for


wages. The reason being that the scale of finance for crop loan and unit cost of
investment do not cover much the cost of labour including family labour63.

Bhat (1995) in his article “Agricultural Borrowers from Banks - A Profile and
Policy Implications” has made and attempt to present the profile of the agricultural
borrowers from commercial banks, RRBs and cooperative credit societies in Dakshina
Kannada District of Karnataka. A high degree of inequalities exists in the ownership
of land. The data reveals that 64.2 per cent of the sample beneficiaries are small
farmers and 9.2 per cent are big farmers. The study shows that the inequality in the
distribution of income is greater 127.8 than the distribution of land 90.4 among
beneficiaries. He has suggested that, the cost of institutional credit to the target group
should be lower than the cost of credit to the non-target group of borrowers,
non interest cost of institutional credit to the target group should be reduced and it is
essential to device new measures and schemes of lending to the target group against
securities other than land64.

Eustacius N. Betubiza and David J. Leatham (1995) in their study “Factors
Affecting Commercial Bank Lending to Agriculture”, noted that a tobit econometric
procedure was used to examine the effect of selected demand and supply factors on
nonreal estate agricultural lending by commercial banks in Texas. Results exhibit that
banks have reduced their agricultural loan portfolios in response to increased use of
interest sensitive deposits after deregulation, Moreover, almost half of this decrease
came from banks that stopped making agricultural loans. Also, results show that

63 Desai, “Contributions of Institutional Credit, Self-finance and Technological Change to Agricultural
64 Bhat, “Agricultural Borrowers from Banks-A Profile and Policy Implications”, Financing
Agriculture, 27 (2), 1995.
banks affiliated with multi-bank holding companies lend less money to agriculture relative to their assets than do independent banks\(^{65}\).

**Bhuvaneswari and Algumani (1996)** in their article “Determinants of Capital Formation in Agriculture in Dindigul, Anna District, Tamilnadu” revealed that the rate of capita formation in farms was 7 per cent which is less than the minimum rate of 10 per cent required for sustainable agricultural development. The analysis of sources of finance for capital investment showed that 6.5 per cent of total farms with capital formation had invested owned funds and 93.5 per cent was dependent on borrowed funds. The share of credit in total investment was 58.86 per cent for land improvement, 79.9 per cent for livestock and 100 per cent for tractors. The long-linear function fitted to study the factors influencing net capital formation set out that farm size, subsidy, owned fund, borrowed fund and net income positively influenced net capital formation, their elasticities being 0.3021, 0.1277, 0.2847, 0.6821 and 0.4249 respectively\(^{66}\).

**Narayana (1996)** in his article “Institutional Credit Support for Small Farm Agricultural Development” indicated that in the case of small farms, because of institutional credit for investment, the value of assets per farm family increased by about 65 per cent as compared to their position in the pre investment period\(^{67}\).

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Panda (1996) in his article named “Possible Impact on New Economic Policy on Agricultural Credit, Farm Investment and Productivity”, found a positive association between credit availability, consumption of fertilizers and yield of food grains in different States. According to him, there was a wide disparity in the interstate flow of commercial bank credit to agriculture. Between the short term and term credit the distribution of the former was more unequal than the latter. The amount of short term as well as term credit outstanding by commercial banks increased with the increase in the size of holding in almost all states. This indicated that the commercial bank credit was very much biased towards large sized farms in all the states.68

Arunajatesan. S and Balaji. S (1997) in their study entitled “Financing Agriculture – Need to Adopt an Area-wise Approach” remarked that in the banking parlance, lending to agriculture meant extending finance to small and marginal farmers. But there were medium and large farmers whose landholdings accounted for nearly 44 per cent of the total cultivable area. The segment really offered a tremendous scope for secured lending by banks on commercial basis. Among these farmers, the younger generations was enterprising, forward looking, knowledgeable, willing to adopt scientific and modern techniques and have an entrepreneurial drive to compete and succeed69.

Jebakar (1997) in his work “Impact of Institutional Credit on Agricultural Development – A Case Study of Kanyakumari District” has studied the impact of


CHAPTER – II

REVIEW OF LITERATURE

institutional credit on technology and production efficiency in producing paddy, banana, tapioca, coconut and rubber in Kanyakumari District, Tamilnadu during 1993-94. His study reveals that there was positive change in the production of paddy, banana, coconut and rubber. There was negative change in the production of tapioca except in 1987-88 and 1989-90. In the whole district, 177 cultivators have one agricultural credit source unit though the district is endowed with sufficient number of financial institutions distributed equally. The main aim of his study was to measure the extent of flow of institutional credit to the farmers and to examine its impact on technology, productivity and revenue in agriculture in the study area. The index of area financed to develop all the five crops underwent wide fluctuations. The average index was higher in case of coconut when compared to other crops. Rubber ranked second, banana third, paddy fourth and lastly tapioca.

Nand Kishore, Singh Dalvir, Kumar Sanjay and Malik, D.P., (1998) in their study “Credit delivery and performance of Haryana Gramin bank in financing agriculture”, concluded that deposits and loan advanced of Haryana Gramin bank have continuously been increasing over the period in the study area. The bank has highest deposits and loan advanced in Hisar as compared to Ambala. The deposits and loan advanced in both districts exhibited positive sign. The recovery of loan advanced showed increasing trend as result of enhanced income of farmer borrowers, use of credit for income generating enterprises, better assessment of borrowers at the time of credit advancement. The recovery of loan outstanding reached up to 91 per cent in the year 2007-08 in the study area. The higher percentage of loan recovery indicates

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better performance of bank. The value of chi-square test indicates significant association between land holding categories and educational status of farmer borrowers. In case of crop loan, the bank advanced loan 91.79 and 89.06 per cent of total credit demanded in Hisar and Ambala districts. While these figures were 83.03 and 87.50 per cent of total demanded in case of livestock. The certain amount of loan advanced for purchase of inputs used in crop production, animals and farm implements & tractors was diverted towards, celebration of social ceremonies, repayment of loans, purchase of grains & edible products, construction of houses & its repair on all categories of farms. The banks should advance the adequate amount of loan for productive purposes and repayment of loan should be linked with income of borrower. The consumptional loan should be advanced to the farmers to avoid the diversion of loan advanced for agriculture and allied activities\(^\text{71}\).

**Sheta. N.B (1998)** in his study entitled “Challenging Role of Commercial Banks in Lending to Agriculture” disclosed that the growth and development of agriculture in India had moved through at least three different phases. Historically, agriculture was viewed as a sector to user in self-sufficiency in food grain production, in which the market orientation was minimum. The second phase was the third phase in which commercialization, hi-tech agriculture, processing, marketing and the like were given importance\(^\text{72}\).

\(^{71}\) Nand Kishore, Singh Dalvir, Kumar Sanjay and Malik, D.P., “Credit Delivery and Performance of Haryana Gramin Bank in Financing Agriculture”, Department of Agricultural Economics, CCS Haryana Agricultural University, Hisar – 125004, India.

Singh and Surjit (1999) in their article “Institutional Credit in Rural Rajasthan: Grass root Level Experiences”, finds on the basis of field survey in ten villages in all the agro-climatic regions of Rajasthan, that only 43 per cent farmers are borrowing farmers and this proportion varies between 38 per cent for small farmers and 48 per cent in case of semi-medium farmers. In this situation, banks share in short-term borrowings is 13.34 per cent PACS 550.58 per cent, professional moneylenders’ 27.31 per cent and commission agents 8.76 per cent. On the other hand, the share of banks in long-term borrowings is 29.27 per cent, development banks 39.73 per cent, relatives 12 per cent, professional moneylenders 12.98 per cent and commission agents 6.02 per cent. This clearly shows that though the informal sector contributes a higher proportion to short-term crop production credit (36.1 per cent) than long-term production credit (31per cent), its role is still very important in Indian agricultural sector.\(^73\)

Yashavantha Dongre and M V Narayana Swamy (1999) in their article “Performance Evaluation Model for Primary Agricultural Credit Societies” stated that an attempt to evolve an appropriate statistical model to evaluate the financial performance of the primary agricultural credit societies. Given the fact that fund management is the basic weak link in most primary agricultural credit societies, it is imperative that they are able to evaluate their performance and, based on the feedback, restructure their financial policies. It is hoped that the model suggested here comes handy to the management in periodic evaluation, feedback, and follow up activities. This scale can be used in other districts where the nature and volume of business are almost similar to those prevailing in Dakshina Kannada. As a precaution,

the scale can be first applied to a known good and a known poor society in a region. If the scale classifies the good and poor societies as they are, the scale can be applied to other societies in the region. If necessary, a new scale can be constructed easily by using the methodology suggested. This scale is meant for evaluating the PACSs for the next five years after which the scale may have to be revised in view of the changing business conditions.74

Samar K. Datta & M. S. Sriram (2002) in their study “Flow of Credit to Small and Marginal Farmers in India” put across that the credit flow problems of only small and marginal farmers in getting easy and affordable credit from RFIs. The study was undertaken considering the statistical and strategic importance of small and marginal farmers in Indian agriculture and their perpetual problem of accessibility to institutional sources of credit. So, analysis of credit flow requires an understanding of the credit needs of the target group that the borrowers can sustain in quantitative and qualitative terms of credit.75

Samar K. Datta (2003), in his study “An Institutional Economics Approach to the Problems of Small Farmer Credit in India” noted that the tools of institutional economics especially those pertaining to informational asymmetry and transaction costs - for studying the credit problems of small farmers in India, who, in spite of a vast network of credit institutions developed over a long period of time under government ownership and/or control, are alleged as not getting a share of formal

sector credit commensurate with their statistical dominance. It uses data collected by the Agro-economic Research Centers and Units under the Ministry of Agriculture, Government of India from a carefully selected sample of 700 borrower households across the country over a period of three years (1997-1998 to 1999-2000) to provide a preliminary explanation of the various dimensions of a credit package in terms of variation in borrower’s village, household and other loan attributes.

Shawn Cole. (2004) in his study “Fixing Market Failures or Fixing Elections Agricultural Credit in India” measured that whether the average agricultural loan was beneficial, using variation induced by the 1980 bank nationalization: agricultural credit in villages with nationalized bank branches grew more than twice as quickly than in villages with private branches over the 1980s. However, this additional credit had no effect on measured agricultural outcomes.

Vijay Mahajan, NV Ramana, (2004) in their study “Agricultural Finance by Microfinance Institutions Problems and the Way Forward” made known that the agriculture remains the major livelihood in rural areas in developing countries, MFIs has to get into agricultural financing in a bigger way. This is all the more true as the banking system is not able to adequately reach farmers and the cooperative credit system in a lot of countries is nearly defunct. In order to ensure recovery of loans MFIs need to facilitate the farmers in increasing their productivity and reducing the risks. MFIs will have to encourage local value addition through lending to agro processing enterprises, many of which may not be “micro”. Organising community based institutions to take this responsibility for their members and capacity building

of the institutions engaged in livelihood promotion become inevitable. Only if MFIs can acquire the capability to offer these products/services should they get into agricultural financing. But if they do, a huge business opportunity awaits them.

Deepak Kumar (2005) in his study “Roles of the Banking Sector in Indian Agriculture: A Paradigm Shift” mentioned that the changing environment and government policies are forcing banks to lend more to the agricultural sector. Both private and public banks are now involving themselves in a lot of agri-based lending activities. Besides financing traditional activities, banks are also involved in imparting trainings and setting up consultancies, agri clinics, the export and marketing of agricultural produce. The need of the hour is to leverage the existing resources and make banks more participative and inclusive through policy implementation and create a conducive environment so that the agriculture sector can be cared for like any other sector. Even the existing and conducive policies are enough if they are properly implemented. Both private and public sectors are contributing to agriculture in a big way. However, there are many things that have to be implemented, especially financing aspects.

J P Misra and S K Maurya (2007), in their study “Role of Institutional Finance in Development of Agriculture with special reference to Uttar Pradesh” mentioned that, Due to poor economic conditions and uneconomic size of holdings, the farmers were not able to meet their farm requirements in terms of inputs hence,

most of them depended on financing institutions for getting agricultural credit such as co-operatives, regional rural banks and commercial banks\textsuperscript{80}.

**K. K. Tripathy and Prof. S. K. Jain (2007)** in their study “Trends and Issues in the Access to Agricultural Finance in India: Review of Micro-finance as an Innovative Credit Delivery Mechanism” stated that the outreach and access to total bank credit has undoubtedly been improved with the bank nationalisation. However, the delivery of agricultural credit remains wrought with weaknesses, negating equitable and efficient distribution, thereby affecting the viability and sustainability of formal institutions. Scarcity of credit, higher transaction costs, shortage of staff and dominance of non institutional credit markets have necessitated follow-up services for enhancing the productive utilisation of credit and repayment performance through group-lending schemes. Besides reviewing the trend, status and issues of agricultural credit in India, this paper appraises the implementation and issues of sustainability of the government run micro-finance model towards increasing universal access, ensuring procedural efficiency and cost effectiveness in financing credit to the rural poor\textsuperscript{81}.

**Jabir Ali and Sanjeev Kapoor (2008)** in their study “Farmers’ Perception on Risks in Fruits and Vegetables Production: An Empirical Study of Uttar Pradesh” noted the perceptions of farmers about risks in production of fruits and vegetables have been analysed using structured survey method. The study is based on the survey


of a total of 634 farmers, comprising 188 fruit farmers and 446 vegetable farmers, covering six districts of Uttar Pradesh, namely, Lucknow, Allahabad, Gorakhpur, Moradabad, Jhansi and Agra. The perceived priorities of farmers about major sources of risks in production of fruits and vegetables have been reported under ‘investment risks’, ‘socio-economic risks’, ‘environmental risks’, ‘production risks’ and ‘market risks’. In general, the price and production risks have been perceived as the most important sources of risk in production of fruits and vegetables in the area. The study has argued that public intervention can facilitate better risk management through improved information system, development of financial markets and promotion of market based price and yield insurance schemes, thus ensuring that the marginal farmers are able to benefit from these interventions as well as participate in the emerging systems.

R.S. Sidhu, Kamal Vatta and Arjinder Kaur (2008), in their study “Dynamics of Institutional Agricultural Credit and Growth in Punjab: Contribution and Demand-Supply Gap” noted that the contribution of institutional credit to agricultural growth has been estimated in the state of Punjab. The demand - supply situations under different scenarios and change therein over a decade have been examined. A simultaneous (four) equation model has been used to estimate the contribution of institutional credit towards use of production inputs, private investments and agricultural growth. The study has revealed that supply of production credit doubled and that of investment credit increased by about 80 per cent during the period 2001-02 to 2003-04. It took more than 15 years to double from 1984-85.

to 2000-01. The relationship between the use of variable inputs and production credit disbursement has been found highly significant. A similar relationship has prevailed between private capital formation and investment credit. The results have further exhibited significant and positive impact of capital investments on productivity with elasticity of 1.02. Higher use of inputs was ushered by favourable input-output pricing policy along with easy and cheap short-term credit availability in the state. Private capital formation has also helped in increasing the use of variable inputs in the crop sector. The contribution of institutional credit in promoting the use of modern production inputs and private capital investments has been found to be significantly positive. The demand-supply situation in terms of short-term institutional credit has undergone a change over time, with the demand exceeding supply by 49 per cent in 1995-96, but later, the supply has been found exceeding demand by 122 per cent in the year 2005-06. It, therefore, becomes imperative that first the demand for agricultural credit in each state/region be assessed, depending on crop patterns and current inputs and capital requirements in relation to targeted output growth-rate and then, policy framework should be put in place to meet those requirements, instead of increasing the credit supply uniformly across the board in all the states or regions of the country. Such a policy sometimes proves counter productive and that appears to have happened in the Punjab agriculture.

S Gandhimathi and N Sumathi (2008) in their article “Availability and Distributional Disparity of Agricultural Credit” revealed that the commercial banks were highly favourable only for the larger farmer category. In both the blocks, the

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sugarcane cultivators have a tie up with Bannari Amman Sugars and repayment is made through the Bannari Amman Sugars. Hence a considerable amount of loan was borrowed for sugarcane in both blocks. The loan for land development was found to be larger amount in Karamadai block while it was the highest for the purchase of tractors in Thondamuthur block. These loans were given against security. Hence the farmers with more land area under their control could avail of such loan. The availability of per hectare crop loan was higher for marginal farmers in Karamadai Block. The per hectare investment loan was higher for small farmers in Thondamuthur block. The distribution of credit between the blocks was not equal and the Gini concentration ratio shows the distribution of agricultural credit is not uniform between Karamadai and Thondamuthur block. ‘Z’ value reveals that there was significant difference in the allocation and achievement of agricultural credit in the selected blocks. The percentage of credit gap was higher for marginal farmers in Karamadai block and for small farmers in Thondamuthur block. It implied that the marginal and small farmers were highly in need of credit. The same observations were made by Shukla et al (1971). They observed that the amount of credit gap was higher for marginal farmers.

Sanjay Kumar and R.S. Dixit (2008) in their study “An Analysis of Factors Affecting the Credit Need of Tribal Farmers in India” brought out that one of the important handicaps faced by the tribal in improvement of their lot is inadequacy of institutional credit. Lack of sufficient credit is one of the serious inhibiting factors in the modernization of the traditional agriculture in the tribal areas. 140 households spread over 8 villages of 4 development blocks of Ranchi district of erstwhile Bihar

state, India were interviewed through a specially designed questionnaire. As the study was divided in less developed region and developed region, 70 respondents were taken from each region. Regression equation was fitted to know the importance of each selected variables on credit requirement of the tribal farmers of three groups in the two regions. Farm borrowing in the case of “all farmers” of less developed region are significantly sensitive to fixed capital expenditure, expenditure on consumption and non-farm activities. Variations in farm borrowings can also be explained to some extent by working capital expenditure, expenditure on fertilizers and loans outstanding variables. Thus, across the two regions there are differences in the factors impacting farm borrowings and also there are differences in the extent of influence of these explanatory variables\textsuperscript{85}.

C. Mahadeva Murthy B. H. Suresh and K. P. Veena (2009) in their article “Dimensions of Institutional Finance for Agricultural Activities: An Analysis” pointed out that agriculture is a way of life, a tradition, which for centuries has shaped the thought, the outlook, the culture and the economic life of the people of India. Nearly 61 per cent of the workforce depends upon agriculture for livelihood. Credit is a vital factor of the production function, more so in Indian agriculture. The paper concludes that institutional credit has played a vital role in supporting cultural production in India and the amount of institutional credit for agriculture and allied activities has increased over the years\textsuperscript{86}.


S. Gandhimathi and S. Vanitha (2010) in their study “Determinants of Borrowing Behaviour of Farmers – A Comparative Study of Commercial and Cooperative Banks”, analysed that the preference of farmers between commercial and cooperative banks for borrowing has been studied with the objectives of finding distribution of institutional credit across various categories of farmers and to assess the coverage and quantum of credit and socio-economic factors which tell on the borrowing behaviour of farmers towards commercial and cooperative banks. In the study, based on 100 farmer borrowers, the discriminant analysis has been carried out. The study has offered some suggestions also for a better access of farmers to institutional credit\textsuperscript{87}.

2.4. CONCLUSION

Review of past literature on agricultural credit helped in the generation of idea, formulation of hypotheses, and selection of various tools for analysis and to arrive at meaningful conclusions. There are many studies available on agricultural credit. No doubt, all these studies have stimulated and encouraged to chalk out a design for this study, which encompasses a wider field than any of the studies referred to. This topic farmers’ perception towards agricultural finance provided by various sectors of banks is a new attempt. The incumbent Government after initiating the process of liberalisation, privatization and globalisation (LPG) in 1991 has been focussing on the other sectors of the economy. At one point of time, the support to agricultural operation has been abandoned and its share also has been reduced drastically. The Government after periodic assessment has compelled the banks across

the country to evolve new strategies that may help farmers to actively participate in agricultural operations. These positive gestures by banks have started helping farmers and the farming has been partially successful. Hence an attempt is made by the researcher to study the farmers’ perception towards agricultural finance provided by various sectors of banks.