CHAPTER I
INTRODUCTION

The contribution of agricultural sector to national income, foreign exchange, industry and employment is a measure of the sector’s importance in the overall economy of the country. Agriculture plays a dominant role in the Indian economy. By tradition, India is an agricultural country, which is endowed with abundant natural resources. The development of agriculture to its fullest potential is therefore, the kingpin of Indian economy and the prosperity of India is solely dependent on agriculture. If agriculture blooms, the country prospers.

Agriculture plays a significant role in the economic development of India. Agriculture is the source of livelihood for over seventy percent of population in our country. To meet the requirements of the growing population and rapidly developing economy, agriculture has to grow fast and get modernized. This requires the use of high pay off inputs. Adoption of high yielding varieties requires large quantities of fertilizers, plant-protection chemicals, modernized equipments, and machineries, which in turn needs huge investment. The rural agricultural sector of the economy is labor-abundant, land-poor and capital scarce. So it would be very difficult to get the benefits of modernization of agriculture without adequate and timely supply of credit to the farmers.

Agricultural growth is crucial for alleviating rural poverty. Access to institutional credit to more farmers and appropriate quantity and quality of agricultural credit are crucial for realizing the full potential of agriculture as a profitable activity.
Regarding developing economies, it depends on the agricultural sector that the battle for long term economic development will be won or lost. For India even after the emergence of green revolution in the late 60’s the productivity of agriculture is very much lower than the developed countries of the world. It is so because majority of farmers are continuing the traditional system of farming. Scientific system of farming needs huge investment of capital. Most of the farmers are poor with small landholdings and their economic resources are too much limited.

In the present globalization era, agriculture can play a very important and pivotal role for long term economic development of India, if, the needed adequate timely credit is made available for adopting scientific system of farming throughout the country on the pattern of developed countries. For spreading scientific system of farming, it is necessary that disbursement of credit in rural areas should be made available in huge quantity.

Notwithstanding the importance, agricultural sector did not get its due share of institutional credit for a long time. Until the year 1967, financing agriculture was considered to be the sole responsibility of the cooperative credit institution. However with the growing demand for credit for agriculture and allied activities on account of increasing emphasis laid on higher agricultural production as also the technological breakthrough achieved by Indian farmers, the resources of the cooperative sector turned out to be inadequate. Against this background, commercial banks were as a matter of national policy, called upon for the first time in 1967 to provide finance to agricultural sector. Their role in this direction assumed considerable significance after the nationalization of fourteen major commercial banks in July 1969. Again in 1980, six
more commercial banks were nationalized and the tempo of credit delivery of the commercial banks was continued. The importance of agricultural credit cannot be over-emphasized. Agricultural credit should reach the agriculturists at the right time, at the right quantity and at favourable terms.

**Statement of the Problem:**

There are two important institutions viz., the commercial banks and the cooperatives, lending to agriculturists in the area under enquiry viz., Tiruchirappalli District, Tamil Nadu State, India. The commercial banks came into the scene much later than the cooperatives, particularly after the nationalization of major commercial banks in 1969. The commercial banks which have the required resources for lending under the direction of Reserve bank of India have been asked to give priority to agricultural lending. However the cooperatives and the commercial banks, put together are not able to eliminate moneylenders and indigenous bankers who are financing at usurious rates. But the commercial banks lending to agriculture has helped the agriculturists to reduce their borrowing from non institutional agencies. Though there has been steady progress in the performance of the commercial banks in farm credit, the important questions that arise in this context are,

i) To what extent the credit supplied by these banks could meet the credit requirements of farmers?

ii) How far the institutional credit could influence productive efficiency of the borrowers in the farm sector?

iii) Whether the loans given are properly recovered in time.
Objectives:
The objectives of the study are,

i) To assess the performance of commercial banks in agricultural credit.

ii) To analyse the disbursement of agricultural credit by the commercial banks.

iii) To analyse the farm credit over dues of the commercial banks.

iv) To analyse the opinion of the borrowers and

v) To offer suitable suggestions for the improvement of agricultural credit situation.

Hypotheses:

i) There is significant association between the size of land holdings and default in repayment with regard to term loan.

ii) There is significant association between the size of land holdings and default in repayment with regard to short term loan.

Methodology:

For administrative convenience the entire Tiruchirappalli district has been divided into three major revenue divisions, which are further subdivided into a number of blocks. At present there are fourteen blocks in this district, namely Thiruvarambur, Andhanallur, Manikandam, Manapparai, Marungapuri, Vyampatti, Lalgudi, Pullambadi, Mannachanallur, Musiri, Thottiam, Thatiangarpettai, Thuraiyur and Uppiliapuram. In each block one bank was selected at random and the total sample size is fourteen banks.

Convenience sampling has been adopted to select 280 respondents, 20 each from selected commercial banks. The total sample size covers 280 respondents (14 blocks x 1 bank x 20 respondents).
The database for the present study is both from primary and secondary data. The primary data have been collected from the borrowers (respondents) of the selected commercial banks and secondary data have been collected from fourteen sample commercial banks. Published data from committee reports and government reports have also been used.

The process flow of analysis is depicted below.

**PROCESS FLOW OF ANALYSIS**

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Figure 1.1
Tools of Analysis

In this descriptive study

i) Percentage variation,

ii) Percentage growth,

iii) Trend analysis and

iv) Chi square test

have been used as tools of analysis.

Description of the Study Area:

Tiruchirappalli District is one of the districts in Tamil Nadu, bounded by Namakkal District and Karur District in west, Pudukkottai District in south and Thanjavur District, Perambalur District in East and Salem District in North. The District is spread over approximately 110 km north to south and 105 km east to west directions. The District has 14 blocks, 8 Taluks, 408 panchayats, and 507 revenue villages.

The district has a geographical area of 4403.83 square kilometers. The topography of the district is almost plain except for the short range of Pachaimalai hills in the north. Cauvery is the major river flowing across the central portion of the district. Alluvial sandy loam and loamy soil constitute the major portion of the delta regions bordering the river. In Lalgudi, Mannachanallur and Andhanallur blocks loamy soil is predominant. In dry tracks red soil is predominant followed by black soil. The District has an irrigated crop area of 80080 ha. The sources of irrigation is channels 41%, wells and tube wells 54%, and tanks 5%.

The district’s economy is basically agrarian in nature and hence provision of timely and adequate credit to farmers is very important.
The agricultural labourers are having only seasonal employment. Employment in Trichirappalli is mainly concentrated in engineering industries. In Musiri Taluk the concentration is in Korai mat weaving and coir industries. Synthetic gem-cutting and polishing industries also provide employment opportunities to a large number of people in Trichirappalli district.

There are several medium and large industrial units like BHEL, Dalmia Cements, Kothari Sugars, EID Parry Sugars, Cethar Vessels etc. in the district. Apart from this Industrial Estate at Thuvakkudi, Ariyamangalam under SIDCO, Thuvakkudi Electronic industrial estates under Industries department are accommodating various industrial units. There is also a railway workshop and one small arms factory.

The District falls under medium rainfall region with an average of 867.8 mm. The total population of the district as per 2001 census was 23.89 lakhs.

**Period of Study:**

The period of this enquiry is from 2002-03 to 2006-07. This period is significant because it synchronizes with the tenth five year plan.

**Limitations of the study:**

- The study is mainly concerned with agricultural lending (short term and term loans) and recovery
- Jewel loan has not been considered.
- Though two main institutions, viz. Co-operative banks and Commercial banks operate to provide agricultural loans in the area of study, only commercial banks have been chosen for the study purpose.
The survey has been limited only to the Tiruchirappalli district, which represents only partially the Indian scenario.

**Chapter Arrangement:**

**Chapter I** is the introduction. It outlines the significance of the commercial banks in the field of agricultural credit in the district under enquiry, district profile, statement of the problem, objectives of the study and the methodology along with chapter scheme.

**Chapter II** is the review of literature from the various committees and commission appointed by the RBI and from relevant books, and articles published in various journals.

**Chapter III** is the Agricultural credit system in India and growth of banking sector in Tamil Nadu.

**Chapter IV** is the Analysis of agricultural loan by the commercial banks.

**Chapter V** includes the loan recovery position and over dues of commercial banks.

**Chapter VI** – is the analysis of opinion of the borrowers

**Chapter VII** – includes Findings, Suggestions and Conclusion.