CHAPTER II
REVIEWS OF LITERATURE

A review of related literature is made for a sound understanding of different issues pertaining to commercial banks’ finance to agriculture. It will bring home the problems faced by commercial banks in India and the recommendations of different committees and experts.

Report of all India Rural Credit Survey Committee (1954):¹

This committee was initiated by the Reserve Bank of India in 1951 to enquire into the agricultural credit situation in India. A detailed and extensive survey was conducted under the chairmanship of Mr. A.D. Goriala and the committee submitted its report in 1954. This report is monumental in the sense that it has brought out, clearly, the significance and magnitude of the agricultural credit problems and is bound to stand for many years to come as the basis for further study. This committee clearly stated that though anything comparable in scale to the present All India survey need not be repeated in the near future, there is a need for constant review of all the main features of the situation in the rural sector.

The findings of the committee confirmed the dominant position occupied by moneylenders in the system of rural credit. The credit provided by all the agencies viz., the Government, Co-operative and Commercial Banks was significant. Summing up the position of agricultural credit, this committee observed “the credit fell short of the right quantity, was not of the right type and did not serve the right people”. The committee also felt that the performance of the co-operative in the sphere of agricultural credit was deficient in more than one way.
The committee estimated that of the total rural credit only about 3 per cent of the credit was provided by the Government, about 3.1 per cent by co-operatives and 0.9 percent only by commercial banks. The balance of 93 per cent of rural credit was provided by moneylenders, indigenous bankers, friends and relatives. Hence this committee aptly remarked “Co-operation has failed but Co-operation must succeed”.

For vitalizing the co-operatives, the committee made general recommendations collectively known as “Integrated scheme of Rural Credit”. They are

1. State participation in co-operatives through contribution to the share capital.
2. Full co-ordination between credit and other economic activities especially marketing and processing.
3. Administration through adequately trained and efficient personnel responsive to the needs of the rural population.
4. Establishment of warehousing corporation to assist marketing co-operatives.
5. Production oriented loan policy.
6. Nationalisation of Imperial bank as state owned state bank of India with a net work of branches to give remittance and other facilities to co-operatives.
7. Establishment of multipurpose co-operative societies in place of single purpose societies and
8. Supply of adequate and timely credit to small farmers.

Another important recommendation of the committee was with regard to assigning a significant role to the RBI in the scheme of credit concerning three main items.
i) Development of co-operative credit.
ii) Expansion of economic activity (Especially processing and marketing) and training the co-operative personnel.
iii) Establishment of two funds Viz,
   a) The national agricultural credit (Long term Operation) fund and
   b) The national agricultural credit (stabilization) fund.

This fund shall be created by the RBI by contributing Rs.10 crores initially and by adding Rs.5 crores every year. The first fund is to be used for making loans and advances to the state Government, not exceeding 20 years, for subscribing to the share capital of co-operative credit institutions for advancing medium term loans for periods, not exceeding 5 years for agricultural and to allied purposes to the state cooperative banks, making loans to state land development banks for periods not exceeding 20 years and for the purchase of debentures of state land development banks. The second fund is to be used for extending medium term loan and advances to state co-operative banks when they are unable to pay their dues in time, due to drought, famine, or other natural calamities. Under this arrangement short term agricultural loans are converted into medium term loans for periods not exceeding five years. It also noted that over dues were not only heavy but they were also rising from year to year. Another significant point highlighted by the committee was that small cultivators were still unable to get their share of credit from co-operatives.

The committee studied the viability of the primary societies and has made several specific recommendations for the promotion of the viable units and rehabilitation of weak central co-operative banks.
The committee found, that co-operatives by themselves may not be able to meet the challenge and consequently, it was the commercial banks, especially the nationalized banks which should provide agricultural credit.

The findings of this committee and recommendations which here accepted by the government are significant as they throw light on certain important matters relating to agricultural credit in India.

i) The performance of co-operatives in providing rural credit is poor but co-operatives should be strengthened as an important agency because of their suitability.

ii) Commercial Banks are practically a non-entity in the provision of agricultural credit.

iii) Government should come to the rescue of co-operatives by subscribing to the share capital of the co-operatives.

**Report of the All India Rural Credit Survey Committee (1969)**

The All India Rural Credit Survey Committee was appointed by the RBI in July 1966 in order to assess the credit needs and volume of institutional credit available in aggregate for agriculture and to make suitable recommendations. The committee was headed by Sri.B.Venkatappiah.

The object of the committee was to review the situation of agricultural credit in India, since the implementation of the All India Rural Credit Survey Committee, 1954. The government wanted to know whether there was any conspicuous improvement since 1954 and hence one of the committee members of 1954 report viz., Dr.B.Venkattapiah was asked to head this committee.
The committee observed that by and large the performance of co-operatives was far better and their share in rural credit had increased to about 30 to 35 percent of rural credit. However, it stated that there were certain black spots indicating shortcomings in the co-operative credit and added by and large big farmers alone were benefited by co-operatives and small farmers were completely left out of the purview of the co-operatives.

The major findings of this survey were:

1. The committee reported that the proportion of the small cultivators who had access to co-operative credit was relatively very low in all states and that the big cultivators received a much larger share of co-operative credit.
2. The committee reported that effective steps had not been taken for re-organization and amalgamation of weak societies by the state governments.
3. Little was done for the implementation of crop loan system in most states.
4. The committee reported that the most disappointing feature of the co-operatives had been the failure to recover the loan promptly and fully.
5. The committee observed that though the commercial banks had overcome their reluctance to carry banking facilities to rural areas they had not made any significant progress in fulfilling the responsibility of meeting the credit needs of the rural community.
6. The committee found that a small proportion of total loans advanced by land development banks alone had gone to small cultivators.
The committee’s main recommendations were that there was wide gap between demand and supply of rural credit and that the co-operatives alone cannot deliver the entire agricultural credit as the gap was likely to be widened in the years to come. Hence, this committee called for a ‘multi agency approach on agricultural credit’. That is more than one institutional agency should provide agricultural credit. This committee recommended that other than co-operatives the major commercial banks which were nationalised in India in 1969 should come in a big way for providing agricultural credit. The committee itself recommended some more agencies.

i) Small farmers development agency (SFDA) to route the co-operative credit to small farmers and for providing subsidy to them when needed.

ii) Marginal farmers and agricultural labourer’s agency (MFAL) for routing co-operative loan to marginal farmers and

iii) Rural Electric Corporation for providing power connection and pump sets for tapping underground water.

The recommendations of this committee are significant for the following reasons.

i) Co-operatives have slightly improved due to governmental and RBI’s action.

ii) Co-operatives have failed in meeting the credit needs of small farmers.

iii) Commercial banks should come in a big way for agricultural credit.

iv) A multi agency approach to rural credit is warranted.
Banking Commission Report 1972

The banking commission was set up by the government of India in February 1969 under the chairmanship of Sri.R.G.Saraiya, and the terms of reference of the commission were;

a) to review the working of the co-operative banks and to make recommendations for ensuring a coordinated development of commercial and co-operative banks.

b) to review the working of the various classes of indigenous banking agencies such as multanies and shroffs and to evaluate their utility in the money market complex and make recommendations in the light of the findings and

c) to review the existing legislative enactments relating to commercial and cooperative banking.

Referring to the agricultural credit, the commission observed:

“Credit gaps are very large in areas where neither co-operatives nor commercial banks have virtually any organization at the gross root level. Even in areas where the organization exists, it is not at present capable of satisfying all the needs of those who are eligible for credit and need it; in particular there is a significant gap in institutional arrangements in respect of small, marginal and sub-marginal farmers and other rural producers of this category, which calls for a different approach. Besides, it is not enough to concentrate merely on providing credit; emphasis has also to be given to supervision of the application of the credit requirements and guidance to the borrower in this operation.

The commission has made the following recommendations with regard to rural credit.
1. The structure of banking institutions in the rural sector should be improved by strengthening the primary credit societies. This could be done by providing adequate credit and developing banking habit in this sector.

2. Banking facilities are to be provided to rural areas by commercial banks through opening of branches, adoption of villages and functioning of primary credit societies.

3. In areas where the co-operatives’ credit structure is generally weak, rural banks may be established either by making a good primary agricultural credit society to work as subsidiary of a commercial bank or by the commercial bank setting up its own subsidiary.

Effective co-ordination between the commercial banks and co-operative banks is an essential prerequisite for developing rural credit.

The findings and recommendations of the Banking commission bring home two important points:

i) The need for one or more specialized institution called rural bank to fill in the gap left out by commercial banks and co-operative banks.

ii) Need for proper co-ordination between co-operative banks and commercial banks expressing great faith in these two institutions.

**Report of the National Commission on Agriculture (1976):**

This commission enquired into various aspects of Indian agriculture and allied problems. It has made particular reference to supporting services and incentives especially those of co-operatives and commercial banks. In the estimation of this commission both institutional and non-institutional agencies have been meeting the
requirements of farm credit. The combined share of cooperatives and commercial banks, however, has not exceeded 40% of the estimated requirements. The commission also opined that the direct financing of agricultural development by the banking system has also shown signs of improvement.

The commission was of the view that the existing institutions need to be better equipped to serve the small farmers, with appropriate internal changes and new external linkages.

Regarding co-operative credit the creation of Farmers Service Societies was one of the important recommendations of the commission. Farmers service society has to cater to the entire farm needs of all its members, particularly small and marginal farmers. Each Farmers service society is to be registered as a co-operative society under the Co-operative Societies Act., of the concerned state.

The major functions of the Farmers Service Society shall be,

1. Drawing a broad plan of agricultural and related development in its area of operation.
2. All the credit requirements of the members including term loans are to be met by the Farmers Service Society.
3. It will supply all inputs and services and also undertake marketing activity.

Report of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD 1981)

The RBI appointed a committee to review the arrangements for institutional credit for agricultural and rural development (CRAFICARD) under the chairmanship of Mr.B.Sivaraman.
The committee felt that in a vast country like India, with diverse conditions, no single or uniform structural pattern could be applicable.

The committee recommended the establishment of the NABARD as a subsidiary of RBI for financing agriculture through co-operatives and other institutions. The recommendation was accepted and the NABARD is the apex financing institution for agricultural credit in India.

**Agricultural Credit Review committee-1986**  

A senior expert group was constituted in 1986 which was later known as Agricultural Credit Review Committee to make a comprehensive review of the agricultural credit system in the country.

The committee made crucial review of the credit-institutions viz; Commercial banks, Regional Rural Banks, and the Co-operative banking system, including the Land Development Banks.

Increased over dues resulting in restricted eligibility for lending, and reduced minor irrigation financing have been identified as some of the reasons for the poor performance of the banks.

Regarding the NABARD refinance policy, the committee has observed that the eligibility criteria governing refinance from National Bank has done more harm than good to the borrowers and to the credit system. The most undesirable feature of this is that new and potential borrowers are denied fresh finance from branches in the restricted eligibility. The committee has further observed that the rehabilitation programme for the co-operatives as drawn by NABARD could not yield desired result, on account of the absence of expansion component and lack of support from apex institutions and the government.
R.V. Gupta committee on rural credit (1997)

The main recommendations of the committee are:

- Simplification of procedures regarding loan application forms, agreements, documents etc.
- Rationalization of internal returns of the banks
- Introduction of new loan products with savings component
- Cash disbursement of loans, dispensation of ‘no due’ certificates, discretion to banks on matters relating to margin/security requirements for agricultural loans above Rs.10,000/-.
- Delegating powers to branch managers
- Addressing a host of HRD related issues with regard to bank officials posted at rural branches
- Free interest rates on farm loans
- Make expansion of subsidy-linked credit a commercial decision
- Scrap 18% target for agricultural lending; let RBI announce absolute annual targets
- Modify the service area approach, allow banks to operate outside their areas and allow borrowers to go to any branch of their choice
- Offer farmers a composite credit package to satisfy all their short term credit needs
- Devise a liquid savings package for farmers who tend to invest in land or gold
- The government stipulation for compulsory rural posting may be done as it has brought a low morale, uneven commitment and a weak sense of mission; instead a package of incentives to be offered in order to strengthen the sense of mission of the staff
- A review of the Tenancy Act may be undertaken in order to permit renting of land without the owner losing property rights.
The Vyas Committee was appointed by NABARD in August, 2000 under the chairmanship of Prof. V.S. Vyas. The committee suggested measures to reduce the rate of interest on agriculture credit given by Commercial, Co-operative and Regional Rural Banks. The group studied the role of effectiveness of the Rural Infrastructure Development Fund Mechanism and suggested ways to improve the direct agriculture lending and it tries to identify the impediments in the flow of credit to the disadvantaged sections such as small and marginal farmers, tenant farmers, oral lessees and landless labourers and suggests measures to be taken by banks for providing financial assistance to them. These groups also studied the role of micro finance in poverty alleviation and adoption of the SHG approach in extending banks outreach to the disadvantaged sectors and examine the need to regulate micro finance institutions and to suggest appropriate regulatory model. It examined the norms relating NPA’s in cases of crop failure when seasonality and uncertainty are not captured.

Commercial Banks and Rural development

The author has discussed the role of commercial banks in the agricultural credit, with reference to schemes, especially Area Development Programme, economic group wise (small, medium and big farmers) and the pattern of assistance to the agriculturists. He has suggested the schemes for bank assistance, can be grouped according to various factors viz; time, area and the assistance.

Regarding the dispersal of advances by commercial banks, the author has suggested the ‘Numerical Credit Rating System’ applied to direct
i) risk taking abilities
ii) interest in agriculture
iii) Proper utilization of the amount
iv) Repayment capacity and behaviour
v) Willingness to repay.

Also, the author recommends that the commercial banks should simplify and standardize the loan procedure.

**Institutional financing of Indian Agriculture**

The author has given a detailed analysis of the various agricultural financial institutions that provide credit for agriculture. He has stressed the importance to review the credit needs of agriculture and make necessary provisions for the supply of needed credit. In his opinion, despite the progress over the period in respect of the variables of banking growth, Commercial banks have not been upto the expectation of qualitative aspects.

**Impact of Multi-Agency Approach on Agricultural Finance**

The study deals with the performance, strength, weaknesses and future potentiality of various institutional agencies providing agricultural credit. The author has stated the commercial banks as one of the important multi-agencies to have made a substantial impact on financing agriculture by supplementing the lone efforts of co-operatives, and ever since the nationalization, commercial banks have provided considerable quantum of agricultural credit as revealed by the increase in the number of branches and quantum of finance.
Agricultural and Rural Advances by Commercial Banks – practical guidelines: 11

The authors have suggested some solutions for the recovery problems of the commercial banks such as proper estimation of returns, correct estimation of repaying capacity, re-fixing of repaying period and adoption of improved methods of farming.

Repayment performance of beneficiaries under NABARD assisted programmes – An analytical study- R.Dayandan 12

The discriminate analysis reveals that there are two groups of borrowers (non-defaulters and defaulters); in agricultural sector, two characteristics namely, number of times borrowed and utilization are the factors having high discriminating power. If a borrower avails loan for a number of times, he can use it for cultivation continuously which will yield regular income. Ultimately he can earn additional income to repay the loan promptly. Further, proper utilization of loans results in good yield from the venture and motivates the borrowers to repay the loan regularly. If misutilised, there is no chance of generating additional income resulting in default. In agriculture-allied sector, utilization and number of visits to the bank are the variables having high discriminating power. If the loan amount is not utilized properly, no positive impact can be absorbed from the venture. That situation will lead the borrowers to become defaulters. Moreover, if the borrower made a number of visits to the bank to get the loan, he will get frustrated and will decide not to repay the loan. This situation leads to more defaulters.
Financing Agricultural Development – African experience - Charles M Myirabu

Issues in Financing Agriculture

Agricultural development cannot be quickened merely by extending credit. Credit may be likened to a large reservoir of water. If there are no channels, to take water to fields, or the soil on the fields itself is poor and receptive, the water cannot increase production. Similarly with credit in agriculture, credit must flow to those able to use it and those users must have available to them high yielding seeds, fertilizers, insecticides and means to market their produce at a price giving them a fair return. Further there should be a built-in arrangement for recovery of credit extended to producers; no lender can hope to go on unless it recovers what it has lent.

Institutional Agricultural Finance-some issues- B.L. Mathur

The analysis reveals that Herculean efforts have been made for providing credit to agriculture by various agencies. No doubt, these efforts contributed positively to the growth of agriculture. Much has been done and much remains to be done. But one fact is certain that agricultural sector performed well only because of role played by credit institutions. No doubt there have been some lapses noticed in the system, but most of them are made by man for self interest. There has been a feeling that advances extended to rural areas that too priority sector result in higher level of non-performing assets than in other sectors. For any credit system to sustain its operations on a viable basis, it is necessary that it enforces strong credit discipline among the client. The institutions engaged in granting agricultural credit need to tackle the problem of low recovery by implementing effective measures. The problem of recovery is quite alarming in co-operative credit institutions. They have to draw
lesson from their counterparts elsewhere who are able to show consistently high recovery performance. The cause of co-operative is not served by ‘across the board loan waivers’ and the interest rebates announced by the state government from time to time which only retard recoveries. Farmers tend to withhold repayments on the expectation of such relief.

Continuous decline in credit deposit ratio shows clearly neglect of rural sector by the commercial banks which ultimately affects the viability of finance to agriculture. The institutional finance to agriculture consists of commercial banks, co-operative banks and regional rural banks which account for 91% of the total advances to agricultural sector. There is need for the commercial banks to improve their performance as far as advances of loan to agriculture and the remaining area of priority sectors is concerned. The declining credit deposit ratio is also a leading cause of concern. Branch expansion by public sector banks has been more pronounced in the case of rural area as compared to the urban area. It means that after liberalization of Indian economy, the branch expansion is again tilting towards urban and semi urban areas. No doubt arresting of such mishaps are necessary for the best use of available finance to agricultural sector to the country. It is suggested that the state governments should not make any pronouncement regards to debt relief which affect viability of the system. The problem of overdue is quite alarming but is mainly subscribed by big farmers. All concerned are of the view that rising quantum of over dues should be arrested at the earliest to create faith of people in the working of the financial institutions.
Direct Institutional credit to Agriculture and allied activities-changing scenario-L.Krishnaveni and Ash Narayan Sah

The study is aimed to estimate the centrality measures with respect to direct agricultural credit, short term and long term credit by taking the scheduled commercial banks and RRBs as rivals of co-operatives. The main reasons for the failure of the co-operative in the provision of agricultural credit are (i) huge dependence on local resources and larger dependence on higher credit institutions (ii) problem of high level of over dues (iii) regional disparities in the distribution of credit (iv) high level of NPAs (v) politicization of co-operatives (vi) domination of government over the co-operatives (vii) poor management (viii) lack of enthusiasm and dedication among the members.

In recent years the public sector banks are trying to trim the operation costs to improve their profitability in the wave of competition from private banks. In this process, the closure of uneconomic banks may hinder the provision of credit to the agricultural sector. This decision reduces the access to credit in rural areas that were served by the banks since nationalization through bank expansion drive and worsens the tendency towards reduced provision of credit to the agricultural sector. As a result of this credit squeeze the agriculture and allied activities of the rural economy may face severe problems of working capital for cultivation. In this critical situation again there is a possibility of revival of private money lending in rural areas. Thus this type of retrogression has serious consequences on the farming community as well as the future of Indian agriculture.
Banking reforms and Agricultural credit-Dr.Saroj Upadhyay

Indian banks have been suffering from lower rate of returns through concessional interest rates and high defaults from farm credits. If interest income is at least equal to the cost of lending that would bring the break-even condition. If the break-even is not reached, then banks have to cross-subsidize the farmers. The more the default risk, the higher the quantum of cross-subsidy. According to an estimate, cross-subsidy to Indian agriculture by the commercial banks has been increasing. This was Rs.77 crore in 1980-81., but it went up to Rs.967 crores in 2000. Banks had to cross-subsidise agricultural sector from the income generated by the other sector. This has also hampered the credit flow to the agriculture in recent years when banks are guided by the commercial principles, particularly after reforms process started.

The analysis demonstrates that the share of credit to agriculture in total cost bank credit has declined in recent years; particularly after economic reforms despite repeated concern expressed by the monetary authorities. There is a need to adopt a proper risk management system distinguishing clearly between risky borrowers. There is a need to focus on diversified activities such as storage, transportation, processing and marketing of agricultural products. The rural areas are undergoing a transformation process in respect of consumption and dietary habits from cereal to non-cereal products. The financial institutions should shed their conservative outlook and identify the emerging areas to address the needs of rural farmers through perspective analysis. Initiatives need to be taken in newer areas such as Aquaculture, Horticulture, Pisciculture, Dairying, Poultry, Food processing and other Agro-processing activities in rural areas. The conventional approach and credit delivery practices will not augment the net credit flow to agriculture nor will it bring any qualitative
differences in the credit delivery system. The financial institution should rise to the occasion and identify the areas and supplement the credit needs of the location- specific and area-specific manner and applicability. The SHGs, local level administration, co-operatives and commercial banks should act in harmony to meet the challenges of new era.

**Bank reform and Financing the value chain in agriculture.-K.K.Ray**

The risk in financing agriculture can be estimated and subsequently mitigated, provided the banker projects the financial conditions of the farm sector. In this context the role of policy makers is significant. Data on recent levels of farm income, asset quantities and prices of agricultural output are vital to building a suitable projection model. Development of such a database with a high level of speed and accuracy and accessibility of such a database to banker is essential for quantification of risk in agricultural finance. Agricultural capital markets should be widened and deepened with more opportunities to raise equity capital. An independent regulatory agency is to be constituted to supervise the agricultural credit. All institutions like co-operative banks, commercial banks, NABARD, should be brought under this agency. The RBI should concentrate more on regulation of money, debt and foreign market. Agricultural finance should be under separate regulation. The existing forward markets commission, which oversees the commodity exchange, should also be brought under the farm credit. Banks should understand that agriculture is a way of life for the farmers and is only subsequently transformed into a business. It can’t simplistically be compared with exposures to industrial and other retail advances. There is, therefore, a need to look beyond mandatory targets, designing new strategies and leveraging existing infrastructure, quantification of credit risk and activating a package of
financial services is essential for improving the farm credit system and increasing agricultural output.

**Agricultural credit in India-status, issues and future agenda-Rakesh Mohan**

The flow of credit to the agricultural sector failed to exhibit any appreciable improvement due mainly to the fact that commercial banks were not tuned to the needs and requirements of small and marginal farmers; while co-operatives on the other hand lacked resources to meet the expected demand. The solution that was found, involved the establishment of a separate banking structure, capable of combining the local feel and the professionalism and large resource base of commercial banks. Following the recommendation of the working group on rural banks (Chairman.M.Narasimham-RBI 1975) Regional Rural Banks were set up. By the end of 1977 there emerged three separate institutions for providing rural credit which is often described as the “multi agency approach”.

Following the recommendations of the committee to review arrangements for Institutional Credit for Agriculture and Rural Development, the NABARD was set up in 1982 to provide credit for the promotion of, among other things, agriculture. NABARD took over the entire undertaking of the ARDC and the refinancing functions of the RBI in relation to state co-operatives and RRBs. Since its inception, the NABARD has played a central role in providing financial assistance facilitating institutional development and encouraging promotional efforts in the area of agricultural credit. NABARD also administers the Rural Infrastructure Development Fund (RIDF) which was set up in 1995-96. The corpus of RIDF is contributed by scheduled commercial banks to the
extent of their shortfall in agricultural lending under the priority sector targets.

**Credit Management-Linking Commodity Derivatives with Farm Credit-A win win proposition** - *Sunil Kumar* 19

In his article he states that the Indian agriculture, dominated by the small operational landholdings has been facing a serious problem of insufficient credit availability. The traditional methods of financing like subsidised credit through cooperatives, Priority sector lending and other farm credit schemes have proved to be insufficient and unsustainable.

**‘Lead banks-retrospect and prospects’**

*U.C.Kulshrestha* 20 in his article has assessed the performance of Lead banks in the western regions of U.P; with such parameters as branch expansion, deposits and credit deployment. He has also reviewed the problems faced by the lead banks and recommended a re-examination of the discretionary powers of bank managers, particularly in the rural areas in order to avoid unhealthy competition between commercial banks and primary credit societies. He has also recommended the issue of credit eligibility passbooks to the farmers by the block development officials.

**‘Agricultural overdues:issues and remedies’**

*Aryakumar* 21 in his article sees poor recoveries as a basic threat to the viability of banking operations in the rural areas. He has suggested a strengthening of the supervisory structure to see that assets acquired through bank loans are not transferred or sold without the bankers’ knowledge. The linking of credit and management is also one of his suggestions to avoid over dues.
“The Role of Banking in Rural Development”

R.N. Malhotra\textsuperscript{22} in his article has outlined the importance of timely adequate finance, stressed the need to improve the bankers’ capacity to plan their operations ahead of time so that supply of credit is not delayed. He has also hinted at the problems of co-ordination that arise in the wake of the multi-agency approach to rural credit.

‘Financing Institutions and IRDP’

Rajendra Singh\textsuperscript{23} has undertaken a study and listed some of the operational causes of over dues under agricultural advances by commercial banks like short term maturity period and short-term grace period and failure to provide supplementary finance in the case of incomplete investments.

‘The Utilisation of IRDP loans’

V.S. Prasad and N.K. Roy\textsuperscript{24} have undertaken a case study of ‘the Utilisation of IRDP loans’ in the Purnia district of Bihar with reference to the year 1986-87. They have established that there is a close relationship between the knowledge of the borrower and aspects like borrowing habits, utilization of credit and repayment behaviour. They want effective measures for improving and widening the knowledge of the rural borrowers.

B. Ramachandra Rao\textsuperscript{25} has studied the evolution of priority fee advances and their monitoring. He has noted with concern the tyranny of the targets and the problems like misutilisation of loans, poor recoveries etc., and those arising out of the understaffing of rural financial institutions.
Dr.(Mrs.) Aruna Saikia has analysed the adequacy of agricultural credit and some problems of credit utilization arising as a result of the low scale of finance. She has also noted the 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.

S.A. Patel has made a study of the recovery performance of district agricultural advances of scheduled commercial banks in the Surendra Nagar district of Gujarat. He has recorded that the farmers were ready to repay the loans if the harvests were good and agricultural prices remunerative. They were also eager to have further finance and felt that due recognition for full repayment will induce early repayment.

S.P. Singh and Mruthyunjaya in their study on ‘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 the loan-granting procedures, and argued for a sincere implementation of recommendations of the Talwar committee-regarding the issue of passbooks to land owners and tenants which serve as evidence to the rights in 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.

Jagatram in his article ‘RRBs- help Rejuvenate Rural Economy’ has found that even with a much increased network of rural branch offices, the commercial banks have not reached the interior rural hinterland.
Dr. D.S. Dhillon and Dr. N.S. Sandhu\(^\text{20}\) have made a critical study of the working of the IRDP scheme in Punjab and pleaded for its streamlining.

Dr. Ohja\(^\text{31}\) in his article ‘Banking for the Rural Poor’ has emphasized the importance of non-credit inputs, and estimated their role of various agencies in the provision of institutional finance to agriculture. He has also estimated the performance of the various programmes launched by governments from time to time.

Balishter\(^\text{32}\) in his article ‘performance of Regional Rural Banks – An Evaluation’ has evaluated the performance of RRBs in terms of branch expansion, deposit mobilization, loans and advances, recoveries and profitability. He has recorded many disturbing trends in the working of the RRBs like fall in credit deposit ratio, poor recoveries and recurrent losses.

D. Nagaiya, P. N. Redy and V. R. Naidu\(^\text{33}\) in their article ‘Service area approach- A new strategy for rural development’ have studied the SAA as a promising strategy for rural development.

C. V. Nair\(^\text{34}\) in his article ‘Integrated flow of Credit’ has made 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 the short term and long term credit structures in the co-operative sector.

Dr. P. Malyadri, K. Gowrappa and M. Baswaraja\(^\text{35}\) have discussed some issues relating to the implementation of poverty alleviation schemes
through the IRDP. They are strongly in favour of strengthening the PACSs so that they are better managed and made financially viable.

*Dr.V.C.Patnaik and Rabi N. Misra*\(^36\) in their article ‘Management of change in Rural Credit Recovery Practices’ have made an empirical examination of the effectiveness of recovery management, practices of rural banking institutions in Orissa and the repaying habits of the borrowers of two districts in southern Orissa and have drawn some conclusions that have a wider bearing on the problem of overdues in general. They have found that borrowers have a greater eagerness to pay back, non-institutional loans rather than institutional ones. It has been the affluent group that has been guilty of greater over dues. They have also the impact of ‘write-offs’ on the borrowers expectation of ‘write-offs’. They have recommended a surer pre-lending appraisal and post-lending supervision.

*B.Ramachandra Rao*\(^37\) 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 sees it as a fraud on the tax-payers. 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.

*P.R.Upadhya*\(^38\) in his article ‘Recovery of Overdues-Grameen 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 ARDR scheme of 1990. He records that the loan waiver has proved not a boon but a bane. It has 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% of the loan has been repaid. He has also pleaded for the replacement of the target –oriented approach by the quality – oriented approach on the implementation of rural development programmes.

*Dr.R.Perumal*³⁹ in his article ‘Ailments of Co-operatives-A remedy’ has stressed the need for creating more and more co-operative-oriented people before organizing co-operative societies. He has emphasized the need to educate the masses on the available schemes.

*Verashakerappa*⁴⁰ in his article ‘priority sector lending –A case study’ has examined the structure and pattern of distribution of institutional credit across different social groups in Karnataka and also examined the causes of over dues. He has found that in Karnataka the expansion of Institutional finance has mainly helped the larger farmers and argued in favour of a re-examination of the credit delivery system to prevent the rich from cornering the benefits that are meant for the poor.

**Scope of the present study:**

India is a land of villages and agriculture still continues to be the important industry providing employment and livelihood to about 70 percent of its population. After India’s independence, the successive five year plans have given great accent to agriculture and agricultural development. India is an important country in Asia where there is continuous population explosion creating greater demand for food crops. Besides, the planned industrial expansion also warrants the production and supply of large quantities of raw materials from agricultural sector. With these objectives, measures have been taken at the governmental level for increasing agricultural production through the use of farm yard manures, pesticides, chemical fertilizers and high yielding variety of
seeds. Intensive cultivation is undertaken and along with this, rotation of crops and mechanization of farm operations to a limited extent are undertaken.

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.

Credit is the sine qua non for agricultural operations and both for short term and long term, credit is needed by agriculturists. Short term credit is of repetitive nature and is needed for every agricultural operation. As the size of the holdings is small the retained earnings of the farmers are practically nil. Traditionally, Indian farmers have been borrowing for many centuries, and even now from moneylenders, indigenous bankers, friends and relatives. There was no institution for agricultural lending till the co-operatives were established in 1904. But even then the impact of the co-operatives was practically nil till 1954. Subsequently measures were taken to strengthen the co-operatives. The commercial banks were for a long time of the view that agricultural credit was not in their purview. It was only in the year 1955, when the State Bank of India was established as a state owned commercial bank by nationalizing the Imperial Bank of India, some efforts were taken to lend money for agricultural operations.

The co-operatives 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.
The present study of the demand for and supply of credit will help the bank to allocate more funds for major purposes for which they require funds and also provide adequate amount of funds at the right time. Study of the causes of default will provide lessons to the farmers on how to use credit in a better way for productive purposes so that they can repay the loan within the specified period. Examining the performance of the banks will help in identifying the difficulties involved in advancing and recovery of loans. This will enable the banks to alter their lending procedures and the repayment schedule. The study will help the policy makers to reformulate the policies so as to improve the performance of the banks.
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