1.1 General
1.2 Problems of Agriculture
1.3 The Problem of Indebtedness
1.4 Agricultural Financing In India
1.5 The Concept of Credit
1.6 Need for Agricultural Finance
1.7 The Green Revolution and the Demand for Agricultural Credit
1.8 Components of Farm Credit
1.9 Sources of Agricultural Finance
1.10 Organization of Rural Credit in India
1.11 Service Area Approach
1.12 Purpose of Loans
1.13 Management of Agricultural Credit
1.14 Organization of Thesis

References
CHAPTER I

INTRODUCTION

1.1 General:

India is one of the most populated and widely spread countries. It is spread over the vast peninsula ranging from the Himalaya's in the north to the southern sea and from the western sea to the Bay of Bengal. The main occupation of the people is agriculture. It is also traditional occupation in this country. The livelihood of majority of the masses comes from the profession of agriculture. There is a deep possibility that the ancient Indians are the first in human civilization to discover the science of agriculture.¹

People in ancient India were agriculturist. References to agriculture are found in the Vedas. It includes hymns and prayers for good crop, cattle and rain. The Arthashastra of Kautilya, written about 2500 years ago by the founder minister of the Empire of Chanda Gupta Maurya also known as Arya Chanakya alias Vishnu Gupta, describes in detail how agriculture was the basic source of revenue for the state and what were the duties of the state for development of agriculture. He appointed the special officer at the state level including 'Superintendent of Agriculture', 'Revenue Collector' and a 'Superintendent of Agriculture Warehouses' to look after the industry of agriculture. References to agriculture are also found in Mahabharat.
Indian agricultural produce was exported in all over the world. Products of agro based industries like cotton, jute, sugar, goor (jiggery), etc. were exported to the western countries via the Silk Route crossing as Istanbul.

In the modern days, particularly after industrialization following the great industrial revolution that has taken place a few centuries ago, agriculture is becoming more and more significant as it is the only source of food for the increasing population of the world. The views about agriculture are continuously changing. It may attain the status of an industry. India’s entry in to GATT (General Agreement on Trade and Tariffs) and the WTO (World Trade Organizations) and the new economic policy of globalization has widened the dimensions and horizon of Indian agriculture. The acquired knowledge of agriculture industry, its methods, and systems over thousands of years is now open for a severe test. The role of government has also increased. The era of planning, after attaining freedom in 1947, has witnessed radical changes in the Indian agriculture. The latter half of the last century, representing the 50 years of freedom, brought significant changes in the Indian agriculture. Use of new methods of farming, mechanization, use of chemical fertilizers, high yielding varieties of seeds, and controlled market rates of agricultural produce are some of the important dimensions of the changing agriculture patterns.
The profession of agriculture, though not recognized as of equal status with that of an industry, yet it was included in the priority sector of the economy along with small-scale industries, small business, and export trade. The reorganization of agriculture, as one of the parts of priority sectors, helped changing attitudes and approaches towards agriculture in the process of five-year plans. Subsidies were extended for various agricultural products and mechanization schemes. The credit is extended to agriculture on a mass scale. The whole banking system is geared up for extending credit to various agricultural and allied activities. Therefore, the issue of credit management with reference to agriculture in India attracts utmost importance while studying the trends and progress of development of agriculture in the Indian economy.2

Considering this significance, an attempt is made to study the issues related with credit management of Aurangabad district with reference to agriculture in the Marathwada region of the Maharashtra state.

The Aurangabad division is an administrative division of Maharashtra. It consists of eight districts namely Aurangabad, Jalna, Parbhani, Nanded, Beed, Osmanabad, Latur, and Hingoli. The region is a part of the Deccan Plateau and having rich alluvial soil suitable for all types of crops. The land is irrigated by the perennial flow of waters of the rivers including the Godavari, the Purna, the Painganga, and the
others. Hence this region assumes a special significance. The present attempt is made to study the issue of 'Agricultural Credit Management' with reference to this particular region. Before the study proceeds further, it would not be out of place to discuss at the outset various problems faced by the agriculture sector in India.

1.2 Problems of Agriculture:

Though, the Indians knew the agriculture right from an ancient times and it has remained the main profession of the masses of this continent yet it is not free of problems. Agriculture in India, also referred to, as a gamble in the rains, is full of a number of problems. The major problems are outlined here.  

1.2.1 Low Productivity:

Indian agriculture is suffering from the problem of low productivity. It is measured in terms of yield per hectare. Per hectare yield of some major crops in comparison with other countries is shown in table 1.1.

The table 1.1 shows that in most of the products, the Indian yield is very low as compared to other countries. The reasons are numerous, such as small size of holdings, land tenure, traditional methods, inadequate irrigation, discouraging government policies, etc.
Table 1.1
Comparative Yield of Major Crops in India
(Figures of Yields per hectares)

<table>
<thead>
<tr>
<th>Major Crop</th>
<th>Actual yield in India</th>
<th>Actual Yield of Largest Producer</th>
<th>World highest yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice</td>
<td>29.2</td>
<td>63.3 (China)</td>
<td>85.7 (Egypt)</td>
</tr>
<tr>
<td>Wheat</td>
<td>26.5</td>
<td>49.9 (China)</td>
<td>74.7 (U.K.)</td>
</tr>
<tr>
<td>Maize</td>
<td>15.9</td>
<td>79.7 (USA)</td>
<td>94.8 (Italy)</td>
</tr>
<tr>
<td>Sugar Cane</td>
<td>697</td>
<td>690 (Brazil)</td>
<td>1111 (Egypt)</td>
</tr>
<tr>
<td>Groundnut</td>
<td>9.9</td>
<td>9.9 (India)</td>
<td>28.3 (USA)</td>
</tr>
<tr>
<td>Cotton</td>
<td>3.21</td>
<td>7.21 (Uzbek)</td>
<td>15.3 (Australia)</td>
</tr>
<tr>
<td>Jute</td>
<td>20.0</td>
<td>18.3 (India)</td>
<td>25.2 (China)</td>
</tr>
</tbody>
</table>

Source: FAO Production Year Book, 1997

1.2.2 Irrigation:

The development of agriculture depends upon irrigation, which required a permanent source of water. In assured rainfall areas crops can be cultivated without any extra irrigation but in the drought prone areas like, Rajasthan needs abundant supply of water. Though, irrigation facilities are being provided in the country with planning various dams even then we could not cover whole of the cultivable lands under irrigation.

The irrigations systems in India are generally classified into three categories:

1. Major irrigation projects
2. Minor irrigation projects
3. Medium Irrigation Projects.

Projects with cost estimates of more than 5 crores are classified in the first category, whereas projects with cost estimates less than 25 lacks are classified under the second category. Any project that falls in
between this is known medium irrigation project. The classification is also made on the basis of Cultivable Command Area (CCA). Projects with a CCA exceeding 10,000 hectares are called 'Major Irrigation Schemes'; projects with a CCA between 2,000 to 10,000 hectares are called 'Medium Irrigation Schemes.' With a CCA below 2,000 hectares are called 'Minor Irrigation Schemes'. The gross and net irrigated areas in India are shown in the following table.

Table 1.2
Gross and Net Irrigated Area in India
(Figures in Million Hectares)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Irrigated Area</th>
<th>Gross Irrigated area</th>
<th>Total Cropped Area</th>
<th>Groom irrigated area as per cent of sown are</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>20.9</td>
<td>22.6</td>
<td>133.2</td>
<td>17.4</td>
</tr>
<tr>
<td>1970-71</td>
<td>31.1</td>
<td>38.2</td>
<td>165.8</td>
<td>23.0</td>
</tr>
<tr>
<td>1996-97</td>
<td>55.1</td>
<td>73.3</td>
<td>189.5</td>
<td>38.2</td>
</tr>
</tbody>
</table>


Considering the gravity of situation the Government of India has adapted a number of programs like the NABARD (National Bank for Agriculture and Rural Development), RIDF (Rural Infrastructure Development Fund) for minor irrigation projects and Accelerated Irrigation Benefit Scheme for major projects.

1.2.3 Land Systems:

Another major problem is that of land systems. Baden Powell conducted an exhaustive survey of land system in India, which calls for fundamental reforms. The land systems in India are generally classified into three categories viz. 1. Zamindari System, 2. Mahalwari
System, and 3. Rayatwari System, of these Lord Cornwallis created the first system under the rule of East India Company. In this system the Zamindars were made proprietors of large areas of land and government used to share about 10 per cent of the rent. This system was prevalent in West Bengal, Bihar, Orissa, Uttar Pradesh, Madhya Pradesh, and Andhra Pradesh. The Mahalwari system was started by Lord William Bentick in Agra and the Oudh States at the first instance and later on extended to Madhya Pradesh and Punjab. According to this system, one single village was treated as one unit for the purpose of revenue calculations. The Rayatwari system was started in Tamilnadu and was prevalent in Maharashtra, Uttar Pradesh, Bihar, East Punjab and Assam. According to this system the responsibility of revenue payment was upon the 'rayat' i.e. the cultivator.

This necessitated the land reforms in the post independence period for the purpose of abolition of intermediaries, tenancy reforms and reorganization of agriculture. The reforms also instituted ceiling on land holdings, primarily with the objective of increasing the spirit of cooperation and to improve position of the poor farmers. The rational behind this was totally social.

1.2.4 Size of Holding:

The size of holding is yet another problem which is associated with the Indian agriculture. As the Third Five Year Plan has rightly observed, "land reforms can not succeed without considerable
extension of credit facilities and without a programme for eliminating the weaknesses which arise from an uneconomic and fragmented holdings." The government of India has made a number of surveys of operational holdings during the 20 years from 1970-71 to 1990-91. The survey shows that the number of holdings during this period increased from 71 million to 106 million. The distribution of land holdings according to size, is as shown in the table 1.3.

Table 1.3
Number and Area of Operational Land Holdings in India

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginal Holdings (Below 1 hectare)</td>
<td>36 (51)</td>
<td>62 (58)</td>
<td>15 (9)</td>
<td>25 (15)</td>
</tr>
<tr>
<td>Small Holdings (1 to 4 hectare)</td>
<td>24 (34)</td>
<td>34 (33)</td>
<td>49 (30)</td>
<td>67 (41)</td>
</tr>
<tr>
<td>Medium Holdings (4 to 10 hectare)</td>
<td>8 (11)</td>
<td>8 (7)</td>
<td>48 (30)</td>
<td>45 (27)</td>
</tr>
<tr>
<td>Large Holdings (10 hectare above)</td>
<td>3 (4)</td>
<td>2 (1)</td>
<td>50 (31)</td>
<td>29 (17)</td>
</tr>
<tr>
<td>Total</td>
<td>71 (100)</td>
<td>106 (100)</td>
<td>162 (100)</td>
<td>166 (100)</td>
</tr>
</tbody>
</table>

Note: Figures in parentheses are percentage of total in the respective column.
Sources: Department of Agriculture and Co-operation, Government of India, Annual Report, 1994-95

The size of holding shown in the above table clearly shows that the large number of holdings i.e. about 85 percent in 1970-71 and 96 per cent in 1990-91 are either small or marginal. The size of holding depends upon a number of factors such as nature of crop, method of cultivation, and soil fertility. Efforts have been made to determine the economic size of holdings that can maintain an average standard of life. In India, the size of holding remained small due to the process of sub-division and fragmentation caused by the various factors such as,
growing population, the law of inheritance, decline of joint family system, decline of village industry, and rural indebtedness. Profit in agriculture depends to a great extent upon the size of holdings. Efforts have been made in the form of collective and co-operative farming to do away with the evils of smallholdings.

1.2.5 Farm Mechanization:

In India, agriculture is carried on to a great extent by the traditional methods. Farmers use traditional and simple agriculture implements. These implements are propelled by means of animals or human labours. Industrial revolution has brought astonishing changes in the farm technology and implements. Advanced western countries use implements like tractors, threshers, harvest combine, pump-sets etc. Mechanization includes use of such implements for farming instead of animal or human labour. During the Five Year Plans, India has made notable progress in the area of farm mechanization. Farm mechanization leads to a number of benefits like; increase in production, increase in productivity, decrease in cost of cultivation, increasing surplus, and so on. In India, mechanization has lagged behind mainly due to the small size of farms and lack of financial sources.

1.2.6 Problems of Marketing:

The systems of marketing agricultural produce in India are not without defects. The major issues associated with marketing of
agricultural produce are: sale of produce to local traders, sale of produce at weekly markets called `hats`, `bazzars`, etc., sale of produce to local `sahukars` who act as money lenders, sale of produce at city market called `mandies`, through `dalals` or `adhatiyas` who act as brokers.

Due to these systems the agriculture produce is generally sold after harvest at a very low price. The reasons behind this are numerous such as lack of storage facility, urgent financial needs, lack of grading systems, inadequate infrastructure facilities such as road transport, lack of market information, etc. Government had made effort to set up the regulated markets. The activities of such market include

a. Fixation of charges for weighing, brokerage, etc.

b. Prevention of under hand dealings.

c. Enforcing the use of standardized weights and measures.

d. Providing latest market information

e. Settlement of disputes.

Co-operative marketing has also been resorted to accept the present challenges of marketing problems.

1.2.7 Agricultural Labour:

Number of problems of Indian agriculture is associated with agriculture labour. In India it is classified into five broad categories like:

a. Landless labourers attached to landlords.
b. Landless labourers not attached to landlords.

c. Tiny farmers who have small bits of lands and they work for others.

d. Farmers having economic holdings whose dependence work with others.

e. Bonded labourers.

The National Commission on Rural Labour, 1991 has observed that, out of a total of 108.4 million rural households 43 million are rural labour households. The socio-economic conditions of agriculture labourers are not very satisfactory due to the number of reasons such as, low social status, seasonal employment, unorganized labour, indebtedness, etc. Government has taken up number of steps like, enforcement of Minimum Wages Act, abolition of bonded labour, liquidation of rural indebtedness, provision of houses, etc. The government is also following recommendations of the National Commission on Rural Labour. It has prepared a draft of central legislation for agriculture workers for the purpose of improving the conditions of agriculture labourers who are termed as poorest in the country.

1.2.8 Agricultural Taxation:

Agriculture is one of the major sources of national income. The Government of India, in the process of planning, has exempted agricultural production from income of tax. However, arguments have
been put forward for taxation on agriculture. Various proposals for additional taxation on agriculture have been made by official organizations like planning commission. The central government appointed a committee in 1972 to examine the problem of agriculture taxation. It observed the following points:

1. Progressive agriculture holding tax should be imposed.
2. In case of persons having non-agricultural taxable income, agriculture income should be included in its total for the purpose of tax calculation.
3. Income from livestock, fisheries, dairy, and allied activities should be taxable.
4. Integrated taxation of agricultural property through wealth tax should be introduced.
5. Capital gains tax should be introduced on transfer of agriculture loan.

However, it seems that the governments both at the center and the state are finding it difficult to tax agriculture.

1.3 The Problem of Indebtedness

Rural indebtedness has remained a severe problem through ages. An Indian farmer borrows money from relatives, moneylenders and banks, but he is not able to repay his debts. The debt goes on increasing and ultimately he has to repay it by selling out his land.
The debt passes from generation to generation. It would not be out of place here to survey the extent of rural indebtedness in India.  

1.3.1 The Extent of Rural Indebtedness:

The data on indebtedness is available in the form of All India Debts and Investment Survey (AIDIS). The Reserve Bank of India conducts AIDI surveys at every ten years. The first survey was conducted in 1951 and the latest survey available is of 1991. The first two surveys were extensively conducted and attempted at valid and reliable estimates of debt, investment and other general characteristics of rural households. The third, fourth and fifth surveys also included urban households. The surveys have concluded certain important points.

The surveys have attempted to estimate average debt of rural households. This is shown in table 1.4.

<table>
<thead>
<tr>
<th>Year</th>
<th>Cultivators</th>
<th>Non-Cultivators</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>605</td>
<td>223</td>
<td>500</td>
</tr>
<tr>
<td>1981</td>
<td>803</td>
<td>205</td>
<td>661</td>
</tr>
<tr>
<td>1991</td>
<td>2294</td>
<td>1151</td>
<td>1906</td>
</tr>
</tbody>
</table>


The above table indicates that the average debt is generally higher in case of cultivator households than the other. The average due per household is continuously rising from 1971 to 1991.
The survey has also made certain observations regarding the incidence of rural indebtedness as shown in the table 1.5.

Table 1.5
Incidence of Indebtedness of Rural Households
(Figures in Per cent)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cultivators</th>
<th>Non-cultivators</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>46.1</td>
<td>34.3</td>
<td>42.8</td>
</tr>
<tr>
<td>1981</td>
<td>22.3</td>
<td>12.4</td>
<td>20.0</td>
</tr>
<tr>
<td>1991</td>
<td>25.9</td>
<td>18.5</td>
<td>23.4</td>
</tr>
</tbody>
</table>


The above table estimates the incidence of indebtedness of rural households. It has been measured as a percentage of households. The figures are not strictly comparable. The overall incidence shows a sharp fall in 1981 as compared to 1971. Where as 1991 figures show further increase, it includes both institutional and non-institutional debts.

During the course of time institutional indebtedness has increased. An overall analysis of trends leads to following conclusions:

Institutional credit is becoming more significant for all rural households. After nationalization of leading banks in 1969, they have played a leading role in lending money to rural households, to cultivators as well as non-cultivators. To a large extent, they have overtaken the co-operative societies/banks, which were the traditional institutional sources.

With the growth of institutional credit agencies, the dependence of the rural households on moneylenders and other non-institutional
credit agencies has decreased considerably. Moneylenders, for instance, contributed as much as 36 per cent in 1971, but their contribution to total credit came down to 17.6 per cent by 1991. This trend is to be welcomed as the interest burden of institutional credit which is much lower than of the non-institutional credit.

1.3.2 Causes of Rural Indebtedness:

A number of studies have been conducted to analyze the causes of rural indebtedness. They include the All India Rural Credit Survey Committee Report, and the All India Rural Debt and Investment Survey. An overview of these reports leads to recognitions of the following causes of the rural indebtedness.

1. Extreme poverty
2. Natural Calamities like flood, famine, etc.
3. Increasing cost of agricultural inputs
4. High investment needed for farm mechanization.
5. Saving diversification in to purchase of land.
6. Social infra structure
7. Extravagance of religious ceremonies.
8. Inherited debts.
9. Land litigations.
10. Trap of moneylenders.
11. Lack of credit discipline.
12. Low productivity.
13. Traditional cropping pattern.

14. Traditional implements.

15. Failure of co-operative system.

These and such other causes have led to high-level rural indebtedness. This has increased poverty and the regional imbalances. The agricultural industry is not being developed up to the mark.

1.3.3 Remedies to Rural Indebtedness:

The Government has made a number of suggestions. It has also taken serious steps to reduce the level of rural indebtedness. Some of the major steps are as follows:

1. Settlement of old debts.

2. Control over granting new loans.

3. Control over moneylenders

The Shivraman Committee appointed by the Government of India (1976) has suggested the following steps:

1. Provision of loans for consumption,

2. Loan provisions for social and religious ceremonies.

3. Special loans to small and marginal farmers

The twenty point economic programme introduced in 1975 had declared a moratorium on the recovery of debts by moneylenders from farmers, landless labourers and rural artisans.
The Union Finance Minister, declared Agriculture and Rural Debt Relief Scheme in 1991. It provides relief to the borrowers having outstanding loans up to Rs. 10,000 from public sector banks and RRBs. The relief was extended to the borrowers identified as 'non-willful defaulters', 'Chronic over dues', 'Expired borrowers before 1989', and 'insolvent borrowers'.

Such of these steps have been taken up by the government for reducing the level of rural indebtedness in India.

1.4 Agricultural Financing in India:

Agriculture in India is a traditional activity. Being so it is not well organized. The activity is mainly dependent upon the nature. Attitudes and approaches of the rural folk also create limitations. The masses are poverty ridden. Low yielding varieties are cultivated. Unnecessary expenditures including extravagance on marriages, religious ceremonies, and family problems create indebtedness. Therefore, the Indian farmer is in acute need of financial help. The issues related with agricultural finance in India in general are outlined here.

For rapid agricultural development credit facilities must be provided to the needy farmers. There are several credit institutions, which provide credit facilities to agricultural sector. But most of the institutions have been functioning more or less like credit shops, disbursing credit and getting it back. In other words, development-
oriented lending committed to produce concrete results at the micro level. It has yet to take roots in the Indian soil, barring the few exceptions here and there. The basic concept of development-oriented financing is that credit is consciously used as a ladder of development. It calls for initiative and energetic involvement on the part of credit institutions in developing the potential opportunities of underdeveloped or undeveloped sections through selective and strategic input of credit.

1.5 The Concept of Credit:

The etymology of the word Credit is traced back, to the Latin ‘credere’. We call credit, in general, the confidence of the general public with regard to real or a legal person, that the latter is going to fulfill obligations already undertaken, or to be undertaken. In a nutshell credit consists in the exchange of existing goods against future ones. It is, therefore, merely an extension of exchange.

It follows from the foregoing that the main characteristics of credit are: consumption of certain goods and possessions, and expectation of goods distinct to replace the same.

Credit in general presents itself as something unique, but its utilization in the various branches of production, viz. agriculture, trade, industry, shipping, etc., presupposes its adaptation and harmonization to the special production conditions and requirements of each of these branches.
This specialization brings with it more or less radical changes in conformity with each instance. On the basis of branch of production in which it is being utilized, we distinguish a variety of forms of credit. The principle ones are a) Agricultural Credit b) Trade Credit c) Industrial Credit and d) Shipping or Marine Credit.

‘Agricultural Credit’ has an object of granting, under any conceivable form, to agriculture of the economic means required for its work. Granting of credit affects directly the agriculturist or organization of every description occupying themselves, from any given angle, with agricultural matters. This, however, is agricultural credit in the large sense of the world.

Agriculture is the core sector of the Indian economy. The new technological possibilities thrown open by the recent researches in agricultural science have proved that the total yield per acre can be boosted up by applying the optimum package of farm inputs as high yielding variety seeds, fertilizers, insecticides etc. This also indicates that the desired adoption of new technology demands higher capital investments. Response of a farmer to new technology, therefore, be visualized as function of his financial measures. Supporting this conjecture, majority of the field levels investigations indicated that only that group of farmers equipped, with better financial resources, is able to derive benefits out of the new technology.
Considering the shortage of finance credit facilities, credit has been identified as the principal solution for agricultural problems. This need has received timely attention by other policy makers too. An introduction of one agency after another to the agricultural credit over time is a clear indication of this recognition.

The credit avenues open for farmers can broadly be classified into two types, namely; a) formal credit channeled through institutional agencies, comprising co-operative societies, central and state govt., agencies and commercial banks, b) informal credit flow through non-institutional agencies, comprising the money lenders, traders, landlords and relatives. Recently, the latter group, in particular the moneylenders, was the major financial agent to the farmers, both for production and consumption purposes. Its lending procedure being a simple one, the moneylenders are known for quick service. But the interest rates they charge make their finances costly. Also they are known for their land-grab policy. This has brought to the core an urgent need of protecting the interests of the marginal and small farmers. In pursuance of this and to tackle the problems in more effective manner the Govt. of India in recent years has formulated several agricultural positive biases for marginal and small farmers.

The multiple credit requirements of agriculturists could not for obvious reasons be met by any single institutional agency. A multi-agency approach has therefore, been viewed as a better alternative.
Recognizing this the Government has assigned the responsibility of farm development to three agencies namely, Co-operatives, Commercial Banks and Regional Rural Banks. Each of these is presumed to function as a part of a 'system' having a close co-operation while planning credit provisions. Further, they together are visualized as the instruments for rooting out the non-institutional (especially) the agricultural moneylenders) agents from the sense over a period of time.

This may be mainly because of the accumulated over dues with co-operatives and of the imbalance between the demand and supply of credit channeled through the institutional agencies.

Though commercial banks, since their nationalization, have made a commendable progress on their agricultural credit operation front, there exists a considerable leeway to credit facilities in the coming years. This follows from the observable imbalances that have emerged during the last six years of operations.

1.6 Need for Agricultural Finance:

Agriculture constitutes the base of India's developing economy in terms of its contribution in national income, employment and as a source of raw materials for most of the industries. The development of agriculture in our country is ut-most as this sector provides social stability and economic growth with social justice. 5
Agriculture in India has mostly remained a way of life and has suffered due to its low productivity emanating from low investment. Financial savings in agriculture are seasonal, short and small which result in for temporary periods deficits even within a single season. Hence, working capital farm credit is required by the cultivators to meet expenses on labour and intermediate inputs on a continuous basis.

The emergence of green revolution in India, in the late sixties, has drastically changed the Indian agriculture and it has grown a tendency among the farmers to replace traditional farming practices with scientific and modern practices. Modern agriculture requires large doses of credit to finance use of short term cash inputs such as for, improved seeds, fertilizers, insecticides etc., medium and long term investments for land improvement, irrigation, farm mechanization etc., for increasing agricultural production. The credit needs of farmers are both for production and consumption purposes. Majority of the farmers still afford such lumpy investments from their low savings. The farmers’ income accrues during a limited period of year, while various expenses are distributed throughout the year. Hence, provision of agricultural credit assumes greater importance.

The financial needs of an Indian agriculturist are classified into the two broad categories like;

1. Time based needs and
2. Purpose based needs.
Time based needs classification is made on the basis of period for which finance is needed. Further this is classified into the three sub-categories namely;

a. **Short-term needs:** These needs are generally limited for a time span of one year or one season. These needs are related to the requirements of seed, fertilizers, insecticides, pesticides, fodder, marketing of produce, labour payments, etc. Some of the consumption needs and celebrations can also be included under this category.

b. **Medium term needs:** These needs are generally those, which are spread over a time span of above one year to three years. Such needs arise from short investments, say in assets like electric motor, pipe line, and also include expenses like marriage and litigation. Even purchase of livestock requires medium term finance.

c. **Long Term needs:** These needs, are spread over a time span for more than three years. It covers long term investment needs like digging of wells and of bore wells, minor irrigations, farm mechanizations, etc.

Purpose based on needs also be classified into the three sub-categories;

a. **Productive purpose:** Finance needed for investment in agriculture, such as crop inputs, irrigations schemes, livestock,
farm mechanization, etc. can be covered under this category. Such finance increases the productive capacity of the farm and leads to returns.

b. Consumption purpose: Many times, farmers need money for their own maintenance and consumption to fetch bare necessities like food, clothing and shelter.

c. Unproductive Purpose: Traditional Indian agriculturist is extravagant in spending on marriages, religious ceremonies, travels, etc.

These are, in brief, various needs of an Indian agriculturist. These needs are fulfilled either from friends and relatives, or local moneylenders, "Sahukars", "Shroffs", and banks. The repayment depends upon the number of factors, like the period for which the loan is taken, the purpose, as well as rate of interest and terms of finance. Inability to repay creates rural indebtedness. It is said that, "an average Indian farmer is born in debt, lives in debts and dies in debts". Considering the seriousness of the problem, the Reserve Bank of India appointed the All India Rural Credit Survey Committee (AIRCSC). Its report was submitted in 1954. Further, Rural Debt and Investment Survey was also conducted, The AIRCSC report rightly observed that the problem of rural indebtedness in India, is like a plant whose roots are never allowed to enter into the soil. Thus the issue of rural credit in
India is of utmost importance and the various issues connected with the same are yet to be resolved.

1.7 The Green Revolution and the Demand for Agricultural Credit:

In recent years the Indian agriculture has undoubtedly witnessed a major technological breakthrough and a progressive commercialization. The Intensive Agricultural District Programme (ADP) started in 1960-61 envisaged a package of superior inputs in the selected districts with assured supply of water. In 1964-65 a programme known as the Intensive Agricultural Area Programme (IAAP) was taken up covering 117 districts to improve the cultivation of selected major food crops in these areas. The real breakthrough came with the large-scale adoption of the high-yielding varieties of seeds (HYV) programme in 1966. It is known as ‘green revolution’.

With these technological changes, the importance of capital in agricultural production in India is increasing remarkably, especially where the HYV and the intensive development programmes have been undertaken. The new strategy of agricultural development is based on adoption of the capital-reliant techniques. It demands curves for purchased inputs, e.g. fertilizers, pesticides, agricultural machinery and equipment, etc. which are shifted upwards leading to increased outlays by farmers on various inputs. The marginal value productivity of capital
in agriculture having increased, farmers are likely to have come to depend more and more on non-owned capital or external finance. This, one could postulate, has given new dimensions to the problem of agricultural credit.

The demand for credit normally depends upon the cost of credit on one hand and the marginal efficiency of capital on the other. One might, therefore, hypothesize that an introduction of the new technology, with prospects of higher rates of return on capital, has thrown up an increasing demand for external finance. Although in agriculture, like ours, the subjective discounting of the marginal value product of capital by farmers, owing to certain social and cultural traits associated with traditional societies, might still partly inhibit them from incurring debts in a fully rational manner.

It is this, which has mainly ushered to be known as 'green revolution'.

1.8 Components of Farm Credit:

Not only is the magnitude of finance requires to be higher, but the credit requirements should have become more varied too. As is well known, the need for credit in the case of a majority of cultivators arises from the fact that their surplus, out of which savings can be made, is low or nil. Moreover, their income accrues during a limited period of a year while their various expenses are distributed throughout
the year. Of course, even if their incomes were adequate for consumption and continuous over the year, there would still be a need for credit for meeting certain production expenses. Roughly, two broad categories of such expenses: a) the long-term or capital expenses necessary to secure inputs which assist in the production process over a number of years and b) short-term or working expenses needed to help to produce only one set of commodities. Short-term capital is mostly needed for hiring labour and for buying seeds, fertilizers, insecticides, etc., while long-term capital is needed for making investment outlays, e.g. land improvement, digging and repairing of wells, purchase and installation of machinery. Therefore, credit needs, on account of outlays of a capital nature, is to be separately considered. The advents of the green revolution in India and the striking improvements in technology have opened up vast potentialities for long-term development in agriculture. Thus a major scope for converting ‘static’ into income, income-generative, self-liquidating ‘dynamic’ credit, now, lies in permanent investments in land and farm machinery through credit taken for periods longer than a crop season. Moreover, without long-term credit, the utility of short-term credit itself might be restricted. For instance, credit for improved seeds, fertilizers, insecticides and other inputs yields best results only when the primary requirements of irrigation are fulfilled. Therefore, term loans for the digging of wells and installation of pump sets would be essential in
places where no other source of irrigation is available. Similarly, of course, credit for long-term developmental purposes will not be fully effective before the short-term requirements of a farm.

In addition to borrowings for agricultural purposes, cultivators frequently seek credit for their personal consumption and unforeseen expenses. Particularly, such as serious illness, marriage and death ceremonies in low income of a large number of small cultivators forces them to borrow for sustenance and such consumption credit forms is an important part of the economy of farmers in India, as in all developing countries.

Thus the position of small farmers in the credit market cannot be improved without meeting a part of their requirements for pressing consumption (and emergency outlays). In fact these expenses, though not strictly agricultural, are so closely related to the efficiency of the farm workers that, it would be unrealistic to consider them as unproductive. In other words, one cannot limit the estimates of credit only to the requirements of agricultural production, but has to extend to cover maintenance and emergency expenses (excluding, of course, those for conspicuous consumption).

1.9 Sources of Agricultural Finance:

The effective demand for credit is evidently conditioned by the availability of credit and its amount. Pattern of the demand for credit
would be different if the credit structure and conditions of loans were altered. Accordingly an analysis of the supply side of credit also becomes imperative in connection with any survey of credit requirements.

In India there are various agencies, like private and institutional, give credit to farmers for agricultural purposes. Moneylenders (or Mahajans) and traders represent the most important private agencies. The two major institutional agencies are the co-operative and commercial banks, in addition to the State Governments financing farmers through various departments. Long-term credit has been primarily the function of agencies specializing in investment financing e.g. the co-operative land mortgage banks and land development banks. Commercial banks have also, of late, taken too long-term financing of agriculture.

The financial needs of Indian agriculturist are catered from a number of sources, which can be broadly classified into two categories.

1. The unorganized sector
2. The organized sector

1.9.1 The Unorganized Sector:

This sector includes a number of persons and agencies such as friends and relatives, landlords, local traders, commission agents, moneylenders, sahukars, and shraffs. of these, the local moneylender, shaukars, and shraffs, play a significant role. They can be called semi-
organized sector. They are the indigenous bankers and financers working in rural India, from the time immemorial. This category has served the Indian agriculturist to a great extent. The main advantage of this sector is it provides an easy and readymade system without any formalities. The disadvantage of this system is an exorbitant rate of interest and unfair practices.

1.9.2 The Organized Sector:

The organized sector includes the Primary Co-Operative Societies (PACSs), co-operative banks (DCCBs), Regional Rural Banks (RRBs), Nationalized Commercial Banks (NCBs) and Scheduled Banks (SBs). It also includes banking institutions like land development banks, National Bank for Agricultural and Rural Development (NABARD) etc. All India Debts and Investment Survey (AIDIS) conducted every decade since 1951-52 provides details of debt of Indian agriculturist. It conducts a comprehensive enquiry into the assets and liabilities of rural households. The information obtained from the survey with the latest available data is presented in Table 1.6. This table shows some important trends such as:

1. Non-institutional sources provided 92.8 per cent credit in 1951. This share has decreased to 32.7 per cent in 1991.
2. Institutional sources played a minor role in 1951 with a share of 7.2 per cent. It increased to 64.0 per cent in the year 1991.
3. The role of agricultural as well as professional moneylenders has declined sharply over the period.

4. The participation of banks is increasing.

Thus it can be said that there is a shift in attitudes, approaches, and system over the period.

Table 1.6
Debts Owed to Different Credit Agencies by Rural Households
(Figures in Per cent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Institutional</td>
<td>7.2</td>
<td>17.3</td>
<td>29.2</td>
<td>61.2</td>
<td>64.0</td>
</tr>
<tr>
<td>Co-operatives</td>
<td>3.5</td>
<td>10.4</td>
<td>20.1</td>
<td>28.6</td>
<td>21.6</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>-</td>
<td>0.3</td>
<td>2.2</td>
<td>28.0</td>
<td>33.7</td>
</tr>
<tr>
<td>Others</td>
<td>3.7</td>
<td>6.6</td>
<td>6.9</td>
<td>4.6</td>
<td>8.7</td>
</tr>
<tr>
<td>2. Non-Institutional</td>
<td>92.8</td>
<td>82.7</td>
<td>70.8</td>
<td>38.8</td>
<td>32.7</td>
</tr>
<tr>
<td>Agricultural Moneylenders</td>
<td>25.2</td>
<td>47.0</td>
<td>23.1</td>
<td>8.6</td>
<td>7.1</td>
</tr>
<tr>
<td>Professional Moneylenders</td>
<td>46.4</td>
<td>13.8</td>
<td>13.8</td>
<td>8.3</td>
<td>10.5</td>
</tr>
<tr>
<td>Traders</td>
<td>5.1</td>
<td>7.5</td>
<td>8.7</td>
<td>3.4</td>
<td>2.5</td>
</tr>
<tr>
<td>Relatives/Friends</td>
<td>11.5</td>
<td>5.8</td>
<td>13.8</td>
<td>9.0</td>
<td>5.5</td>
</tr>
<tr>
<td>Others</td>
<td>4.6</td>
<td>8.6</td>
<td>11.4</td>
<td>9.5</td>
<td>7.2</td>
</tr>
<tr>
<td>3. Unspecified</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3.3</td>
</tr>
<tr>
<td>4. Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


1.10 Organization of Rural Credit in India:

The issue of rural indebtedness and growing developmental requirements has created the need of increased institutional finance to agriculture. The private credit system has a number of defects such as;

1. It is based on commercial objectives. Hence, it is always exploiting.
2. It is very expensive due to high rates of interest.
3. It is not related to productivity and returns.
4. It is not need based and end use is not assured.
5. It does not take into consideration investment need.
6. It does not assess the needs properly.

Such reasons have created an urgent need of institutional credit that will do away with the evils of unorganized credit and lift the Indian agriculturist up from the quagmire of poverty and indebtedness and lead to productivity and prosperity. In the initial stages of planning, the co-operative movement was launched. But the co-operatives didn’t worked well during the initial stage. The survey of rural credit in 1950-51 showed that co-operatives catered only 3.3 per cent of the total requirement of rural credit. The All India Rural Credit Survey Committee 1954, rightly remarked 'co-operation has failed, but co-operation must succeed.'

All India Rural Credit Survey Committee reports, 1969, recommended the adoption of multi-agency approach to rural credit. It observed that the problem of rural credit cannot be solved only by means of co-operatives, but the nationalized banks should play an increasingly significant role. The Reserve Bank of India has given priority to the co-operative sector, yet it was felt that multi-agency approach to rural credit was the right approach and some co-coordinating body should be there to regulate the working of various
institutions and agencies operating in the area of rural credit. This resulted ultimately in the establishment of NABARD in 1982. The growth of the institutional credit to agriculture is shown in table 1.7.

Table 1.7
Disbursement of Agriculture Credit
(Rs.in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Co-operative Banks</th>
<th>Commercial Banks and RRBs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984-85</td>
<td>3440</td>
<td>2790</td>
<td>6230</td>
</tr>
<tr>
<td>1990-91</td>
<td>3970</td>
<td>5010</td>
<td>8980</td>
</tr>
<tr>
<td>1999-2000</td>
<td>18430</td>
<td>26180</td>
<td>44610</td>
</tr>
<tr>
<td>2000-2001*</td>
<td>22710</td>
<td>28750</td>
<td>51460</td>
</tr>
</tbody>
</table>

* - Target


The multi-agency approach has created a number of agencies working in the area of agricultural credit. The major institutions are:

1. The primary agricultural credit societies.
2. The state co-operative banks,
3. Regional Rural Banks
4. Rural Development Banks
5. Commercial banks
6. Lead district banks
7. NABARD
The multi-agency approach was taken primarily with following objectives.

1. To ensure timely delivery of credit to agricultural sector.
2. To ensure increased flow of credit to agricultural sector.
3. To reduce and eliminate gradually the role of local moneylender, ‘Shukars’ and ‘Shraffs’.
4. To reduce regional imbalances.
5. To provide sufficient credit support to special food programs and development projects.

The multi-agency approach, which was supposed to be the ultimate solution to the problem of rural credit and indebtedness, has not remained without defects. The government appointed a working committee who observed following problems associated with multi-agency approach.

1. There was no co-ordination between different agencies operating in a particular area. This resulted in under financing, over financing and multiple financing.
2. The various agencies operating in rural credit field have failed to develop meaningful programs of agricultural credit in spite of the introduction of lead bank scheme.
3. The various agencies are adopting different procedures and policies of lending and there is no symmetry, harmony and co-ordination.
4. There is an unfair competition among the various agencies operating in the rural area.

5. There are problems associated with recovery of loans, and high over dues.

1.11 Service Area Approach:

The various shortcomings of the multi-agency approach lead the Government, in co-ordination with public sector commercial banks to adopt a new approach known as service area approach (SAA). Programs under this approach were launched in selected rural areas from November-December 1987. According to this approach, the semi-urban and rural category branches of commercial banks were assigned a task of development of, certain areas. This approach, it was felt, will bring in co-ordination in rural financial system. The program is to be launched in five stages.

1. Identification of the service area for each rural and semi-urban branches of commercial bank.

2. Survey of the service area for assessing the potential of lending money to various activities. This included identification of beneficiaries.

3. Preparation of district credit plans on annual basis.

4. Achieving co-ordination amongst various agencies on an on-going basis.
5. Creation of a continuous system of monitoring and controlling for successful implementation of the plan.

The High Level Committee on Rural Credit has reviewed the situation in the following words "The Indian Rural Credit System as it has emerged is a product of both evolution and intervention. Till the late sixties policy interventions in the area of rural credit were mostly confined to the co-operatives, which were considered as most suitable for this work. The All India Rural Credit Review Committee pointed out that, despite the support extended, co-operatives had begun to exhibit several weaknesses in the form of over dues and organizational ineffectiveness, and were not geared for meeting the growing needs of the agricultural sector on account of application of modern technology and innovations relating to production, processing and marketing."

The Committee, therefore, recommended a significantly enlarged role for commercial banks both by way of current production and long-term development.

1.12 Purpose of Loans:

The All India Rural Debt and Investment Survey have classified the purpose of loans in three groups.

1. Production purpose

2. Household purpose

3. Other Purpose
The data regarding credit on the basis of purpose of loan is shown in table 1.8.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Farm Business</td>
<td>44.7</td>
<td>60.1</td>
<td>14.7</td>
</tr>
<tr>
<td>2. Non Farm business</td>
<td>5.4</td>
<td>9.1</td>
<td>7.8</td>
</tr>
<tr>
<td>A. Productive Expenditure (1+2)</td>
<td>50.1</td>
<td>69.2</td>
<td>22.5</td>
</tr>
<tr>
<td>B. Household Expenditure</td>
<td>40.9</td>
<td>22.3</td>
<td>40.1</td>
</tr>
<tr>
<td>C. Others</td>
<td>9.0</td>
<td>8.5</td>
<td>37.4</td>
</tr>
<tr>
<td>All Purpose</td>
<td>100.00</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>


The table 1.8 shows that the loans for productive purpose had gradually decreased from 50.1 per cent in 1971 to 22.5 percent in the year 1991. The non-productive borrowings are increasing the burden of debt in rural India.

1.13 Management of Agricultural Credit:

Although agricultural credit has been an area of policy interventions for nearly five decades, the objectives of policy have remained constant to institutionalize credit to enlarge its coverage to ensure provision of timely and adequate finance to as large a segment of the rural population as possible so as to achieve anticipated growth rates in agricultural production and employment.

The Indian agricultural credit system, as it has emerged, is a product of the both evolution and intervention. Till the late sixties, policy interventions in the area of agricultural credit were mostly
confined to the co-operatives, which were considered as most suitable for this work. The All India Rural Credit Review Committee pointed out that, despite the support extended, co-operatives had begun to exhibit several weakness in the form over dues and organizational ineffectiveness, and were not geared for meeting the growing needs of the agricultural sector on account of application of modern technology and innovations relating to production, processing and marketing. The Committee, therefore, recommended a significantly enlarged role for commercial banks both by way of current production and long-term development.

With the nationalization of major commercial banks in 1969, branch banking in the rural areas acquired a new momentum, and the outreach of the commercial banking system was considerably enlarged within a relatively short period.

It is now well accepted that the strategies followed resulted in certain real gains. There was a broadening of the rural infrastructure for credit delivery, increase in outreach, reduction in the influence of informal agencies as evidenced by increase in the relative share of institutional sources in the cash debts of rural households and substantially stepped-up credit flows for agriculture and allied activities.

On the debit side, quality suffered, over dues increased, repayment ethics were diluted, and the recycling of resource decelerated and the profitability and viability of the institutional
structure was seriously eroded. On the eve of the 1991 economic reforms, the agricultural credit delivery system was in poor shape.

Form 1991 onwards an overall scheme of structural reforms was initiated. Financial Doctor Reforms were a part of this process and included, among others, the initiation of a number of measures in the field of agricultural credit such as: 7

1. Deregulation of lending rates of RRBs

2. Deregulation of lending rates of commercial banks for all loans above Rs.2. lakh.

3. Financial and managerial restructuring, including re-capitalization, of select regional rural banks (RRBs)

4. Application of the DAP/MOU discipline for co-operative banks and RRBs.

5. Introduction of prudential accounting norms is a provisioning requirement for all agricultural credit agencies.

6. Relaxations in the service Area approach.

7. Setting up specialized branches for catering to the hi-tech requirements of the farm sector.

8. Widening the scope of special focus for lending to agriculture by commercial banks through Special Agricultural Credit Plans (SACP).
9. Increasing RBI's refinance support and capital contribution to NABARD.

10. Constituting the Rural Infrastructure Development Fund ( RIDF ) in NABARD for upgradation of the credit absorptive capacity of the rural sector through focused attention on completion of non-going rural infrastructure project.

The discussion presented above clearly points out the fact that the question of agricultural indebtedness is a matter related not only with extension of agricultural credit by means of various agencies but also of scientific management of agricultural credit. The issues of agricultural credit can be resolved to a great extent not by increasing the quantum of credit but only with the help of proper management of agricultural credit management. The present study has attempted in this study to present a microscopic analysis of various issues and aspects of agricultural credit management. The researcher has selected Aurangabad district as a sample area particularly because it is situated in under developed regions of Maharashtra. The study attempts to highlight various lacunas in the credit management system of various agencies viz a viz their organizational set up and to suggest positive changes in the present system.

The present chapter provides an overall outline of the role of agricultural credit in the economic development of the nation. India being a primarily agricultural country this role assumes great importance. The growing significance of the agriculture discussed here also highlights significance of the issue of the study.
1.14 Organization of the Thesis:

The present study consists of seven chapters. The chapter scheme is as follows:

Chapter I deal with introduction of the problem and discussed agricultural credit in general.

In Chapter II research design of the work is explained, objectives of the study, methodology followed, scope, limitation and hypothesis of the study also have been discussed.

Chapter III presents review of literature a thorough review of earlier studies was observed. The review of literature also contains the work done by various experts on Rural Credit / Agricultural Credit. Doctoral work of various Indian scholars has been reviewed.

Chapter IV is devoted to study the profile of the study area i.e. Aurangabad District of Marathwada region in the Maharashtra state.

Chapter V includes the analysis of agricultural credit at the national level as well as in Aurangabad district.

Chapter VI attempts an explanation of agricultural credit management in Aurangabad district.

Finally in Chapter VII an attempt is made to elicit the thread together the result in the form of conclusions and recommendations.
References:


