CHAPTER 1

Introduction and Methodology

1.1 Introduction:

Rural development is a comprehensive programme in the rural area where agricultural development happens to be its nucleus. The agricultural sector and other sectors of rural economy are to be developed in an integrated and coordinated manner. As a matter in fact, of all the sectors, it is the agricultural sector that influences to a considerable extent in improving the standards of living of the rural masses. The rural industries that exist in the rural areas depend directly or indirectly on agricultural output for their input. Agriculture on the other hand is the potential market for a number of industrial products.

India is the second most populated and seventh largest country in the world. The country is rich in both the natural endowments and manpower resources. The economy of the nation is basically agrarian and majority of the people earns livelihood from agriculture. It helps a lot in earning foreign exchange which in turn, enables us to import capital goods and essential commodities. Cotton, Jute, sugarcane, etc. are the main items of non-food grains produced in agriculture, which provide raw material for establishing agro-based industries. Simultaneously, it also helps in absorbing the workforce rendered seasonally unemployed in some industries. In Indian conditions, agriculture can be considered to be an essential service, since it feeds the huge population of the country. Considering the land as a resource constraint, improvement in the agricultural productivity occupies a place of permanent importance.
In India, agriculture is the largest sector of economic activity, which provides not only food and raw materials but also employment to a very large section of the population. Agriculture being the dominant sector, improvement or any change in the National output therefore depends upon the output in this sector. Indian agriculture has undergone a technological transformation during the last 20 years through the use of high yielding varieties which calls for an increased use of modern inputs, such as improved seeds, fertilizers, pesticides, irrigation, biotechnological methods, plant protection measures and skilled labour. The transformation of traditional agriculture due to the use of modern inputs has increased the demand for capital and credit to a large extent. Since the owned funds of the farmers are not sufficient to meet the growing demands for financing modern inputs, they have to be supplemented by borrowing from institutional agencies.

Contribution of agriculture and allied activities to national income amounted to about 57 percent in 1960-61, which declined to 47.3 percent in 1971-72, 45.0 percent in 1990-91 and 25.3 percent in 1998-99. Agriculture provides employment to around 65 to 69 percent of the total workers. Agriculture growth has direct impact on reducing poverty. The share of agricultural products in the total export earnings is also substantial. Many of our industries still depend on agricultural sector for raw material. Agricultural growth is also an important factor in containing inflation and raising agricultural wages. Thus, agricultural and allied activities performance has an economy-wide impact and this growth can also achieve equity if it spreads across poor regions.

In short, from the above discussion, it is found that the agricultural credit is needed for seasonal agricultural operations and the investment credit provided for irrigation, animal husbandry, poultry, horticulture, agricultural equipment, milk
and meat production etc. Agricultural credit in the current context would embrace areas such as marketing, agricultural processing and all other forward and backward linkages. New activities like seed production, aquaculture, floriculture, etc., are being taken up in a big way and credit support to these activities is vitally important for their success.

At present, Co-operative Banks, Commercial Banks, Regional Rural Banks, National Bank for Agriculture and Rural Development (NABARD) and Government Departments provide institutional finance to agriculture. The funds provided by professional moneylenders, landlords, commission agents, relatives and friends etc. are considered as non-institutional sources of finance. The institutional credit is more advantageous to agriculturists than the non-institutional credit, and the co-operatives, by and large, continue to be the most important agency with regard to Indian agriculture. A large part of co-operative bank finance consists of short, medium and long-term credit to agriculture. The co-operative banks have a three-tier federal structure. The three-tier-structure is formed by the primary agricultural credit societies at the base organized at the village level, central co-operative banks at the district level and Apex co-operative bank at the state level.

Ahmednagar district is endowed with three major economic resources viz. agricultural land, industries and forest produce. The district is famous for cash crops such as sugar cane and cotton. There are 15 co-operative sugar factories operating in the district. Ahmednagar district ranks first in the state in sugarcane products. About 596 banking institutions were functioning in the district during 1998-99. Out of these 435 are located in rural area and 161 in urban area of the district. “Ahmednagar District Central Co-operative Bank” (ADCC) is well known as the biggest Co-operative Bank in Asia. The district co-operative bank
provides facility through its 289 branches, out of which 262 branches are working at present in rural area. The ADCC bank is providing short and medium term finance for agriculture and its allied sector. The district land development co-operative bank and its 14 branches are providing long term finance to agriculture and whereas the 22 Urban co-operative banks and its 86 branches are providing finance to non-agriculture sector.

**Economic and Social situation Before 1950**

Similar to any other part of rural India, agricultural conditions in Ahmednagar district are determined by the natural resources and climatic conditions. Agricultural track with a scanty rainfall conditions of 13-15 inches subsistence farming was the predominant character of the villages during the last century. Historically, Ahmednagar & Solapur districts were famous for droughts, famines and natural calamities. During the times of drought and famine conditions the peasants were compelled to distress sale of their cattle, and other possession to meet the minimal needs of existence for themselves and their families. Many of them had to migrate for temporary period to prosperous villages in other districts in search of employment and live hood more often than not, they fell into the clutches of unscrupulous moneylenders. Thus, to an ordinary farmer, life was a desperate struggle to keep the body and soul together against odd of uncertain nature. The money lenders took full advantage of the helpless state of peasantry by taking under their control various asset forms with the farmers such as ornaments, vessels, land etc. People suffered a lot due to poverty and unemployment, till the new era of development through co-operative movement started after 1950.
Progress made after 1950:

Although the formation of Pravara Co-operative sugar factory should be viewed as the culminating event of a long drawn out struggle of the local peasantry against the exploitation of intermediary classes, money lenders and private sugar factory owners. There were a number of proximate factors which strengthened social will and hastened the co-operative venture.

The idea of forming a co-operative sugar factory in the canal region had already been put forward before them by the leader like Dr. Padmashri Vikhe Patil to academicians like Prof D R Gadgil. Although for the majority of farmers, the formation of such a co-operative factory appeared to be distant dream, the new awareness had been a key factor for the emergence of the co-operative sugar factory at Pravara.

The Pravara co-operative sugar factory began in a small way. In the first year of production (1950-51) the number of members was less than 500 and area under sugarcane held by them was less than 800 acres. Almost all the members were small farmers. Since the sugar factory has achieved tremendous progress today it’s membership has increased to 11446, the share capital has reached as high as Rs 307.00 lakhs and the crushing capacity has increased to 4000 tones per day. The progress of the sugar factory has also led to many other developmental activities such as establishment of co-operative industrial by product units, for the utilization of wastes of the sugar factory. Provision of irrigation, extension and research services to the farmers, promotion of subsidiary occupations like dairy and provision of educational, health and social welfare amenities, which have ushered in the rural progress. A unique feature of the co-operative sugar factory is that most of the members are small farmers holding less than five acres of land. The Pravara experiments were
demonstrated to the nation what the small and marginal farmers could achieve through co-operative efforts.

**Place of Pravara.**

The Pravara area comprises of 44 villages, from Shrirampur, Sangamner, Rahata and Rahuri Talukas of Ahmednagar district in Maharashtra State. These entire adjacent 44 villages zone is collectively known as “Pravara Area” and is located on the Kolhar Ghoti and Pune Manmad National highway.

At present in Pravara area several nationalized private and other financial institutions viz. Co-operative credit societies, co-operative banks, land development co-operative banks, Urban Co-operative banks etc. are actively engaged in disbursement of short, medium and long term loans for agriculture and non-agricultural purposes to the farmers, traders, artisans and self-employed.

The present study observes that the amount of credit disbursed by all above mentioned credit institutions is marginal, when compared to the credit distributed by the co-operative banks for agriculture and non-agriculture sector as well. The amount of credit disbursed for agriculture and its allied sectors by the co-operative banks alone is more than 60% of the total credit disbursed. In Pravara area alone there are several branches of co-operative banks, which are in operation and are actively engaged in disbursement of credit to agriculture and its allied sector. They have been instrumental in the upliftment of socioeconomic conditions of the farming community. There has been a substantial increase in agricultural output, trading and commercial activities, level of employment and income and betterment in the standards of living of the people. Present study
shall attempt to measure the impact of co-operative credit in accelerating economic development of Pravara area.

1.2 Methodology

1) Choice of the Topic:

Credit is the most crucial input in development of agriculture, rural development and promotion of employment. The co-operative movement has played a vital role in accelerating the rate of growth of economic development in the rural areas through disbursement of rural credit to the farm and non-farm sectors. The Planning Commission has emphasized the need and importance of co-operative sector as an important instrument for effective implementation of various schemes of economic development under the eighth five-year plan, more particularly in the field of agriculture, rural development and self-employment.

44 Villages in the command area of Pravara co-operative sugar factory show typically different socioeconomic characteristics than any other area in Ahmednagar district. This is because of Pravara co-operative sugar factory. Co-operative banks and active political leadership of the area made deliberate efforts to develop these villages by making effective use of co-operative organizations.

The researcher has therefore selected the topic "Impact of credit Institutions on Agriculture, Rural Development and Employment with special reference to Co-operative Banks in Pravara area over the period 1989-90 to 1998-99". The present study attempts to assess the impact of rural credit system in general and the co-operative banks in particular in the Pravara area compared to other parts of Ahmednagar district. Reasons for spectacular changes in economy in this area are many. In the present study attention has been focused to find out specific impact of credit system in the area on its development.
ii) Scope of the study:

The Scope of rural credit is very vast. Rural credit is not merely intended to finance agriculture, but also encompasses farm and non-farm economic activities in the rural areas. Rural development covers a wide spectrum of activities, such as land development, crop development, horticulture, social and farm forestry, agricultural infrastructure etc.

The problem of rural credit is a multi-dimensional one. The All India Rural Credit Survey Committee (1954) addressed itself to a number of issues pertaining to rural credit. The committee opined that agricultural credit was difficult to obtain and when it was obtained, it was not put to proper use. The diversion in the use of rural credit has been noticed.

There are many agencies engaged in providing rural credit. The institutional agencies consist of the co-operative sector, commercial bank and Government, whereas the private sources of rural credit are composed of the landlords, professional money lenders, and traders. Prior to the country's independence, the performance of all the institutional agencies was too far-insignificant and heavy reliance was on the village moneylenders to cater the credit needs of the agriculture.

The co-operative sector is one of the major partners in rural credit along with other institutional and non-institutional agencies of rural credit. The study is attempted to examine Impact of rural credit system with special reference to co-operative credit in Pravara area during the Period from 1989-90 to 1998-99.
iii) Basic Terms and Concepts

1) **Credit:** Credit is the name usually given to money borrowed for business purpose. The word ‘credit’ comes from the Latin word ‘Credo’ meaning “I believe”. Hence, credit is based upon confidence. When one borrows money, the loan is based upon confidence in the further solvency of the person and in repaying the loan as per agreement. In this sense, credit means ability to command the capital of another in return for a promise to pay at some specified time in the future.

2) **Farmers:** For the purpose of study the farmers have been identified and arranged in to three categories based on land holdings. They are

   1) **Marginal farmers:** Up to 1 hectare or 2.5 acres.
   2) **Small farmers:** 1 to 2 hectare or 2.5 acres to 5.00 acres.
   3) **Medium Farmers:** 2 to 4 hectare or 5.00 to 10.00 acres.
   4) **Large farmers:** Above 4 hectare or above 10.00 acres.

3) **Co-operative Bank:** A co-operative bank has been defined by Devine as “a mutual society formed, composed and governed by working people themselves for encouraging regular savings and granting small loans on easy terms of interest and repayments.”

   A co-operative bank is a voluntary agency formed by needy persons themselves to get credit facilities on the basis of the securities they have not from the rich or the public, but by their own resources of the credit society. In the twenty first centuries, co-operative banks have become popular and mainly finance agriculture and its allied activities.

4) **Co-operative Credit Society:** A co-operative credit society is one in which the individuals associate themselves voluntarily, patronage the society with their savings.
administer the society on democratic lines, utilize the services of the society for their credit needs and share the profit on the basis of equity. A co-operative society is an association of persons to promote their economic interest among themselves in accordance with co-operative principles.

5) **Borrowing** - The word 'borrow' means to receive something with the understanding that it or its equivalent will be returned as agreed upon. In terms of money borrowings involves obtaining a certain amount of funds to be repaid as specified in the note.

6) **Advances** - It is the amount of loan advanced by an institution during a particular period, usually in an agricultural year or a season.

7) **Repayment** - It is the amount of loan which is recoverable to be recovered at some specified time period. The loans are repayable in annual or half-yearly installment spread over a period fixed in advance. The annuity consists of interest and principal.

8) **Recovery** - The amount of loan which has already been recovered up to a point of time, but not at a particular point of time is called recovery. It means that the total amount due up to a point of time only has been recovered and it does not mean that the entire loan has been recovered.

9) **Installment** - It refers to the amount due by a particular date i.e. due date. The number and amount of installment depends upon the amount of loan, the purpose, the income flow, etc.

10) **Outstanding** - The amount (principal plus interest) which remains to be recovered on a particular date is called outstanding amount.

11) **Over-dues** - The amount which was due on a particular date, but has not been repaid by the date is called over-dues. A part of the outstanding
becomes over-dues, if not recovered within specified time period. Over-dues = Amount due for repayment – Amount actually paid

12) **Capital**: The dictionary meaning of the term “Capital” is wealth capital is the total amount invested in business. The capital of a business is the claim of the owner to the business/Professions.

13) **Working capital**: The funds, which are available for day to day working of an organization commonly are called working capital.

**iv) Objectives of the study**

The following are the objectives of the research study:

1. To assess the extent of credit provided by the co-operative banks for different purposes to agriculture and activities allied to agriculture.

2. To find out the sources and uses of finance of the co-operative banks over the years, so as to ascertain their soundness in meeting the increasing demands of the farmers for their farm business.

3. To examine the performance of co-operative banks and PACs in Ahmednagar district in general and Pravara area in particular.

4. To study the impact of co-operative credit on economic and social development of the rural areas.

5. To assess the extent and causes of over-dues in order to determine the viability of banks, PACs and repaying capacity of the farmers.

6. To suggest remedial measures based on the findings and observation of the study.
v) Research Methodology:

This study is mainly confined to the Co-operative Banks in Pravara Area of Ahmednagar District, based on secondary data and primary field investigation. The study is aimed at assessing the impact of co-operative credit on Agriculture, Rural development, and Employment in Pravara area over the period 1989-90 to 1998-99.

A) Sources of data: - The study was based on data collected from primary as well as secondary sources.

a) Primary sources of data.

The following methodology was used to collect the required primary data –
1) Selection of sample 2) Questionnaires 3) field visits, and 4) interviews.

Primary data have been collected from, the field with the help of a house hold surveys and questionnaires, which have been specifically designed by taking into account the hypothesis and objectives of the present study. All questionnaires were pre tested before addressing the sample house holds. Appropriate “Check lists” was prepared for the purpose at the village, taluka and district level.

A two-stage sample design is planned for the study. The first stage concerns itself with the selection of the villages and PACSs in the sample villages. The second stage takes into account of the selection of borrower farmers. In the Pravara area, ADCC bank ltd. Is providing finance through 44 PACS, and LDB sub-branches provides finance directly to the farmers. Out of these 20 percent (9) PACSs are selected by purposive sampling method. Out of there 9 selected PACS, 55 percent are from irrigated and 45 percent from non-irrigated area. Further more, the purposive sample is
chosen by the size of societies, 3 each from large, medium and small societies on the basis of membership, to identify problems peculiar to each type of society.

The list of farmers who had borrowed loan from the sample PACSs was obtained. Out of a total of 1621 borrowers only 10 percent (162) were selected, for the study. Borrowers were categorized as marginal, small, medium and large on the basis of their land holdings. Representation has been given to the farmer on the basis of borrowing number of each category.

From the above 9 villages of Pravara area about 78 borrowers obtained loans from sub-branches of district LDB branch for their capital needs for agriculture and allied activities. Out of these 10 percent (8) were randomly selected for the study and are classified as marginal, small, medium and large farmers categories on the basis of land holdings.

The total 170 selected borrowers falling in different farm sizes group were 55, 63, 36 and 16 respectively. The necessary data for the reference year 1990-91 and 1998-99 were obtained from the selected farmers by survey method through personal interview with the help of schedules and questionnaire specially designed for the purpose. Interviews of presidents and directors of banks, chairmen and secretary of PACSs, bank managers and field supervisors of banks have also been taken. The sample survey was conducted in the year 1999-2000. A period of 8 years is considered and thought to be sufficient since there is a great contribution from co-operative sectors during that period for studying the impact of co-operative credit on agriculture, rural development and employment.
b) Secondary sources of data include data collected from.
   i) Co-operative Banks, Nationalized banks and PACS.
   ii) Statistical handbooks and statistical abstracts.
   iii) Unpublished data collected from various Government offices, Research institutes and financial institutions.
   iv) Research papers published and unpublished on the subject under the study.

B) Data Analysis :-

Appropriate and most suited statistical tools and techniques were used for the purpose of analysis of data, computer help was also taken for programming, analysis of data, preparation of tables, charts, indices etc.

vi) Statements of Hypotheses

The following hypotheses are postulated for empirical verification in this study.

1) The largest share of credit to agriculture and its allied sectors is disbursed through the co-operative banks alone.

2) The credit provided by the co-operative banks through the primary agricultural credit societies to agriculture for different purpose is inadequate.

3) The sources of funds for the co-operative banks to finance the increasing demands of farm business are inadequate.

4) There is a less diversion of credit by the farmers for non-productive purposes.
vii) Likely contribution to the fund of knowledge:

Though there are numerous studies on co-operative credit and its impact on rural development, the present studies covers different areas and time periods. It is evident that Pravara area has special socioeconomic, political and cultural environment, which led to unique development with active participation of people at village level. Credit, of course, goes to the co-operative leadership to this area, which unmatched to any other sugar factory leadership in Maharashtra. The period under study is 1989-90 to 1998-99 the recent one hence it has explored new knowledge about the area and period under study.

viii) Limitations of the study:

The researcher attempted sincerely to minimize the element of bias and errors as much as possible. Researcher is an individual and therefore, limitations on individual inquiries are inevitable. Researcher is aware that:

1) The borrower households do not maintain any records in respect of the loan amount, cost of loan, capital contribution, penalties paid etc. Hence personal inquiries may not reveal true and reliable information.

2) Analysis depends upon the data collected from farmers, PACSs, banks and other financial Institutions. The data may contain an element of error. However, the researcher to minimise bias and limit the chances of error to 5 percent on either side has put sincere efforts forth.
Chapter wise scheme of the study:

The thesis is divided into seven chapters as given below. However, the scheme may slightly divert depending upon availability of data and outcome of the analysis.

Chapter – I  Introduction and methodology

This chapter deals with the introduction of the topic, choice of the topic, scope of the study, objectives of the study, research methodology, hypothesis, likely contribution to fund of knowledge, limitation of the study, and review of literature. It also includes the credit needs for agriculture and allied activity, classification of credit and place of co-operative.

Chapter-II  “History and Growth of co-operative credit movement.”

This chapter presents briefly history of co-operative credit movement in India in general and Maharashtra in particular. It throws light on the co-operative credit movement in Pravara area of Ahmednagar district.

Chapter-III  “Profile of Ahmednagar District and Pravara Area.”

This chapter covers a full profile of Ahmednagar district and Pravara area such as location, population, occupation, rainfall, land holding, Irrigation, cropping pattern, Industries, credit institutions and Infrastructure facilities etc.

Chapter-IV  “Performance of co-operative banks in A.nagr district.”

This chapter deals with performance of co-operative banks in Ahmednagar district, gives information about ADCC bank Ahmednagar, branch of land development bank Ahmednagar, urban co-operative banks, and PACS in
Ahmednagar district. This chapter also brings out comparative status between co-operative and commercial bank in the district.

Chapter-V “Operational results of co-operative banks in Pravara Area."

This chapter gives operational results of co-operative bank in Pravara area. The chapter reveals data about Member, shares capital, reserves fund, deposit, advances recovery and profit and loss of co-operative banks. This chapter also provides data of commercial bank comparison with co-operative banks.

Chapter-VI Impact of co-operative credit on Agriculture, Rural Development and Employment “.

This chapter lays emphasis on the study of impact of co-operative credit on agriculture, allied activities, real income of farmer, recovery performance, causes of over-dues, need for credit and generation of employment and rural development in Pravara area.

Chapter-VII “Summary, Findings and Recommendations.”

The last chapter contains the summary, and main findings of the study. This chapter also gives recommendation made to solve the problems of co-operative credit.
1.3 Review of literature:

A number of studies have been made to investigate into the various aspects of agricultural finance in India. These studies have been useful in highlighting the various problems of co-operative credit in financing agriculture in India. By the very nature of their objective, they have not been able to probe deep into the problems of farmers obtaining loans from non-institutional agencies. Hence, it is felt that there is a need for an in depth study of the co-operative banks, disbursing loans to the farmers at the village and of the intensity of the problems, the farmers face in obtaining adequate loans, the rate of interest and the recovery of the loans. The main purpose of the study is therefore, to investigate the problems of the farmers are facing in getting adequate loans from the co-operative societies, and their utilisation and the other agencies from which the farmers borrowed during cultivation and the differences between the institutional and non-institutional agencies.

The co-operative banks in Pravara area is about 40 years old. But it is surprising that no systematic study has been made either by the Government or any individual or organization so far agricultural finance is the need of the hour as- it gives boost to farm out put.

There are number of observations on working of co-operative credit systems by various scholars from different parts of the country and at different points of time. Some of the observations are detailed as under.

The All India Rural Credit Survey Committee (1954) set up by Reserve Bank of India has made a detailed study on co-operative credit system including management, functions, contribution, participation etc. In this study, the committee suggested the following essentials of an agricultural credit system.
i) It should be associated with the policies of the state.

ii) It should be an effective alternative to the private agencies of credit.

iii) It should have the strength of adequate resources and of well trained personnel.

iv) It should lend not merely on security of land and other usual forms of security but on the security of anticipated crops also.

v) It should do such that it helps in the effective growth and development from the village upwards of the co-operative form of association.

vi) It should effectively supervise the use of credit and constantly bear in mind the borrowers' legitimate needs and interest.

vii) The type of security should be such that a large number of solvent producers can avail themselves of credit on the basis of such security.

viii) The period and the rate of interest of different types of loans should be related to the purpose for which they are borrowed.

ix) While providing adequately for essential items of consumption, its main concern should be with loans for production.

F.A.O. (1965) in its published report indicated the deficiencies found in several institutions. It also made a number of recommendations with suggestions that the co-operatives and other financial agencies should adopt more up to date, efficient and realistic methods, policies and procedures for implementation of funding for agricultural development. Apart from being monotonous, such suggestions would have constituted redundant variations on the theme of the main recommendation, namely, that the most promising way to improve – and strengthen the agricultural credit structure in all developing countries is to provide adequate training at all levels. As long as this main
problem is not properly tackled, recommendations suggesting the improvement of methods, policies and procedures followed by credit institution make little sense. None of them could be properly implemented without a sufficient number of well-trained staff. Once this problem is solved, most shortcomings enumerated above will almost disappear automatically.

The report suggests final solutions for all the problems be setting the strengthening of the agricultural credit structure, the group is aware that it can only indicate the direction in which these solutions will have to be sought.

S.M. Patel’s (1967) “A case study of repayment of crop loan and causes of their non repayment in Maharashtra state.” Deals only with the repayment aspect of crop loans provided by the district central co-operative banks and causes of their non-repayments. The causes of non-repayment mainly due to uneven rain, heavy cost of production, market fluctuations, and the loan was not properly used for purpose it was sanctioned.

C.L. Dadhich (1977) has made a study of “Over dues in farm co-operative Credit.” His study is confined to the co-operative credit movement in Rajasthan and the causes of over dues at the borrowers, and the institutional level. He has also suggested measures for reducing the over dues.

Singh and Singh (1980) have analyzed the comparative study of co-operative and non co-operative credit in agriculture related to the advancement and utilization of loans and the time factor involved in sanctioning of the loans. As compared to the commercial banks, the co-operative takes more time to sanction loan and to provide it to the farmer.

Khatry and Chamola (1981) in their study on “Utilisation pattern of loan advanced by the primary agricultural credit societies in Haryana,” have concluded that small farmers have utilised 60.50% of the total loan for productive
purposes and diverted 39.50% of the loan to unproductive purposes. Large farmers have utilized 70.20 percent of the loan to productive purposes and 29.80 percent loan for unproductive purposes.

Kutumba Rao (1985) studied "Management of central co-operative banks." His work deals only with management aspects of the central co-operative banks with regard to their organizational structure, deposit mobilization, financial and personnel management.

Mahfoozur Rahman (1986) in his study of "co-operative credit and agricultural development with reference to Jammu and Kashmir." Found that the supply of short-term credit displayed a slow increasing trend in the initial years, whereas the medium term loan showed a significant increase. The long term loans and advances showed a declining trend and borrowed amount has shown a decreasing tendency with an increase in the size of holdings.

The problems of utilization and repayment of institutional credit are analyzed with reference to Indian agriculture in "Institutional credit for Agriculture in India." By Pandey Raj (1989).

A study by Ranga Reddy (1990) on "Over dues of primary agricultural credit societies of Guntur district during 1975-1982. The study covers only over dues of primary agricultural credit societies at the institutional level and not of the borrowers.

Another noteworthy study on "Institutional credit as a means of agricultural development" has been made by Mohideen (1991). The author attempted to make a comparative study of the co-operatives and commercial banks and the Government in financing agricultural development.
Dandekar (1993) in his articles on “Limit of credit, Not credit limit” had reviewed the post independence story of credit for rural development begins with report of the committee of directions to direct an all India Rural credit survey set up by the reserve bank of India in 1954. It’s report lies at the bottom of the policy, progress and problem in this field over the last 40 years.

Kotaial (1995), Chairman, NABARD has in his article, and entitled “A Review of Rural Finance.” has examined the operational environment of rural financial Institutions, their performance and the policy interventions for improving the same. Its scope is limited to the formal rural finance Institutions since systematic data on functioning of the informal financial system are not being documented.

Agrawal, Puhazhendhi and Satyasai (1997) in their article “Gearing Rural Credit for the twenty first centuries.” Had commented that, the task before the rural credit system in the next century will be formidable and complex, as it has to deal with two diverse challenges, namely, addressing the basic problems of rural development and globalising Indian agriculture. Thus it has to deal with two distinct groups, one having small individual credit needs but accounting for a high proportion of total credit and the other requiring huge amounts of credit for practicing capital intensive export oriented hi-tech agriculture. The existing credit system has to be geared up to these challenges.

Satyasai and Viswanathan (1998) have attempted to study on “Restructuring the co-operative credit systems through Integration of short-term and long term structures.” The study indicates co-operative system in the country needs restructuring in view of the changing demand pattern for rural credit and higher expectations from the co-operatives which are expected to provide quick and quality service to enable them to be viable and vibrant. De-layering of the
co-operative system, integration of short term and long term co-operative structures are some of the alternative restructuring option often suggested by them.  

Puhazhendhi and Jayaraman (1998) in their study “Rural Credit Delivery – performance and challenges before banks” have reviewed the performance of the rural credit delivery system in three focus areas of the rural credit markets—viz-agricultural, non-farm sector activities poverty alleviation and the challenges that the banks are likely to encounter in the next decade. The study also suggests strategies for overcoming these challenges.

There is ample literature with regard to the financing of agriculture relating to other countries. Such literature is of considerable help in understanding and assessing the role of institutional credit agencies, particularly the co-operative agency in financing agriculture in particular and rural development in general in India.

Besides publications in the form of books there are several reports published by Vaikunth Mehta Institute of Co-operation, Reserve Bank of India, Indian Institute of Bank Management, National Institute of Rural Development, NABARD and other similar Institutions. Though these reports contain valuable data, yet taken together, they provide inadequate and partial picture for understanding the real character of agricultural finance.

There are also a number of reports by the international organisations, which attempt an in-depth study of the problem of agricultural credit, principles and practices and the policy measures to evolve an effective agency for agricultural credit in developing economics. Some of the reports focus on the case studies of developing countries and draw attention to the role of co-operative agency as a means of financing agriculture.
extension aspect is highlighted as a necessary condition for the effective utilisation of agricultural credit. The researcher has used a few of these works for his study.

1.4 Credit Needs for Agriculture and allied activities

Credit is the lifeblood of trade and industry, and agriculture is no exception. Like any industry, agriculture requires short, medium and long term credit for its sustained growth and development. The main purposes of this type of credit are land improvement, purchase of seeds, fertilizers, pesticides, tools and equipment's and livestock or work stock, creation of facilities, such as, irrigation, fencing, storage, transport, farmshed, bunding, etc. The extent of credit needs is dependent on various factors, but it depends more importantly on the stage of agricultural technology, and the credit-absorbing capacity of the farmers.

Agricultural development in India received proper attention only after launching the first-five year plan in 1950-51, and credit came to be recognized as one of the important inputs. Prior to the All India Rural credit survey (1951-54), no serious attempt was made to assess the credit needs of agriculture and provide for it in a satisfactory manner. Mostly the farmer was left to the mercy of the private moneylenders. Although the co-operative credit institution was launched as early as 1904, it played a very insignificant role in the development of agriculture. This was clearly revealed by the findings of the All India Rural Credit Survey Committee Report (1954). According to the survey, the private moneylenders met about 70 percent of the credit requirements of the farmers. The government and co-operative credit accounted only for about 3.3 and 3.1 percent respectively, whatever little co-operative credit was provided, a major
part of it went to the big and medium cultivators. Paradoxically enough, a substantial part of the institutional credit was accounted for by household expenditure, and very little of it was utilized for genuine agricultural development.

A part of the low interest rate institutional credit was utilised for repayment of high interest rate for private loan. The main cause of this state of affairs appears to be the chronic poverty of the peasants and the backwardness of agriculture the credit for which was considered more as a matter of convenience than an important input for modernizing and commercializing agriculture.

However, the post-independence era witnessed a number of epoch-making events in the sphere of agricultural credit; one such important event was the launching of the "Integrated scheme of Rural Credit" in 1954, as recommended by the All India Rural Credit Survey Committee. The main objective of the scheme was to gradually institutionalize agricultural credit through the development of a countrywide net work of viable credit co-operatives with the active support and guidance of the Reserve Bank of India. This became a major plank of the agricultural policy, and the programme of development of the co-operative credit structure formed an important component of the strategy for agricultural development.

Capital lubricates the wheels of development in any sector whether it is agriculture or industry. Adequate investment of capital in agriculture emerged as a matter of vital importance as a sequence to the launching of intensive development programme based on modern technology. The adoption of modern agricultural technology requires the application of inputs, such as seeds, chemical fertilizers, and pesticides along with the development of land and water resources. All these lead to intensive demand for credit. The problem of agricultural credit has assumed greater importance in view of the fact that the
new technology depends on external finance for its wider adoption. In this context, credit has a greater relevance to the small farmers than to the big farmers. In the absence of credit, the small farmers are bound to be left out of the programme for agricultural development.

There is a time gap between investment and return in agriculture. The gestation period of crops varies from months to years. Credit is necessary till the income is generated, since incurring expenditure in agriculture is a continuous process. The farmers have to spend money daily for various purposes, but income generation is not a continuous process. Further, farm expenses and home expenses are mixed up in agriculture. The farmers get income only during harvest season. Hence to meet the continuing expenses finance is needed by the farmers.  

Unlike factories, return in agriculture is uncertain, we cannot accurately work out the profit. From the time of sowing of seeds to the marketing of produce, a lot of risks and uncertainties prevail which make the farm income uncertain. Agriculture is susceptible to natural calamities in countries, such as India, still depend on monsoon. Enormous risk in the form of uncertain income, bad weather, drought, flood, cyclone, pest lower prices, etc. is associated with agriculture. Just because loss is sustained in a year, the farmers cannot abandon their farming forever. They could borrow and produce good crop in the coming season and overcome the previous loss. Hence, to continue cultivation in good and bad seasons, credit is required.

Today, by and large, all over India the farmer has taken to the use of high yielding hybrid seed varieties, notably wheat, paddy and other crops. These varieties have shown that they are capable of transforming agricultural production beyond all previous achievements and expectations, provided that
necessary inputs by way of improved seeds, water, fertilisers, pesticides, etc. for which credit is necessary are made available in time and in adequate quantities.

A study of agricultural financing during the eighties and nineties shows that the multi agency approach has come to be accepted in rural India. The cooperatives, assisted by the commercial and regional rural banks have played a crucial role in meeting the credit needs of agriculturists. The establishment of the National Banks for Agricultural and Rural Development (NABARD) should exercise a significant influence on the working of these institutions in the country, particularly, in financing agriculture and other allied activities.

1.5 Classification of credit:

Agriculture credit can be classified as period-wise, purpose-wise, security-wise and creditor-wise, generally the credit is classified as period-wise i.e. short term, the medium-term and long term. The period of credit is the general basis of classification and as such, the other groups may be regarded as a sub-classification within each group of period-wise classification. According to All India. Rural Credit Survey Committee (1954), the following are the chief characteristics of period-wise loans.

I) Short-term Credit:

Short term credit is available for a period up to 15 months, for meeting the cost of seasonal agricultural operations. Generally in the beginning of the season utilised as and when required to purchase seeds, implements, manure, fodder, for carrying goods to the market, to pay wages to agriculture Labour etc. Usually it is repayable after the harvest. This loan may be borrowed for consumption or for production, on personal
security or with land as collateral, from moneylenders or from a co-operative society.

ii) Medium-term-credit

The agriculturist also needs medium term loans. The duration of such loans is from 15 months to 5 years. The loan is used to purchase a bullock-cart, some agricultural machinery and repair old ones etc. This loan is also known as term-loan or investment credit.

iii) Long term credit

The farmers also require long-term loans. Duration of such loan is as long as 5-15 years. Such credit is granted for making permanent improvements of land like reclamation and bunding, digging of new wells, construction of farmhouses, cattle-sheds, purchase of new land, purchase of machinery, development of new irrigation sources, and other capital expenditure on agriculture.

A strong agricultural base is an essential requirement for the economic development of the country. The agricultural revolution that is taking place in the country with the application of science and technology to agriculture has thrown open new horizons of business enterprises for co-operative banks, commercial banks and other financial institutions closely connected with agricultural finance.

Now-a-days agriculture is capital-intensive, and farmers need capital, especially, for capital inputs, such as farm machinery, fertilizers, seeds, pesticides, etc. The more developed the agricultural sector, the
greater is the amount of credit required and generally, greater is the role of co-operative and commercial banks in supplying credit.

### 1.6 Place of co-operative:

Co-operative banks have stronghold in agriculture financing and numerically, their concentration is in rural areas. Among the co-operative banks, the largest number consists of short, medium and long-term agricultural credit structure, which have a three tier federal structure. The three-tier is formed by the primary agricultural credit societies at the base organised at the village level, central co-operative bank at the district level and state co-operative bank at the state level.

The organization of the co-operative movement in our country took its root in the field of agricultural credit and its purpose was to liquidate rural indebtedness and to drive the moneylenders out of the agricultural financing scent. At a time when agricultural financing was considered as a riskier proposition and an unprofitable avenue of lending that it was the co-operative banks, which took the risk of lending agriculture amidst various socioeconomic obstacles. Agricultural financing by commercial banks is of recent origin and the commercial banks were compelled to tend to agriculture only after their nationalization. It was the co-operative banks, which first came forward to lend the small farmers, tenants, farmers, village artisans and weaker and depressed sections of the community. To encourage various sections in the economy, co-operative banks in India are helping the needy sectors like agriculture and small-scale industries. Nearly half of the agricultural credit needs are, at present, met by co-operatives and thus they pave the way for rural industrialization and spread of small scale and cottage industries.
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