CHAPTER-II

REVIEW OF LITERATURE
'Service Area Approach' is a scheme of recent origin, researches on it have not been undertaken as yet, however, a series of researches in the related fields i.e. bank finance for rural development in general and agricultural development in particular were undertaken in post bank nationalisation period. In this chapter important observation and findings of the studies, undertaken on different aspects of agricultural finance has been reviewed. The purpose of the review of earlier studies is that it provides academic background to the present study for formulation of hypothesis and selection of tools of analysis. The reviews are presented in chronological order.

Iyenger (1947) examined the problems of rural credit and indebtedness and observed that the problem of rural credit was complicated and difficult one, but it was not in surmountable. Sharma (1947) expressed that the rural credit system will work successfully under the guidance of the Central Bank of the country, though the Reserve Bank has been in existence for about 12 years, the rural credit machinery has not yet been organised as desired. All India Rural Credit Survey Committee


Report (1951-54) had estimated the need of Rs.750/- crores as credit in agriculture. The Committee also found that 92.70 per cent of agricultural credit is advanced by private agencies and only 7.30 per cent by Government agencies. The total amount borrowed by cultivators was only 3.30 per cent from Government, 3.70 per cent from Cooperative and 0.30 per cent from Commercial banks. Kulkarni (1960) observed that the opening of 400 branches by State Bank of India in period of less than five years is undoubtedly one of the most significant developments in the history of Indian Banking. Keshbekar (1966) observed that the farmers credit needs must be considered as a whole and realistic policy must not be confined to requirements for productive purpose loans only. George and Singh (1968) pointed out that the efficient system of agricultural credit is necessary if agriculture is to make it's due contribution to national development, but credit will run to waste or its contribution will be limited unless it is supported, within the rural sector, by proper institutions which can spearhead development in all it's aspects.

Bhargava and Shah (1968) observed that the needs of small farmers consisted of credit for fertilizer, hired labour,

3. Gorwala, A.D., (Chairman), All India Rural Credit Survey Committee Report (2), 1951-54, P.106.
pumpsets, land improvements and buildings. Medium farmers needed fertilizers, hired labours, tubewells, tractors, implements and buildings, while large farmers required credit for labour expenses, fertilizers, tube-wells, tractors and buildings.

Bhatta (1970) observed that, in the post nationalisation period, banks should help in setting up of a centre to design and engineer projects to suggest appropriate technological modifications, to appraise effectively soundness of the projects. Agrawal (1970) emphasised on the need for a mechanism for periodic review of the role of State Cooperative Banks in agricultural finance. Adarkar (1971) observed that, as the result of the nationalisation, the banking system has structurally gained distinctly in strength and cohesion and that a better environment has been created for the formulation and implementation of monetary and banking policies particularly in the direction of deposit mobilisation and credit management in the country. Das (1971) observed that the marketing approach by the Indian Commercial Banks is far from an accomplished task today and considerable headway is needed to bring about a permanent Customer Orientation of these policies and programmes. Dhebar, U.N. (1971) observed that to

provide an integrated and solid base to poverty eradication programmes, Commercial Banks should give weightage to village industries and use of local resources. Kanvide (1971), observed that alignment of credit with plan priorities, balanced sectoral credit allocation and leading role of credit planning have emerged as main facts in credit planning in recent years and opined that lack of adequate infrastructural facilities, slow pace of monetisation and lack of effective motivation of people towards banking system are the major problems of credit planning at the district levels. Srivastava and Mobin (1971), observed that though, the overall progress of banking system in the recent years has been satisfactory, considerable disparity still exists in banking facilities as available in urban and rural areas or developed and backward areas of the country. D'Mello (1972), envisaged the role of Commercial Banks as that of motor force for accelerating economic growth and social justice through extension of credit to raise the technological level in production process after careful scrutiny of the projects financed, both in the large and small scale sectors. It imposes a measure of financial

discipline, which is expected to increase productivity and investible resources. Karkal (1972), highlighted the utility of input-output techniques and observed that the use of regional inter-industry flow matrices will help in meeting the objectives of lead banks. Desai and Prakash (1972), concluded that efforts to develop the infrastructure first and then attempt to understand the problems of the micro units in the area, becomes a costly affair. Datta, H. (1973), observed that there is no visible difference between the performance record of the nationalised banks and that of the larger among the non-nationalised banks. Mishra (1973), observed that the nationalised banks have expanded banking offices at the higher rate than that of all other banks, however, the advanced states of India continued to have a major proportion of new bank branches. The growth in bank deposits has been rapid after nationalisation, but the mobilised deposits have been disproportionately high in the industrially advanced states. Sharma (1973), compared the role of cooperatives and commercial banks in Farm Financing from quantitative and qualitative stand points and observed that from the point of view of the quantum of loan or the number of

farmers served or the percentage of villages covered, the cooperatives are in stronger position, but qualitatively, commercial banks have provided loans to open out new horizons on farm production front. Guglani (1974)\textsuperscript{21} observed that on account of rising prices and costs of farm inputs the demand for agricultural credit is multiplying which requires liberal flow of credit not only to priority sector, but also to the small and weak borrowers. Singh (1974)\textsuperscript{22} suggested that since cooperative societies have inadequate funds which are monopolized by large farmers who can also approach commercial banks, the advances of the cooperative societies should be restricted to small farmers. Rangarajan (1974)\textsuperscript{23} observed that nationalisation of banks has brought about some reduction in regional disparities in the differences that exist in respect of population per office, per capita deposit and credit. The author reported that out of the loan outstanding on March 31, 1973, 50 per cent went to holdings above 10 acres and only 11 per cent to the holdings equal to or less than 2.5 acres. Yadav et al. (1975)\textsuperscript{24} suggested that small farmers should be educated about the outcomes of planned and better investment pattern to maximise

\begin{itemize}
\item Guglani, C.L., "Infrastructure of Rural Credit System in India", Indian Cooperative Review, XII(2), pp. 153-204, 1974.
\end{itemize}
return from credit. Mishra, et al. (1975), suggested that agricultural credit should be provided not only for increasing agriculture production but also marketing and processing activities. Joshi (1976), observed that since the cooperatives and commercial banks suffer from lack of financial strength and limited coverage respectively, the intermediate institution of Regional Rural Banks could fill in the gaps unfilled by the two former institutions with their complementary roles. D'Mello (1976), highlighted on the opening of Regional Rural Banks to cover a significantly large proportion of the rural poor which consist of small farmers, marginal farmers, tenant cultivators and landless labourers, so that the development of rural areas can properly take place. Kanvinde (1976), observed that the success of credit planning as an instrument of credit allocation in line with the overall material policy depends on full awareness of and commitment to the national priorities, allocation of resources according to the scheme of national priorities, realistic estimation of credit needs and extension of credit to each borrower, strictly according to this estimated needs. Chaubey (1976), observed that there is no other agency potentially so strong and eminently so suited for agricultural development as credit cooperatives, particularly for populous developing countries like India, provided they are

placed on a sound footing and their management and operational efficiency is constantly increased. Joglekar (1976), reported that the Western Regional Consultative Committee reviewed the implementation of Lead Bank Scheme and suggested that the District Committee should not only remain a consulting body but also be a decisive body so that the advantages of such scheme reaches the smallest farmers and artisans too. Shujan (1976), observed that the problem of overdues is closely connected with risk and uncertainty in agricultural production, as the state of Orissa continuously suffers from drought in some areas and floods in other areas. The Cooperative finance in the state also suffers badly from misutilisation of credit, mounting overdues and other malpractices. Chakrabarti (1976), observed that the problem of agricultural credit cannot be solved in terms of reforms of credit mechanism alone. Ganguly (1977), observed that despite nationalisation, two thirds of the total agricultural credit is available to farmers through cooperatives and non-institutional sources. If the living standards of small and marginal farmers have to be improved,

it would be necessary to launch a broad-based Scheme to reduce
the rural poverty. Lavania, et al. (1977)\textsuperscript{34} observed that the
share of commercial banks is the total borrowings of cultivators
has considerably increased after nationalisation. Although, the
per family borrowings of large farmers is significantly higher
than small farmers, but there is absence of significant difference
in per hectare borrowings between the two. Patel, et al. (1977)\textsuperscript{35}
observed that the main function of P.C.A.s should be extension of
credit services to the maximum number of its members in accordance
with their needs and to adjust its structure, policies and
organisation in accordance with the requirement of its members.
Gangwar (1977)\textsuperscript{36} observed that liberal advances made by the
co-operative institutions to farmers resulted in ushering the
era of green revolution in the Haryana State. Jayaramau (1977)\textsuperscript{37}
attempted to explain variations in credit requirements of farmers
met by the commercial banks and observed that agricultural income
of the district and ratio of cash crops together with unirrigated
area are the most important influencing factors. Ghiara (1977)\textsuperscript{38}
oberved that to fulfil the national expectations the financial
institutions administration shall have to clear the debris of

\textsuperscript{34} Lavania, G.S. Dr., et al., "Commercial Bank Finance Agriculture
\textsuperscript{35} Patel, R.J., et al., "Performance of Co-operative Agriculture
\textsuperscript{36} Gangwar, A.C., "Role of Co-operative Credit in Haryana's Green
\textsuperscript{37} Jayaramau, V.P., "Role of Commercial Banks in Agricultural
Development: A Case Study of Tamil Nadu," \textit{Southern Economic
\textsuperscript{38} Ghiara, B.M., "Agricultural Financing by Commercial Banks:
existing differences between policy intentions and policy implementation. Chhipa (1977)\textsuperscript{39} examined the regional differentials in the expansion of banking in Rajasthan with the help of Advance Deposit Ratio's (ADR's). The rank correlation co-efficients between the level of economic development and the level of ADR suggests that the bias in favour of the developed districts has been reduced though there are no evidences of priority accorded to the backward districts. Datta (1977)\textsuperscript{40} emphasised that the rural banks must provide full banking services to their customers including medium term lending, remittances and safe deposit facilities. The rural customer of the banking system must not be made to feel that he is not a second rate citizen deserving only low grade facilities. Asha Kant (1977)\textsuperscript{41} observed that the quality of cultivators credit has improved and it has become more production oriented and institution based. Lavania, et. al. (1978)\textsuperscript{42} on the basis of primary survey observed through regression analysis that commercial bank finance, particularly short term loans advanced in Ghazipur district, is quite productive since it's marginal value product is much higher than its marginal cost and therefore, there is considerable possibility for increasing the output by increasing the use of resources.


Sharma (1978) observed that the bank credit has exercised healthy influence on credit recipient farmers, as the result of which, there is shift in cropping pattern towards high yielding varieties. The farmer borrowers have achieved a substantial rise in crop productivity, there is increase in personal incomes and the farmers devote additional income for agricultural development. Datar (1978), observed that the financial institutions help rural development by promoting saving and investment efforts and by influencing sectoral deployment of credit. Yadav, et al. (1978), concluded that the long term borrowings from L.D.B. helped the farmers to adopt more intensive agriculture and to put more area under high yielding varieties by making higher investments on assured irrigation sources, which in turn helped farmers in shifting their cropping pattern in favour of high yielding crops and varieties. Pandey, et al. (1978), reported that size of the loan and consumption expenditures are the major factors influencing overdues in co-operative credit societies at the farmer's level irrespective of the categories. Balaswami (1978) concluded that diversion of loans is more among the highly educated big farmers, high income group and the well to do sections. The study also reported decline in

regional differentials on analysis of advance deposit ratio. Reddy and Dakshinamurthy (1978), observed that the spread theme is getting stronger with promotion of rural banks, the lead banks and co-operative credit but it has failed in reaching the take-off stage in rural development. Narayanan (1979), suggested for mandatory ratio in opening branches between the relatively developed and backward areas to ensure better performance in the case of later. Desai (1979), examined through time series data analysis sectoral allocation of credit, long term structure of rural market, purchasing power of rural credit and the distribution of benefits arising from the concessional lending rates amongst different size groups. Kainth (1979), observed that the economic variables dominate over the technological variables in determining the demand for credit. Balister et.al. (1979), concluded that small farmers required comparatively more production credit, while the large farmers required more of the investment credit and that the availability of credit was much higher on large farms as compared to small and medium farms. Singh, et.al. (1979), observed that the main share of the term loan advanced by commercial banks were enjoyed by the large sized farmers while the small and marginal farmers had to be contended

with the crop loans. They further observed that the 'Multi Agency Approach' in agricultural financing has positively responded through increasing the quantum of credit. Lavania, et.al. (1979) suggested that along with the supply of short term credit, medium and long term credit, particularly for small and marginal farmers will also have to be supplied in adequate quantities so that they could build up adequate irrigation potential as well as potential for adopting the modern technology. Rao (1980) highlighted the need for at least one viable agency easily accessible to agricultural borrowers so that no body is starved of credit. Sharda (1980), observed that the Regional Rural Banks have become an integral part of the credit delivery system. Balister, et.al. (1980), observed that the shift in the cropping pattern towards high income crops coupled with the improvements in yield, have enabled the borrower farmers to realise higher farm incomes. Pandey et.al. (1980), using farm planning and budgeting technique of analysis, observed that when new technology is adopted through extending

credit facilities to marginal farmers, farm income increases.

Singh et. al. (1980) observed that the development of agriculture largely rests on availability of irrigation facilities particularly that of minor irrigation. The utilization of modern inputs and adoption of modern technology in turn depends on the availability of irrigation water. Nambiar (1980) observed that growth process in the rural economy and planning for the development of credit facilities according to the requirements of growth would continue to be the major tasks of commercial banks. Singh et. al. (1980), pointed out that the development of agriculture largely depends on the availability of crop loans for adoption of modern technology and term loans for creation of minor irrigation facilities on the farm. Patel (1981) observed that, as the result of nationalisation, there has been accelerated thrust towards expansion in unbanked areas and diverse credit needs of agriculture, but the problem of recovery of advances is mounting. Vaish and Chhipa (1981), observed that the banking system has been successful in reducing the regional disparities to a certain extent in the recent past. Chhipa and Sagar (1981), reported, on the basis of


64. Chhipa, M.L., and Sagar Sushama, "Banking Development in India: A Study into the Causes of Regional Differentials,"
composite index of banking development, that the states of Kerala, Punjab, Maharashtra and West Bengal were classed as highly developed. Rao, et al. (1981), observed that commercial banks by providing adequate and timely credit, can create favourable impact on agricultural development even in a backward region, however, to make such impact significantly felt, it would be necessary to further expand the rural branch network of commercial banks and increase their operational efficiency. Singh (1981), concluded that there existed a large credit gap in different categories of farms due to inadequate supply of credit from all sources as against the credit requirements. The multi-agency approach is needed to meet the growing demand for credit for adoption of the modern farm technology in agriculture. Rao and Bhalerao (1981), examined the productivity of commercial bank finance in two relatively developed and backward, blocks of Andhra Pradesh and observed that the commercial bank finance has created favourable impact on productivity in both, and that it is more visible in developed block. Jodha (1981), observed that the private lending agencies, in general, perform better than the institutional credit agencies during drought years as they possess an inbuilt mechanism to adjust

68. Jodha, N. S., "Role of Credit in Farmer's Adjustment Against Risk in Arid and Semi-Arid Tropical Areas of India, Economic and Political Weekly 16 (42), pp. 1696-1709, 1981.
their operations to the lending risks in their areas, Upadhyay and Kaveri (1982), suggested that the consumption needs of the small borrowers should also be taken into account while granting bank loans to them. Chauhan, et al. (1982), observed that though the both commercial banks and co-operatives are financing the farmers vigorously, even then all categories of farmers have to depend on non-institutional agencies for meeting their credit requirements. Since production credit was available both in cash and in kind, the diversion was greater in case of former than the later, because farmers were rather free to utilize that according to their own choice. Kohnikal (1982), reported that there are definite and strong relationships between borrowing and economic and technological conditions on the farms of selected cultivators. The borrower groups which were better educated had better welfare conditions for the family than the non-borrower groups. Desai (1982), suggested that R.B.I., to achieve balanced regional development should determine the norms for credit deposit ratio and investment considering the economic development of states. Singh, et al. (1982), concluded that Lead Bank financing

in agriculture has helped the borrower farms in raising their level of income and employment to a larger extent by making more intensive use of production-oriented inputs on their farms possible. The timely and adequate supply of farm credit by the Lead banks on one hand and post-investment extension service including supervised credit would go a long way in raising the levels of production, productivity and income. Anagadi (1983), observed concentration in priority section advances, particularly in agricultural advances, in six states, viz. Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu. The major explanatory variables for unequitable distribution apart from uneven banking facilities and total cropped area are (i) extent of irrigation, (ii) patterns of land distribution, (iii) cropping practices, (iv) area under H.Y.V., (v) applications of modern technology and (vi) political awareness. Shankaraiah et al. (1983), observed that the new agricultural technology had increased the demand for inputs and consequently credit in agriculture sector. Institutional agencies have been playing dominating role in the provision of credit to farmers. Commercial banks sharing 59 per cent of the institutional credit during 1975-76 dominated among institutional agencies. Mohan, F.K., et al. (1983), observed that the purpose-wise classification as well as distribution of loans point out the bias of the banking

institutions towards large farmers. In order to play a major role in achievement of I.R.D.P. objectives the banks should diversify their loaning policy towards subsidiary activities which are helpful to small and marginal farmers. It is necessary that the interests of these targeted groups should be protected by allotting an increasing share of the loans of these sections. Singh (1983),\textsuperscript{77} suggested that since majority of the respondents of all types were not in favour of financing through co-operatives. The RRBs should try to incorporate attributes of co-operative societies in their operational procedures and attitude. Bangarwa and Kadian (1983),\textsuperscript{78} suggested that loans should be given at proper time to avoid misutilization of loan, rate of interest may be lowered also for the medium farmers to encourage their banking habits. The process of loaning should be simple. Loan should be adequate enough to meet all requirements of the project to avoid difficulties to the farmers in completing their projects so that production can start immediately from the project for which the loan has been sanctioned. Singh, et.al. (1983),\textsuperscript{79} observed that the low rates of deposit mobilization and rural participation have resulted in inadequate institutional sources of funds, with the result that they still continue to depend largely on external


financial assistance. Mehta (1984) observed that artificially low rate of interest have been forced on co-operatives and other credit institutions for political and pseudo-ethical reasons, and have trivial and transient advantages to the borrowers. The whole credit system becomes static, and dependent on everlasting financial replenishments from Government and international aid. The source of payment for credit should be the additional production which it ought to produce. If a loan does not result in gains to the borrower, more than enough to repay it plus the growing rate of interest, it should not have been granted in the first place. Rao and Lakshminarasaiah (1985) reported that Andhra Pradesh occupies first place in country not in respect of direct agricultural loans but also in regard to loans given to small scale industries and retail trade. Shastri (1985) observed that analysis of data brings out a high positive association between bank deposits and per capita income. Chhipa (1986) observed that the association between rural banking and agricultural development has increased as the result of the bank nationalisation and this has resulted in reductions of regional disparities. Reddy (1986),

observed that development through credit, unlike through grants or subsidies, is most desirable since it can be replicated elsewhere without much difficulty. Bhakta (1986)\textsuperscript{85} observed that the need of hour is to change our approach to financing agricultural development, keeping in view, the dominant role of primitive accumulation financing and weak capitalist financing for accelerating the rate of agricultural development. Jain, et al. (1986)\textsuperscript{86} concluded that banks must establish close contact with the farmer borrowers and instead of target oriented lending, the need based approach in lending should be encouraged and followed. Factors involved in non-repayment of loans be kept in mind before loan is actually sanctioned and disbursed. Not only is effective supervision necessary but efforts be supported with farm advisory technical services for proper and efficient use of credit. Economic concepts should strictly be adhered to during the processing of loan proposals and the norms fixed by bank be revised. The wilful defaulters indentified by the bank should be warned and debarred from future lending. Sharma and Sahaya (1986)\textsuperscript{87} suggested that the RRB's must ensure that the credit facilities extended by them are not grabbed directly or indirectly by the rural elites.


or rural rich. This can be possible only when the projects for the poor are carefully identified and selected and credit flows to them taking in to account the ascertained needs without any loss of time or procedural bottlenecks. Radhakrishan (1986), observed that concessional finance adversely affects the viability of lending institutions as also their ability to effectively monitor the use of credit. Concessional finance may lead to misutilisation and sub-optimum utilisation of credit, particularly by larger borrowers. Gadgil (1986), estimated that association between credit and production activities and observed that the states having higher credit availability are having high yield and higher per hectare productivities of food grains. Karthykeyon (1986), concluded that a system should be developed by which one borrower deals with only one bank whether for investment or for production needs for agriculture purposes. Sangwan (1986), concluded that the regional imbalances in refinance disbursed by NABARD and its predecessors for schematic lending in agriculture show a continuous decline in states during the period 1969-85. The endogenous factor like lower utilisation of refinance commitment from NABARD, relatively poor performance of SLDB's and low degree of diversification in the schemes financed are positively associated with low disbursement of refinance in source of the state.

Ram, et al. (1986) observed that the credit planning and its flow should be diverted towards the development of backward dry regions by concentrating more on small scale industries and tertiary sector. This needs the consideration of polarisation reversal approach from bankers and state planners. Gupta (1986) observed that the overdues were found highest in the case of medium farmers followed by small and larger farmers. The amount of loan was not sufficient to meet the requirement, the procedure of financing was quite long and too complicated, the rate of interest was high. The authors suggested that a strong credit market linkage would be the best solution for guaranteed recoveries. No interest should be charged in order to reduce the burden or repayment. Some concessions to non-wilful defaulters and encouragement for prompt repayments of dues are considered desirable. Singh (1986), suggested that the prediction criteria developed on the basis of significant factors could effectively be used to understand the characteristics of prompt repayers before advancing loans and to know the category to which the prospective borrower belongs. This would help reduce the overdues, a problem severely faced by most of the

agricultural financing institutions. Bhattacharya (1986), observed that institutional credit support to poverty alleviation programme in India is based on a multiagency approach without proper demarcation of area of operation and suggested that credit policy must be reformed to cover all credit needs of a borrower from the same source. Security based credit should be replaced by production oriented credit. Employees of credit institutions should be appropriately trained to help the borrowers when required. Consultancy and subsidised credit should be granted to only small producers whose development is a social priority. Pandey et al. (1986) observed that the financing from the institutional sources was based in favour of relatively larger farmers. The amount of loans given for dairy, poultry, piggery etc. meant for the down trodden was almost negligible in the total loans disbursed, while the total amount of loan due for repayment exceeded the repaying capacity on the small and medium farms. It was reverse on large farms. The default in case of large farmers was mostly wilful. These wilful defaulters should be forced to repay the loans through appropriate legal actions. Direct payment of subsidies should be discouraged and norms for financing should be revised frequently. They further suggested that to check the borrowers from taking loans from one source by offering same property as security issue of "credit passbooks" Sreenivasan (1987), observed that

massive geographical expansion at a rapid pace, explosive growth of business and functional diversion during these years have brought in stress and strain on the banking system which are reflected in erosion in quality of customer service, deterioration of loan assets, house keeping, internal controls and pressure on profitability. Vaishnaw (1987), observed that with the phenomenal credit expansion, realistic and efficient credit planning has become a matter of utmost importance to banks. The concept of lending has itself undergone a sea change in the post-nationalisation era with the introduction of important new factors such as development credit for priority and weak sectors, food procurement and export credit. Dangat, et al. (1988), observed that the supply of bank finance lead to increased employment and increased income to agricultural labourers. It could therefore, be said that the increase in scale of finance will generate additional employment and income to the agricultural labourers. Chenchaiah (1988), observed that the provision of crop loans had a positive impact on farm income in the post-loan period. Gupta, et al. (1988) observed that co-operative credit structure is most suited agency for agricultural development and has an inbuilt organisational

set up from grassroots level to state level, with a band of dedicated workers, office bearers who approach the loanee members at doors which is conspicuously absent with other financial institutions. It has occupied a place of prominence and has been the true friend, philosopher and guide of farming community. Co-operative societies have become agents of rural development programmes and hence need to be further strengthened to play a role of nation building. Naidu (1988),\textsuperscript{102} identified the problems of identifying the needy and genuine borrowers, as due to the political pressure from local leaders, some time the big farmers are included in the list of beneficiaries under the category of small farmers. The households of the family of borrowers are divided into a number of separate households for the sake of obtaining separate amounts of loans. Sunadaram (1988),\textsuperscript{103} observed that the lead banks are to correct regional imbalances in credit deployment, estimate the credit gaps in the various sectors of the economy of district and prepare the credit plan for the district and develop rapport with all the financial and non-financial institutions, including administrative authorities. Vijaya (1988),\textsuperscript{104} observed that the service area approach can be described as consolidation of experience gained in the implementation of various rural development programmes with past, for a total approach in rural upliftment.


Ghetty (1988), observed that presently the emphasis in bank lending is on purpose rather than security. However, credit need and credit worthiness are distant concepts and its function is to provide the credit needs. Mujumdar (1988), observed that credit planning is concerned not only with the quantum of credit expansion but also with the allocation of credit and qualitative or directional aspects. Ideally, credit planning should cover not only working capital. In this sense, in addition to commercial banks, development banking institutions like term lending institutions etc. also need to be brought into the total of credit planning. Haque & Verma (1988), estimated the growth rates of co-operative & commercial bank credit to the farmers of different operational holding groups and observed that there was heterogeneity between the states and within the operational holding groups. Sai, (1988), suggested that there is a need for redirecting loan funds going to large farmers to small farmers. Marginal and small farmers should be encouraged to tap subsidiary sources of income to meet their consumption needs rather than extending consumption loans. Patel (1988), observed that the overdue of co-operative societies increase mainly because of weak and unstable financial condition of the

farmers. Parihar & Singh (1988), observed that there are evidence revealing that a majority of small size farmer borrowers are still dependent on the non-institutional credit agencies, such as commission agents. As the farm size increases the percentage of the farmer borrowers also increases. Dadibhavi (1988), observed that there is increasing concentration of institutional credit to agriculture in few regions states between 1972 and 1985, despite the goals set before the banking system to provide a more even distribution of bank credit. Besides, the more uneven distribution of short term credit of commercial banks among small and large holders should be matter of concern to bank policy makers, as the small borrowers are already in vulnerable position. Desai (1988), estimated the magnitude of state-wise credit supply and credit requirement for crop production for the year 1984-85 and observed that the supply of credit ranged between 12 per cent in Bihar to 102 per cent in Kerala. Giri & Gupta (1988), examined the variation in loans advanced per borrowing member from primary agricultural credit societies among different states and observed that the borrowing member loan varies from 68.7 per cent to 74.33 per cent, besides,

variation in the exponential growth rate of the loans. Sharma (1988), observed that adequate financing by the institutional credit agencies must be ensured, besides, the flow of crucial inputs like fertilizers, plant protection chemicals, quality seeds etc. for increasing agricultural modernisation in Haryana. Upadhyay (1988), suggested that organisations like the Institute of Rural Management need to be multiplied to provide the hard core of trained personnel who can supplement the present cadre of functionaries, who also need to be trained and motivated. In revised framework, rural credit will take its rightful place as an important input, because, credit by itself cannot deliver the good, as it assumes a strong infrastructure to enable it to perform its function effectively. Pandey and Kumar (1988), observed that per hectare credit availability on small and marginal farms was higher than on farm above 2 hectares in almost all states. The important factors affecting the flow of credit in states are fertilizer consumption, irrigated area, application of high yielding varieties and area under cash crops. Naidu (1988), observed that the debt capacity can be created by adopting technical innovations, improving infrastructure, institutional innovation and

improvements and reducing the transaction costs. Jain (1988), observed that the borrower and non-borrower tribal farmers in crop production and allied activities also shows significant increase in labour days of family/hired labourers in the case of tribal borrower farmers as compared to non-borrower tribals. Verma et al. (1988) observed that live stock rearing activities for which assistance was given were most popular but they generated minimum additional income. Srinivasan (1988), observed that the farmers felt that procedural difficulties, the rigidity or delay disbursement of credit, the prohibitive cost of acquiring it and its inadequacy were the major impediments in getting long term finance from the institutional agencies. Ehosale and Dangat (1988), observed that the amount of overdues was related with net income from crop production, amount borrowed, amount used for productive purposes and expenditure on family consumption. Bedi (1988), observed that the gross margin rate in the banks has been so low that it has, for most of the years been more than offset by establishment cost thereby bringing them to losses. The margin rate, more over has been found to decline with the expansion of business. Gangadharan

(1988), observed that the small farmers are not responsive to lower interest rate as such policy of providing subsidised interest rate may vitiate the dynamism in the capital market. Ram and Devi (1988), suggested that tangible measures to overcome the incidence of default in the small farmers category. Jain (1988) suggested that if immediate action against selected influential wilful defaulters are taken, it will influence other wilful defaulters. They may be debarred from loan advances in future. Suryawanshi (1988), suggested that even in an assured irrigated area there exists a substantial gap in meeting the credit requirements. The financing institution should provide more credit to agriculture sector. The working expenditure on cost of cultivation of crops must be taken into consideration in deciding the loan policy. Reddy and Reddy (1988), observed that the per acre credit increased along with the size of holding due to a host of factors. But the increasing role of organised credit came in handy and saved many farmers from falling into the clutches of money lenders. Radha

and Mukundan (1988), observed that the small holding obtained relatively more amount of credit than large holding. Adinarayana et al. (1988), observed that higher productivity of crop loans both at per hectare as well as per farm level under commercial bank for all sizes of farms over that of co-operatives. Easy and timely availability of credit under commercial bank alone accounted for this phenomenon. Further, the functional analysis showed that the quantum of loan in the case of small farmers under co-operative was not adequate, while in all other farm categories it was just sufficient. Srivastava & Lal (1988), observed that crop loans and borrowings for live stock have not made significant impact of progressive farms as evident from non-significant and negative co-efficients. Gupta (1988), observed that the recovery performance of the term loan was found comparatively better than that of crop loan. The recovery of over dues was found associated with size of holding, percentage of irrigated area, cropping intensity and per capita income. Singh (1988), observed that the recovery of loaning in allied activities was around 52 per cent.


which was higher than crop loan finance. Pandey and Guglani (1988) observed that the outstanding of agricultural loans advanced by the financial institutions were mounting high year after year in case of non-tribal farms an increasing trend was observed in institutional lending to tribal farmers since the inception of multi agency approach in rural credit. Roy (1988), observed that improving agricultural productivity through improvement in irrigation facilities, use of agricultural inputs and increase in mechanisation. Neena et al. (1988), observed that the commercial banks are getting experience in dealing with the agricultural sector. The distribution of all kinds of agricultural credit advanced by the commercial banks has tended to be more egalitarian. It is a very healthy and favourable trend from the point of view of rural development. Verma and Chopra (1988), observed that bank credit was inversely related to the national income originating in this sector. Therefore, more funds can be made available to small and marginal farmers. They further, observed that the demand for bank credit was positively related with the adoption of


new technology and the cost of production in this sector of economy. Julka, et.al. (1988), suggested that the small and marginal farmers needed as well as deserved more financial assistance as compared to the large and medium farmers. Kumar et.al. (1988), observed that nearly 85 per cent of loan was borrowed for productive purposes and remaining 15 per cent for social and consumption purposes. Gangwar, et.al. (1988), observed that the main cause of default in recovery of loans were excessive political interference in day to day functioning of credit institution problems relating to sub-standard supply of farm inputs case of wilful default, farmers being caught in credit trap of their repaying capacity fell short of loan amount due, fictitious loans were common in subsidised items like milch animals, poultry, piggery etc. advancing, loans without proper scrutiny of technical feasibility and financial viability of the schemes and inadequate marketing facilities and lack of adequate income to repay the tractor loans by most of the farmers. Rama Samy et.al. (1988), suggested that a more scientific and bold approach should be

adopted for proving agricultural credit to meet differential needs across different categories of beneficiaries and regions. The decision process in the delivery and recovery of agricultural credit should be more decentralised. Singh, et al. (1988), observed that the farms of the smallest size group (less than one hectare) benefited most by co-operatives as compared to the farms in size groups of 1-2 hectares and 2 hectares and above. On average 71 per cent and 29 per cent of total loans were utilized for productive and non-productive purposes respectively. It was further observed that the co-operative credit helped the beneficiary farms to invest more on cash inputs which in turn resulted in higher production and incomes on these farms. Bindal (1989), observed that service area approach would enable the branch to have developmental orientation and concentration on productive lending, thus, contributing to development of specific areas assigned to it. Ojha (1990), observed that the service area approach is the answer to improve the quality of lending in rural area to dedication and combined efforts of all concerned will alone transform the rural scene in the years to come. Pathak (1990), observed that credit should be provided with a package

of required services. It has to be supervised with problem solving attitude, assistance should also be provided to borrowers in respect of social aspects like health, education and training. These are the three basic principles behind the service area approach. Subramanyan (1990), observed that when in the prevalent situation is that the commercial banks themselves are facing erosion of profits due to financing of priority sector advances and corresponding overdues, recovery problems etc. The merger of RRBs with them would not only result in gigantic losses but also lead to lesser on flow of credit to the already starving rural developmental activities. He further, observed that it is only logical to expect sponsoring bank to supplement and not supplement the efforts of RRB's under new concept of service area. RRBs should be allocated villages, keeping in mind their small, organisational structure, lack of infrastructure like staff, conveyance facilities for inspection etc. so that, the very purpose of service area is not defeated. Thingalaya (1990), observed that subsidised credit to agriculture is not only inflationary but also does not generate additional income. Credit activity must therefore, be linked to programmes of transfer of technology to develop and intensify agriculture. If credit flows help intensive and develop agriculture and generate incremental income for the

beneficiary there is no reason why the credit should be subsidised. What the farmer is concerned with is the availability of timely and adequate credit and not the cost of credit. Nath (1990), on the basis of a survey covering 186 borrowers at sixteen villages financed by a nationalised bank in West Bengal concluded that only expansion of rural credit in terms of numerical strength will not serve the basic purpose of the nation, particularly for a developing country where poverty alleviation is one of the corporate goals, but efforts should be made to convert the elite type of banking to mass banking. Goparia (1991), observed that unless bank loans at concessional interest rates is kept within reasonable proportions by carefully restricting the benefit to the most deserving, the burden on the banking system would not be justified but benefit would be cornered by the not so deserving, even if, banks were somehow able to bear the burden. Banks may be told that they should give priority to financing a particular category of borrowers, say small and marginal farmers but they should be left free to pick up their borrowers from the category. Dubey (1991), observed that the social obligations laid on the banks since 1969 led to a decline in their income growth on the one hand and

to an increase in their expenditure growth on the other. Nyirabu (1991), observed that credit must flow to those able to use it. Those users must be made available high yielding seeds, fertilizers, insecticides and means to market their production at a price giving them a fair return. Further, there should be in built arrangement for recovery of credit extended to producers. No lender can hope to go on unless, it recovers what it has lent. Kapoor (1992), highlighted the importance of target oriented approach in banking and observed that it clearly defines the goals, thereby making their achievement easier, makes planning the route to the goals simpler, provides the necessary challenge of growth, and affords opportunity for mid stream reviews and correction. Narsingham Committee (1992), recommended that rural bank (including RRBs) whose operations would be confined to the rural areas and whose business would be predominantly engaged in financing of agriculture and allied activities. Badhan (1992), highlighted the reasons for poor recoveries of agriculture loan and observed that they are due to absence of co-ordination among financial institutions, misuse of loans to political patronage, lack of continuous contact with borrowers, lack of interest of borrowers, lack of interest of borrower in productive activity after adjustment.

of subsidy, misuse of loan in non-productive activities, failure of collection of required information about borrower, functioning of employees of Govt. agencies as middleman, quick disposal of loan by banks to fulfil target. Sadakkadulla (1992), observed that unless the other non credit inputs specially technology transfer and marketing is ensured the full benefit of credit cannot realised. Chakrabarty, (1992), reported that XV banks economists conference concluded that not withstanding the problems, banks have played a key role in the area of agriculture and rural development. Further, such lending helped millions of small borrowers to improve their economic lot. There was a consensus among participants that the system would have worked smoothly and not proved drag on banking but for the politicisation and bureaucratisation of priority sector lending. This could be corroborated by the fact that the recovery percentage of such loans declined over a period from 90 per cent to around 55 per cent. Mohintamoni (1992), observed that welfare orientation of our banking system has rendered excessive stress on priority sector advances. These advances constitute lion's share of our rural credit and earn less than the cost of funds. This has thwarted their profitability and to make the matter worse, even the minimum returns

from such advances are not forthcoming due to the substandard quality of the credit. Verma (1992), reported that one expert group headed by Prof. A.M. Khusro has highlighted the weaknesses in regional rural banks as endemic decline in service standards, poor house-keeping, declining profitability, wilful defaulting borrowers defrauding the banks by playing one bank against another sick units, sticky and suit filed accounts as also overdues are increasing at a fast rate, wastage of scarce managerial and other resources, duplication of infrastructural and resources, duplication of infrastructural facilities, cost effectiveness is conspicuous by its absence, wasteful expenditure on costant tours to distant branches, increase in expenses of head offices/regional offices and increase in frauds and fraudulent practices. Rajendran (1993), reported that the methodology adopted for NABARD refinance based on individual bank branch recovery percentage shall be adopted for individual villages also by the financing bank based on the recovery percentage of the villages under the new concept, are eligibility criteria for agriculture lending in village (ECALIV). Batra (1993), reported that the finance minister in his meeting with the chief executives of banks in May, 1992, mooted the idea of on "OMBUDSMAN" for effective and efficient grievance redressal mechanism for the segments.

Radha Krishan (1993) reported that the State Bank of India is planning to introduce a Banking 'Ombudsman' called State Bank Lokpal (SBLP). Pandey (1993) reported that in view of Narsinghan Committee, if the commercial banks are to be profitable and so better results in terms of their performance certain important steps have to be taken immediately. The commercial banks should be allowed to reduce their commitment to priority sector lending at concessional rate of interest as it adversely affects the profits and profitability of commercial banks. Anand (1993) observed on the basis of comparison of total income, net profit and profitability, etc., priority sector advances that income and net profit of commercial banks have been continuously increasing despite the growth in private sector lending.

Perusal of the above studies and reviews reveal that there is near absence for microlevel investigation into the problems related to agricultural financing in the recent past. Service Area Approach being a new concept in rural financing has not been examined as yet. These studies have been relied upon for formulation of the objectives of the present study and selection of appropriate tools for analysis in the study.