Chapter- I

Introduction

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CHAPTER-1
INTRODUCTION
1.1 Introduction:-

India lives in villages. Hence the economic development of the country depends on the pace of development of rural areas as Mahatma Gandhi said, "India lives in villages and agriculture is the soul of Indian economy". More than 67 percent of the population in India lives in rural areas. Therefore the development of rural areas is an essential condition for the development of national economy. Rural people, most of them are small and marginal farmers are suffering from various problems like deep-rooted poverty and unemployment, shortage of capital, etc. they lack the knowledge of the application of modern production techniques. Consequently productivity is low when compared with developed countries. Though agriculture is the mainstay, industrial development in villages can not be ignored in view of all-round development and for improving the quality of life. As the rural economy is running short of capital, it must be assisted with adequate capital, appropriate technology and required training in modern techniques of production. Hence provision of adequate financial assistance to agriculture, rural industries and rural artisans is necessary. The welfare and prosperity of the nation rest on the development of agriculture and allied activities. The farmers need finance for purchasing farm inputs like seed, fertilizers, pesticides, farm implements and meeting other
expenditure on agriculture operations. Rural industries and artisans also need credit for the purpose of buying raw-material, assets and meeting various other expenses in relation to the business. For a long time, the major source of credit in rural areas was private money-lenders? The agriculturists used to borrow the money from the village money-lenders who charge a very high rate of interest on loans. Further this source of credit was inadequate, highly expensive. Thus the poor and illiterate farmers found difficult to escape from clutches of the private money-lenders. With this the conditions of the poor rural people are born in debts, they live in debts and die in debts. Because of illiteracy and innocence of rural farmers and manipulative actions of rural money-lender, the rural indebtedness has become an alarming problem in the rural areas 1. Government took a series of measures to relieve the poor borrowers from the burden of chronic debt and also made some provision to provide loans for their agricultural operations and rural artisans.

1.2 Indian Agricultural

Indian agriculture is one of the most important sectors in the economy of the country. The total geographical area of India is 328.7 million hectares of which 140.3 million hectares is net sown area, while 193.7 million hectares is the gross cropped area, according to the annual report 2008-2009 of the ministry of agriculture.
India has become the world’s largest producer across a range of commodities due to its favourable agró-climatic conditions and rich natural resource base. India is the largest producer of coconuts, mangoes, bananas, milk and dairy products, pulses, ginger, turmeric and black pepper. It is also the second largest producer of rice, wheat, sugar, cotton, fruits and vegetables. As per the centre for monitoring Indian economy (CMIE) farm output will grow by 10 percent to 114 million tones (MT) in the 2009 kharif season, while Rabi season is expected to report a two percent increase at 116.6 MT.

Oilseeds production is expected to rise by 11.11 percent during the season to 18.1 percent, sugarcane to notch up by 15.6 percent to 321 MT and cotton to grow by 12.4 percent to 26.9 million bales compared to 23.9 million bales in the last season. The agency pegs the overall food grain output growth up by 5.3 percent to 229.7 MT. Major agricultural crops, including foodgrain, oilseeds, cotton, sugarcane and fruits and vegetables, are projected to grow by 7.2 percent in 2009-2010, while production of non-food crops as a whole is projected to grow by 9.7 percent in the year ².

According to the government’s agri-trade promotion body, Agricultural and Processed food products Export Development Authority (APEDA), India’s exports of agricultural and floricultural products, fruits and vegetables, animal products, cereals and
processed food products was worth US $ 1.14 billion during April-May 2009-2010. India's agri-export turnover is expected to rise to nearly US $ 18 billion by 2014 according to APEDA, at present, around 70 percent of the country's agricultural and processed food exports is developing countries in the Middle East, Asia, Africa and South America. Indian seed companies are eyeing the export markets in SAARC (South Asian Association for Regional Cooperation) and African Countries with a host of hybrid seeds and best farm practices.

The public and private sector investment in agriculture have been steadily increasing since 2004-2005 while public sector investments in Agriculture have increased from US $ 3.61 billion in 2004-2005 to US $ 5.5 billion in 2008-2009, private sector investment has increased from US $ 14 billion in 2004-2005 to US $ 25.5 billion in 2008-2009, according to the Annual Report 2009-2010 of the ministry of agriculture³.

1.3 Rural Development:-

Development of the rural areas is one of the fundamental objectives of the five year plans. The strategy of rural development aims to improve the economic and social life of a specific group of people, consisting of small farmers, tenants and the landless, village artisans, craftsmen and cottage industrial units. The case for the
development of rural economy is urgent and pressing because it is the basis of social stability and economic growth with distributive justice, the concept of rural development is wider than that of agricultural development.

Credit is the most important and probably the most scarce input in India agriculture. Rural people are always unable to exhibit their latent potential and face difficulties in obtaining loans. It is generally believed that rural credit must be cheap so that even the poorest farmers and rural artisans may afford it.

Banking industry is one of the industries which plays very important role in development of any country. The banks in India have played significant role during last two decades. The progress made by the banking industry is remarkable as compared to any other industry in the areas of branch expansions deposit mobilization, credit to priority sector. Implementation of various national program’s and rural development and upliftment of economy, perhaps it may be the only industry in the world to make such fast progress.

Banking in India is now becoming an important and essential infrastructure in development of rural India and it is playing a vital role in improvement of country’s economy. The rural community has also realized the need of banking facility and they are
demanding bank offices at their village on in the vicinity of their
village. There may be certain adverse points like deterioration of
customer service, frauds, robberies etc. but by and large this industry
is proving its importance in masses of all classes.

1.4 Need and Importance of Agricultural Finance:-

Agricultural constitutes the base of India’s developing
economy in terms of its contribution in national income, employment
and as a source of raw-materials for most of the industries. The
development of agriculture in our country and most as this sector
provides social stability and economic growth with social justice.

Agricultural in India has mostly remained a way of life and has
suffered due to low productivity emanating from low investment
financial savings in agricultural are seasonal, short and small which
result in for temporary periods deficits even within a single season.

Hence, working capital farm credit is required by the cultivators to
meet expenses on labour and intermediate inputs on a continuous
basis.

The emergency of green revolution in India, in the late
sixties has drastically changed the Indian agriculture and it has grown
a tendency among the farmers to replace traditional farming practices
with scientific and modern practices. Modern agriculture requires
large doses of credit to finance use of short term cash inputs such as
for improved seeds, fertilizers, insecticides etc. medium and long
term investments for land improvement, irrigation, farm
mechanization etc. for increasing agricultural production. The credit
needs of farmers are both for production and consumption purposes
majority of the farmers still afforded such lumpy investment from
their low savings. The farmer’s income occurs during a limited period
of year, while various expenses are distributed throughout the year.
Hence, provision of agricultural credit assumes greater importance 6.

The financial needs of an Indian agriculturist are
classified in the two broad categories like.

1)  Time based needs

2)  Purpose based needs.

Time based needs classification is made on the basis of
period for which finance is needed further this is classified into the
three subcategories namely.

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

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

(c) **Long term needs:**- These needs are spread over a time span for more than three years. It covers long term investment needs like digging of wells and of bore wells, minor irrigation’s, farm mechanization’s etc. purpose based on needs also be classified into the three subcategories.

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

ii) **Consumption Purpose:**- Many times, farmers needs money for their own maintenance and consumption to fetch bare necessities like food, clothing and shelter.

iii) **Unproductive Purpose:**- Traditional Indian agriculturist is extravagant in spending on marriages religious ceremonies, travels etc.

These are various needs of an Indian agriculturist. These needs are fulfilled either from friends and relatives or local moneylenders. ‘Sahukars’, ‘Shraffs’ and banks. The repayment depends upon the number of factors like the period for which the loan
is taken the purpose as well as rate of interest and terms of finance inability to repay creates rural indebtedness. It is said that an average India farmers are born in debt, lives in debts and dies in debts. Considering the seriousness of the problem, the Reserve Bank of India appointed the all India Rural Credit Survey Committee (AIRCSC)\(^7\).

Its report was submitted in 1954, further rural debt and Investment Survey was also conduct the (AIRCSC) report rightly observed that the problem of rural indebtedness in India is like a plant whose roots are never allowed to enter into the soil. Thus the issue of rural credit in India is of at most importance and the various issues connected with the same are yet to be resolved.

1.4.1 Importance of Agriculture in the Indian Economy:-

Agriculture is one of the strongholds of the Indian economy. The Indian economy is basically agrarian. In spite of economic development and industrialization, agriculture is the backbone of the Indian economy. Agriculture in 14.6 percent of the country's gross domestic product in 2008-2009 and 10.23 percent (provisional) of the total exports agriculture provides direct employment to 55 percent of working people in the country. It is the main stay of India's economy. Agriculture meets food requirements of the people and produces several raw materials for industries.
From agricultural point of view, capital investment in agriculture has increased from US $ 1.2 billion in 2007-2008 to US $ 3.26 billion in 2009-2010 (inclusive of state plan scheme Rashtriya Krishi Vikas Yojana), as per a ministry of agriculture. It has vast expanse of level land, rich soils, wild climatic variations suited for various types of crops, ample sunshine and a long growing season. The net sown area in India today is about 143 million hectares. India has the highest percentage of land under cultivation in the world. In spite of the fact that large areas in India, after independence have been brought under irrigation, only one third of the cropped area is actually irrigated.

Apart from those who are directly involved in the agrarian sector, a large number of the population is also engaged in agro based activities. Agricultural meets the foods requirements of large population of India. It ensures food security for the country substantial increase in the production of food grain like – rice, wheat etc. and non-food grains like tea, coffee, species, fruits and vegetables, sugar, cotton etc. has made India self sufficient. Agriculture also contributes to the national income of our country. It accounts for 26 percent of the gross domestic product. The growth of most of the industries depends on agriculture. It produces several materials for industries. It forms the basis of many industries of India.
like – cotton, textile, Jute, sugar industries etc. by providing cotton, sugarcane, oilseeds etc. people engaged in agriculture also buy the products of industries like tractors, pesticides, fertilizers, pump set etc.

Agriculture contributes in foreign exchange of our country. India exports agricultural products like tea, coffee, sugar, tobacco, spices etc and earns foreign currency. Exports from the agricultural sector have helped India in earning valuable foreign exchange and thereby boosting economic development from above mentioned facts it is very clear that in spite of industrial development still agriculture is the backbone of the Indian economy.

The country on an average has enough in stock to meet the food requirements of its citizens. India has emerged as the largest producer of coconut, ginger, cashewnut, black-peeper and as the second largest producers of fruits and vegetables. Indian agriculture has diversified into various sectors and contributes significantly to the nation’s economy. But this situation is not likely to remain so easy in the years to come. The population of India is likely to be around 1300 million⁹. This would require a huge amount of food grains along with non-food grains. India has to use its vast potential of agriculture in a systematic and planned manner. We have to develop some of the
techniques which the developed countries have been using and plays a significant role in the overall socio-economic development of India.

1.5 Sources of Agricultural Finance:

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

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

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

B) The Organized Sector.

A) The Unorganized Sector:- This sector includes a number of persons and agencies, such as friends and relatives, landlords, local traders, commission agents, moneylenders, sahukars and shraffs of these the local moneylender, sahukars and shraffs, play a significant role. They can be called semi-organized sector. They are the indigenous bankers and financier working in Rural in India, from the time immemorial this category has several the Indian agriculturists to a great extent. The main advantage of this sector is it provides an easy and readymade system without any formalities. The disadvantages of this system are an exorbitant rate of interest and unfurl practices.

B) The Organized Sector:- The organized sector includes the primary co-operative societies (PACS), co-operative bank (DCCB), Regional Rural Bank (RRBs), Nationalized Commercial Bank (NCB) and Scheduled Bank (SB) 11.

It includes banking institutions like land development bank, National Bank for Agricultural and Rural Development (NABARD) etc.
1.6 Objectives:

1) To measure socio-economic impact of the Maharashtra Gramin Bank on borrower’s farmer.

2) To evaluate the performance of Maharashtra Gramin Bank.

3) To study the impact of loan supplied by Maharashtra Gramin Bank.

1.7 Hypothesis:

1) Maharashtra Gramin Bank has playing significant role in agriculture finance in the Aurangabad district.

2) The Maharashtra Gramin Bank has brought a positive change in the socio-economic conditions of farmers in Aurangabad district.
1.8 Research Methodology:

The present study depends on both the primary and secondary data. Primary data will be collected through questionnaires and observation while secondary data to be collected through books, journal, and annual report of the bank, Government report, Newspaper and internet present etc. The study is conducted in Aurangabad district in Maharashtra State. At present this district has nine talukas viz, Aurangabad, Khultabad, Vaijapur, Ganagpur, Kannad, Paithan, Phulambri, Sillod, Soegaon.

1) Selection of Aurangabad district:-

Aurangabad district is fast developing city in Asia continent. As Aurangabad is the capital of Marathwada region. This district is known as historical city. Industrial sector and agricultural sector are two pillars of Indian economy. These two sectors are developed in Aurangabad district because of infrastructure facilities like agricultural industries, roads, market, airport facilities available in Aurangabad district.

Considering agricultural sector the percentage of irrigation and cultivation are 146, 852 thousand hectar. The percentage is higher than other district so the productivity of agricultural has increased and nine block/talukas places has available for fulfilling the needs of agricultural by providing banking facilities
so the entire Aurangabad district consisting of nine block was selected for study.

2) Selection of Branches:-

Maharashtra gramin bank has 29 branches located at different places in Aurangabad district. Majority of branches are located in rural areas. Tulaka wise position of branches of Maharashtra gramin bank is


II) Khultabad talukas: i) Galleborgaoan.


V) Kannad talukas: i) Nachanvel.

VI) Paithan talukas: i) Balanagar


IX) Soegaon talukas: i) Jarandi ii) Sawalaatbara
Branch locations
There are 29 branches in Aurangabad district par block/talukas each branch has randomly selected. These branches have been selected in such a way that both rural areas are represented. The following branches are selected.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Block</th>
<th>Branch Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Aurangabad</td>
<td>Chittepimalgaon</td>
</tr>
<tr>
<td>2</td>
<td>Khultabad</td>
<td>Galleborgan</td>
</tr>
<tr>
<td>3</td>
<td>Vaijapur</td>
<td>Vaijapur</td>
</tr>
<tr>
<td>4</td>
<td>Gangapur</td>
<td>Waluj</td>
</tr>
<tr>
<td>5</td>
<td>Kannad</td>
<td>Nachanvel</td>
</tr>
<tr>
<td>6</td>
<td>Paithan</td>
<td>Balanagar</td>
</tr>
<tr>
<td>7</td>
<td>Phulambri</td>
<td>Phulambri</td>
</tr>
<tr>
<td>8</td>
<td>Sillod</td>
<td>Sillod</td>
</tr>
<tr>
<td>9</td>
<td>Soegaon</td>
<td>Jarandi</td>
</tr>
</tbody>
</table>

There are 9 Nine branches have been selected and total covered Aurangabad district.

3) Selection of Villages:-

Aurangabad district has nine talukas. There are 1376 villages in Aurangabad district. In the present study out of this total village there are 4 percent means 55 villages selected as random
sample. These villages are selected on the basis of loan facilities given by Gramin banks and infrastructural facilities from nine blocks of Aurangabad district list of the selected villages is given below.

1) **Block:- Aurangabad, Branch:- Chittepimalgaon**

Selected Villages: 8


2) **Block:- Khultabad, Branch:- Gallebargaon**

Selected Villages: 03

i) Gallebargaon ii) Hatnoor iii) Happargaon

3) **Block:- Vaijapur, Branch:- Vaijapur.**

Selected Villages: 07


4) **Block:- Gangapur, Branch:- Waluj**

Selected Village: 09


5) **Block:- Kannad, Branch:- Nachanvel**

Selected Villages: 08

i) Nachanvel ii) Adgad iii) Takli iv) Mohra v) Dongargaon vi) Sarola
vii) Ambandabad viii) Nagarpur

6) Block:- Paithan, Branch:- Balanagar
Selected Villages:- 08
i) Balanagar ii) Dongargaon iii) Daregaon iv) Georai Bashi
v) Porgaon vi) Khadgaon vii) Tanda (Bazar) viii) Warodi

7) Block:- Phulambri, Branch:- Phulambri
Selected Villages:- 04
i) Phulambri ii) Pall iii) Kanohri iv) Malode (Wadi)

8) Block:- Sillod, Branch:- Sillod
Selected Villages:- 05

9) Block:- Soegaon, Branch:- Jarandi
Selected Villages:- 03
i) Jarandi ii) Malegaon iii) Rampura

4) Selection of Sample:-

A sample of 200 borrowers are selected randomly from 55 villages of nine block in Aurangabad district which availed banking facilities by RRBs banks from each selected village the sample borrower farmers were stratified into three size groups based on operational holding viz. small farmer (1.1 to 2.0 hector), medium farmers (2.1 to 4.0 hector) and large farmer (above 4 hector) the total
sample borrower 200 comparing 50 small, 80 medium and 70 larger farmers.

5) Data collection:-

The necessary information is collected both from the primary and secondary data. The data relating to the physical and financial indicators of the bank were abstracted from the balance sheet, annual report, record and audit reports of the Maharashtra gramin bank for a period of ten years from 1999-2000 to 2008-2009.

i) Primary data:-

Primary data is collected by way of designed questionnaire and sources of agricultural finance, purpose of borrowing utilisation and impact of agricultural loan in Aurangabad district etc. is collected through survey method for this purpose questionnaire were prepared. Besides this personal interviews were also conducted with the borrower's

ii) Secondary data:-

Secondary data related to bank branches, crop loan, term loan, total agricultural loan, loan to non-farm sector and other priority sectors, branches wise recovery etc. of during the study period 1999-2000 to 2008-2009 were collected from the various annual report for Maharashtra gramin bank of Aurangabad district. The data regarding agricultural finance were also collected from various banks branches
and NABARD office of Aurangabad district, data about economy of Aurangabad district is collected from socio-economic review, committee and report published by government office, district statistical abstract etc.

6) Analysis and Tools Use:–

After collection of the data the tabular analysis is used for presentation of data. The statistical tools like percentage, simple annual growth rate, average, co-regression, ratios used for the purpose of analysis of primary and secondary data.

1.9 Scope and Limitations:

The whole study is mainly confined to Aurangabad district in Maharashtra; the results of the study will be applicable particularly to the Maharashtra gramin bank in the district in Marathwada region. It is possible to make broader generalization as the study will be using aggregative and segregate study on the basic of the available data. The aggregative approach provides a macro view of the working of the Maharashtra Gramin Bank in general. The segregate approach refers to the micro study of Maharashtra gramin bank in the study area.

Limitation

1) The present research work is limited to the performance of the Maharashtra gramin bank in Maharashtra.
The present study is based on primary as well as secondary data. It is an attempt towards understanding the socio-economic condition of the farmers and elicits certain information through a questionnaire from the farmers, as well as by discussion with bank managers & employees and government officials.

The study is limited to agriculture finance provided by Maharashtra gramin bank in Aurangabad district.

The study is limited to selected block, branches, villages and farmer.

The study is limited to the period of 1999-2000 to 2008-2009 i.e. ten year.

1.10 Basic Terms and Concepts:

An attempt has been made here to define and explain certain basic terms and concepts, which are used at various stages of the study.

1) Short, Medium and Long Terms Loans:-

i) Short-Terms Loans:

Short term loans is extended for a period of 6 to 12 months some time the period of short term credit may be considered up to 15 months for such purpose as purchase of fertilizers, seeds etc.
ii) Medium-Term Loans:-

Medium term loans are granted for a period from 3 to 5 years for purpose of buying cattle or agricultural implements, making some improvement in the land.

iii) Long-term Loans:-

The loans granted for more than 5 five year to 10 years period, there are loans required for a longer period for buying additional land, for making permanent improvement on land.  

2) Borrowing: The world ‘borrow’ means to receive something with the understanding that it or its equivalent will be returned as agreed upon. In terms of money, borrowing involves obtaining a certain amount of funds to be repaid as mentioned in the note.

3) 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 his 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.  

4) Advances: It is the amount of loan advanced by an institution during a particular period, usually an agricultural year or a season.
5) **Repayment**: It is the amount of loan, which is scheduled to be recovered at some specified time period. The loans are repayable in annual or half-yearly installments spread over a period fixed in advance. The annuity consists of interests and principal.

6) **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.

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

8) **Outstanding**: The amounts (principal plus interest), which remains to be recovered on a particular data are called outstandings

\[
\text{Amount outstanding} = \text{Amount borrowed} - \text{Amount repaid}
\]

9) **Overdues**: The amount, which was due on a particular date, but has not been repaid by that date, is called overdues. A part of the outstandings becomes overdues, if not recovered with in specified time period.

\[
\text{Overdues} = \text{Amount due for repayment} - \text{Amount actually repaid}
\]
1.11 Chapter Scheme:-

The present study consists of seven chapters. The **first chapter** Introduction, Indian Agricultural, Rural Development, Need and Importance of Agricultural Finance, Sources of Agricultural Finance, Objective, Hypothesis, Research Methodology, Scope and Limitation, Basic Terms and Concepts, Chapter Scheme and List by Reference.

The **second chapter** presents the review of current and relevant literature on the subject the literature on Regional Rural bank’s (RRB) and commercial banks in India is reviewed in this chapter.

The **third chapter** deals with the profile of Aurangabad district. It covers historical and geographical situation of the region. There is also detailed study of basic features.

The **fourth chapter** deals with the origin and growth performance of Maharashtra gramin bank in Aurangabad district, the detail study in this chapter origin of banking, banking system a step towards, establishment of rural bank, Banking Commission, twenty point Economic programme, working group on rural banks, various committees, establishment of Regional Rural Bank in India, Maharashtra and Aurangabad district and performance of Maharashtra gramin bank.

The sixth chapter deals with distribution of agricultural finance to same borrower farmers and detail study in chapter to socio-economic condition of sample borrower living in the area under study. The distribution of agricultural finance provided by Regional Rural banks (RRBs) in district, purpose wise and talukas distribution of finance and various different size of farmers. It also gives the impact of agricultural finance on size of irrigation area, on use of inputs and on borrower’s income generation.

The seventh and final chapter suggestions and conclusion of the present study and suggests suitable policy measures based there on.
Reference


