CHAPTER I

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India is basically a large agricultural country where more than 80 per cent of the population depend on agriculture and nearly 40 per cent of our National Income is derived from this sector alone. The country has taken tremendous strides in recent years through vast technological changes in agriculture. But the ever increasing gap between the population and production is nowhere in sight of being abridged. The agricultural sector which is the base of subsistence of rural population still suffers from low productivity and unemployment.

Lack of adequate capital has been acknowledged as one of the serious inhibiting factors in modernisation of a traditional agriculture and as the key element behind the vicious cycle of poverty. From this, flows the greater stress on agricultural credit in our development programmes. Financial requirements in the field of agriculture in India have never been as high as they are to-day due to the vast technological changes brought about through Green Revolution and White Revolution. The Indian farmers, but for their physical labour, have comparatively a very low investment potential. Therefore, the resources available with the farmers have to be supplemented by credit facilities extended to them through various agencies. Thus, the most important factor at stake is CREDIT.
Being aware of this, our Government has been extending credit facilities through various financial institutions to encourage the correct implementation of National Plans in their right perspective. People keen to see the national economy work in the interest of rural masses shall inevitably consider the role and performance of these institutions in serving them - the main consideration being "that the credit does not become a dead weight on the farmers because of its ineffective use and defective nature of the institutions serving them. Instead, it should become dynamic and set in motion a process of development in agriculture both qualitative and quantitative resulting in improvement in output, net income, savings and investments".

The role of farm financing institutions underwent a radical change after the nationalisation of 14 major commercial banks in 1969 and again with the nationalisation of six more banks in 1980. A considerable progress was witnessed in the expansion of the bank branches and financing of agriculture as compared to pre-nationalisation period. A keen competition was marked amongst them to exceed one another in achieving still higher targets. Thus, their quantitative achievement showed remarkable progress, but the quality left a lot to be desired.

In 1969, the number of commercial banks serving the rural area i.e., nearly 80 per cent of the total population of the country, was around 22.4 per cent of the total bank
branches (1850 Nos. out of 8262 Nos.). There has been a remarkable improvement over a decade of banking in the post bank nationalisation era. The total number of bank branches stood at 32419 in June 1980, out of which 46.6 per cent (15101) were in the rural areas. But the imbalance in bank service to the most important sector of national production i.e. agriculture, still continues. Whereas approximately 54 per cent of the total bank branches serve just 20 per cent of the total population, eighty per cent of the total population of the country is being served by only 46.6 per cent of the total bank branches. Population wise the ratio was about 36,000 per bank in the rural area and 7500 persons per bank branch in the urban area, the average being 17,000 persons per bank in the whole country. The total credit to agriculture in 1979-80 stood at Rs. 2550 crores, which was 11.84 per cent of the Gross Bank Credit. The credit to industrial and commercial sector on the other hand, was 88.16 per cent of the Gross Bank Credit. As against this, the total requirement of credit for agriculture, as estimated by economists and different authorities was much higher. The Ministry of Food and Agriculture in 1973-74 estimated this amount to be Rs. 3900 crores. The All India Rural Credit Review Committee put this figure at Rs. 4000 crore in the same year. While the Draft Fifth Five Year Plan calculated this amount to be Rs. 4828 crores. A recent publication by Reserve Bank of India has raised this figure to Rs. 5500 crore.
Prior to the nationalisation of commercial banks, Co-operative Societies and Land Development Banks were the only institutions supplying credit to farmers. The former meeting the short term and medium term credit needs, while the latter catering to the long term requirements, with main emphasis on debt redemption loans. But, the Land Development Banks were directed by Reserve Bank of India to give up their old policy and advance 90 per cent loans for productive purposes. Both of these institutions are now required to serve more finance to large number of cultivators.

A new farm financing institution came into being in the year 1975 to become the villagers bank, named as Regional Rural Banks or Kshetriya Gramin Banks. By the end of 1979, the number of Regional Rural Banks stood at 56 with 1990 branches spread in the villages all over India.

The concept of entrusting special responsibility in co-ordinating and formulating credit plans for integrated rural development, in a district was introduced in the year 1969 in the form of 'Lead' bank scheme. Commercial banks were given 'lead' bank responsibilities in different districts.

Some special schemes to provide loans for agricultural operations and allied purposes were also introduced by the Government in the form of Small and Marginal Farmer's Development Agency (S.F.D.A.), Marginal Farmers and Agricultural Labour Agencies (M.F.A.L.) - the two have been since merged, Integrated Rural Development Project (I.R.D.) and Drought
Prone Area Projects (D.P.A.P.). These loans or subsidies are being channelled through commercial banks and co-operative banks. There is need to assess their roles to prove their policies and procedures in order to achieve better co-ordination and efficiency.

There has been a comparable enthusiasm on the part of the farmers to introduce modern farm technology with the help of institutional credit. But the bottlenecks were many. The credit worthiness of the farmers - security required for getting loans, specially on the small and marginal farms, had been the real hurdle. The mode of utilisation of available credit needed careful monitoring to prevent its misuse or wasteful utilisation. The extent of growth and development resulting from the availability of institutional credit also needed quantitative appraisal.

The present study gains an added significance due to the fact that the area of observation is located in district Etawah and block Ajitmal where Pilot Development Project was initiated for the first time in the country during 1948 by Albert Myer - the pioneer of agricultural extension service in India.

Hence, a detailed study of farm economy and credit institutions is called for to guide the farming community, policy makers and banking agencies for effectively implementing the policies and programmes of the government. The findings of the enquiry will also draw the attention to the operational
efficiency of the credit institutions and their ability to adjust to the changing needs of the farmers. More so, of the farmers in the utilisation of institutional credit and its effect on the development of agriculture. The conclusions drawn may also have validity for application in other parts of the country suffering from these maladies. In the light of the above and in conformity to the title of the project the objectives of the study were set as below:

I To study the role of institutional finance on the income, consumption and savings of the sampled farm households.

II To estimate the credit needs of the farmers and adequacy of supply of farm credit by farm financing institutions.

III To examine the changes that took place in intensity of cropping, level of investment, yields and income with borrowings from farm financing institutions.

IV To measure the level of benefits accrued to different class of farmers by credit received from farm financing institutions.