Chapter 1

INTRODUCTION

1. Agriculture and the national economy.
2. Nationalisation of Commercial Banks.
3. Importance of Finance in Agriculture.
4. Classification of Farms.
   4.1 marginal holdings
   4.2 small and semi-medium holdings
   4.3 medium sized holdings
   4.4 large holdings
5. Importance and Objectives of the Study.
6. Methodology.
7. Implications of Research.
Chapter I

INTRODUCTION

India is predominantly an agricultural country. Agriculture constitutes the most important sector of Indian economy. Nearly 70 per cent of India's population is dependent on agriculture and allied occupations. It contributes about 42 per cent of the gross national product (GNP) and contributes directly and indirectly about 60 per cent of the total exports.

It is a truism to say that the prosperity of the people of India is closely linked with the development of agricultural sector. Although India possesses great natural and other advantages in the field of agriculture, yet the production performance of this sector has not been steadily satisfactory. To increase production sufficiently so as to achieve a higher rate of per capita consumption, is the need of the time. The production of foodgrains which had risen to the level of 10.8 crore tonnes in 1970-71, declined to 10.5 crore tonnes in 1971-72 and to 9.7 crore tonnes in 1972-73. During the crop year 1973-74, foodgrain production marked a recovery over the previous years but declined again in 1974-75. During 1975-76 foodgrains production rose to a level of
12.1 crore tonnes. In 1977-78 it was 12.64 crore tonnes and rose to 13.19 crore tonnes in 1978-79. Due to widespread drought, production of foodgrains in India dropped sharply to 10.97 crore tonnes in 1979-80. Production of commercial crops particularly sugarcane and oil seeds also declined. Production of foodgrains during 1981-82 registered an increase of 2.7 per cent from 129.6 million tonnes in 1980-81 to 133.29 million tonnes in 1981-82 and to 129.52 million tonnes in 1982-83. According to the economic survey for 1985-86 the overall foodgrains production in 1983-84 was 152.37 million tonnes but the production declined to 146.22 million tonnes in 1984-85.¹

Among the many problems the country is facing population explosion is the most critical. The problem of population growth and demand for more and better food, can not be tackled effectively unless the production is substantially increased. Agricultural production in India has to maintain a balance between population growth, its food and protein requirements and the generation of employment. This calls for the need to achieve new heights in agricultural development.

Agricultural development is much more comprehensive concept than normally understood. Productivity is only one of its dimension. Agricultural development in a true sense, denotes the quality of the agricultural system of a region in terms of productivity, diversification and commercialization. The level and the rate of agricultural development may also be distinguished. The former represents a picture prevailing at a particular point in time while the latter stands for the progress achieved over a given period of time.

India has a total area of 329 million hectares of which nearly 145 million hectares constitute the net cropped area and the gross cropped area being 173 million hectares. The fundamental point of concern, however, is low agricultural productivity per acre. The reasons for the low yield are the uneconomic size of holdings, the fragmentation of land holdings, the defective land tenure system characterised by high rents, lack of adequate credit facilities to the farmers, absence of irrigation facilities and excessive pressure of population on land. The other reasons are low level of farm technology and wide variations in agricultural output due to vagaries of the mansoon.

A new strategy for agricultural development is being implemented from 1966-67. It includes the use of
High Yield Varieties (HYV) seeds over large areas, developments of irrigation facilities, adequate and balanced use of fertilizers, adoption of need based plant protection measures, and a well organised and systematic supply of inputs including credit through institutional and other financing agencies. Efforts are also being made to bring science and technology closer to the farmers through education and training.

An increase in productivity requires the adoption of improved technology in the form of high yielding varieties of crops, new fertilizers combinations, plant protection devices, use of modern and efficient implements as well as measures for land reforms and farm development.

It is said that 'finance' is the pivot through which economic science clusters. The strategy for agricultural development must include among other things adequate and systematic supply of credit to the farmers to enable them to meet their essential requirements. This study attempts to analyse the pattern of financing of small and medium sized farmers in U.P. by the nationalised banks so as to suggest suitable policies and strategies for agricultural developments in general.
AGRICULTURE AND THE NATIONAL ECONOMY:

The importance of Agriculture in the context of Indian economy can be judged from the fact that its problems and planning for better production have attracted considerable attention of Indian Economists, Scientists, Planners and Policy Makers.

Agriculture forms the back-bone of Indian economy. Despite rapid pace of industrialisation during the plan period, agriculture still occupies a pride of place. The importance of agriculture arises from the following basic facts:

First, it is the most important sector of Indian Economy contributing nearly a little less than half of the national income. Out of the total national income in 1948-49, output from agriculture was of the order of 49.1 per cent. In 1955-56 it contributed to 47.9 per cent and in 1960-61 to 52.5 per cent. Since 1971-72, the proportion of agricultural income to total income has ranged between 40.6 per cent in 1979-80 to 50.6 per cent in 1970-71.¹

Second, agriculture dominates the country's economy to such an extent that nearly 72.05 per cent of working population is dependent on agriculture, whereas in developed countries this ratio is very small. This indicates that the majority of the people in India are still dependent on agriculture as their main source of livelihood. The high proportion of people dependent on agriculture is due to the fact that alternative non-agricultural activities have not been developed to absorb the rapidly growing population in the country. This is an indication of the fact that a high proportion of working population engaged in agriculture is a phenomenon found in underdeveloped and developing countries.

Third, agriculture has been the source of raw materials to India's leading industries, cotton and jute textiles, sugar, tobacco, edible and non-edible oils, leather, plantation etc. These industries depend on agriculture directly for the supply of raw-materials. Besides many others, processing and preservation of fruits and vegetables, dal milling, rice husking, gur making, oil crushing and handloom weaving also draw on agriculture for their raw material.

Fourth, agriculture by employing about 72 per cent of the total population provides a large part of
the market for industrial goods. To the extent that modern agricultural practices are adopted, the demand for inputs like seeds, fertilizers, pesticides, agricultural implements, machinery, pumps and consumer goods goes up and sustains, a larger industrial tempo. It is worth noting that the development of Japanese and Russian industrial economics was made possible by the surplus of agriculture that could be siphoned off to the industrial sector. There is no reason why this could not be done in our case.

Fifth, agriculture is the main support for railway and roadways, which transport bulk of agricultural produce from farms to the mandies and factories. Internal trade consists of mostly of agricultural products. Besides, Government also depends, for its revenues to a large extent, upon the agricultural sector.¹

Sixth, agriculture contributes a large proportion of India's traditional exports. Agricultural goods contribute roughly about 50 per cent of our total exports. Exports earnings from agricultural products amounted to

Rs.305 crores in 1965-66 as against Rs.281 crores in 1961-62. In 1969-70, it amounted to Rs.350 crores and to Rs.910 crores in 1977-78 and Rs.1090 crores in 1978-79. The chief items of traditional exports being tea, coffee, cashewnuts, spices, tobacco (raw and manufactured), raw hides and skins, raw jute, raw cotton, sugar jute and cotton textiles, leather goods, oil cakes, vegetable oils, nuts and cereals etc. The exports of these items bring the much needed exchange for import of machinery, chemicals, transport equipments, heavy capital goods, fertilizers and technical know-how. 1

Agriculture also brings about an increase in the Government's revenues - both directly as well as indirectly.

Seventh, agriculture provides food for more than 700 million people and 383 million livestock. The two outstanding features of agricultural production in India are the wide variety of crops and the preponderance of food over non-food crops in as much as about 80 per cent of the area under cultivation is devoted to cereals, pulses and small millets.

The significance of agriculture can be judged from the fact that the development of agriculture is an

essential condition for the development of the national economy. Nurkse argues that "the surplus population in agriculture should be removed and used in the newly started industries. Nurkse's thesis is that agricultural productivity will be increased on the one hand and on the other new industrial units would be set up with the use of surplus labour". The argument put forward by Nurkse seems to be sound and rational and Nurkse thesis needs the attention and serious consideration by the economic planners and policy makers of the country.

Thus, it may be said that agriculture is the backbone of Indian economy and development of agriculture is a necessary condition for the growth of Indian economy. Economic historians generally concur that there is no example of achieving development in a country in which a rise in agricultural productivity did not precede or accompany industrial development. The Rostow stages theory of Growth has historically observed that, "agriculture plays a distinct but multiple and converging role in the transitional process of the take off in to self sustained growth". The operation of planned development in India over the last 35 years bears witness to this fact. The performance of the last three Five Year

Plans and three one year plans has clearly shown that the estimation of a high but sustained rate of increase in per capita output in India (from Rs.559 in 1960-61 to Rs.721 in 1978-79 at 1970-71 prices, and at Rs.677.8 in 1979-80) is difficult to achieve without a strong development base in her agriculture.¹

It can, therefore, be said that agriculture occupies a major place in the dualistic set up of the national economy. Its development operation has snowball effect over the whole of Indian economy. It constitutes the most important constraint on the process of growth because it conditions and determines the overwall rate of growth of the economy by supplying food for the population, by supplying some basic raw materials for expansion of certain consumer goods industries, by enlarging the demand for industrial output through increase in agricultural income and through extending the capacity to absorb the monetary flow of industrial investments, by employing a large pool of labour force, and by raising foreign exchange earnings through exports. Despite its all important role in the national economy, it is unfortunate that Indian agriculture continues to be backward, lacks efficient management and control.

Dr. Swaminathan observes, "Agriculture is the most important enterprise of harvest in solar energy and of creating renewable wealth. It provides vast scope for meeting our needs of food, income and jobs through the scientific utilisation of our natural resources. The absolute maximum production potential of India in terms of grain equivalent has been calculated to exceed 4,000 million tonnes". ¹

Thus, agriculture constitutes the largest and most important sector of the Indian economy. It plays a crucial role in providing food to the nation, employment to the population, raw material to the industries and surpluses for national economic development. With the decline in foodgrains production, prices rise, cost increases industrial growth slows down and exports suffer. Indian agriculture accounts for more than two fifths of the gross domestic product (GDP). It is also responsible for the growth of industry, trade, transport, banking and business services, which in turn, influence the growth of GDP. ²

NATIONALISATION OF COMMERCIAL BANKS:

Nationalised banks refer to public sector banks. In all there are twenty such banks. Fourteen banks were nationalised on July 19, 1969 and brought under the public sector. Another six scheduled commercial banks were nationalised on April 15, 1980.

The objective of bank nationalisation was to use financial institutions as the instrument for promoting economic and social development in the country. In other words, the main objective of nationalisation was to divert funds from urban to rural areas for promoting agricultural and allied sectors.

There are also regional rural banks in India which meet the credit requirements of weaker sections, small and marginal farmers, landless labourers, artisans and small entrepreneurs. This new category of banking institution came into force from 1975. At the end of December 1982, 124 such banks were working in the country. The number increased to 142 by June 1983.

A National Bank for Agriculture and Rural Development (NABARD) has also been set up. This Bank is an apex organisation with respect to all matters relating to policy, planning and operational aspects.
in the flow of credit for the promotion of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas.

**IMPORTANCE OF FINANCE IN AGRICULTURE:**

Finance is essential for all business undertaking including agriculture. One of the most important factors for the slow development of Indian agriculture has been the lack of finance available to the farmers. The farmers have not been able to secure adequate finance for their seasonal agricultural operations and for making permanent improvement on land.

Credit plays a very significant role in rejuvenating the near stagnant agriculture of the developing countries including India. Its right quantity, right kind at the right time contribute to agricultural development immensely. It consists in enlarging the net cultivable area by bringing waste land under cultivation, helps in providing manure and chemical fertilizers, protection of land, the provision of irrigation facilities, making large amounts of fixed and working capital available to agriculture, developing farm organisations, enlarging their share of gross national product and increasing
labour returns in agriculture. Adequate and timely finance enhances the withholding capacity of cultivators and their bargaining position. With the increase in the holding capacity of the cultivators, the huge post-harvest market glut may be avoided, a major factor in lowering the agricultural prices just after the harvest. Right type of credit penetrates into agriculture and injects an element of healthy competition and purely commercial considerations in farm operations. It turns agriculture into a way of living as distinct from a way of life. Thus, the role of credit consists in laying the foundation stone of farm revolution and farm development.¹

The Indian farmers need money for a variety of purposes. They need money for the purpose of cultivation, to buy seeds, manure, fertilizers, fodder for cattle, purchase of cattle and agricultural implements for the development of land, to buy costly agricultural instruments and to make permanent improvements on land. These financial requirements of farmers can be classified into three:

First, the farmers need money for short periods of, say, 12 to 15 months, for the purpose of cultivation or domestic expenses as for example, to buy seed, manure, fodder for cattle, etc. Such short period loans are normally repaid after the harvest has been collected.

Second, the agriculturists need money for medium term from three to five years for the purchase of cattle, agricultural implements and to make improvements on land.

Third, the farmers need finance for long periods to purchase additional land, to make permanent improvements on land, to pay off old debts and purchase costly agricultural machinery. These loans are for comparatively long periods since they can be repaid by the farmers only gradually over a number of years, say, from 15 to 20 years.

To meet the above financial requirements of farmers, banks in our country have been nationalised. The proper and timely financing of the requirements of farmers by the nationalised banks will go a long way in laying the foundation stone for agricultural resolution in the country.

CLASSIFICATION OF FARMS:

The agricultural census 1980-81 devided the operational holdings in India in five categories (table 1.1). These categories are as under:
Table 1.1
Category and Size of Operational Holdings

<table>
<thead>
<tr>
<th>Category of operational holdings</th>
<th>Size of Operational holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Marginal</td>
<td>(0-1.0 hectare)</td>
</tr>
<tr>
<td>2. Small</td>
<td>(1.0-2.0 hectares)</td>
</tr>
<tr>
<td>3. Semi-Medium</td>
<td>(2.0-4.0 hectares)</td>
</tr>
<tr>
<td>4. Medium</td>
<td>(4.0-10.0 hectares)</td>
</tr>
<tr>
<td>5. Large</td>
<td>(10.0- above)</td>
</tr>
</tbody>
</table>


Table 1.1 shows the size of distribution of holding classified into marginal (less than 1 hectare), small (1.0 to 2.0 hectares) semi-medium (2.0 to 4.0 hectares), medium (4.0 to 10.0 hectares), and large (10.0 hectares and above). The above classification of holdings into five categories has been chosen in the present study to determine the size of operational holdings. However the present study will mainly focus on the pattern of financing of small and medium sized farms in some selected districts of U.P. by nationalised banks.
a. **Marginal holdings:**

This category belongs to the one half of the total operational holdings in Indian Agriculture. 50.52 million out of 89.35 million belongs to this size category of less than 1 hectare. These marginal holdings account for 19.80 million hectares (12.2 per cent of the operational area). In other words, nearly 56.5 per cent of the agriculturists are marginal farmers who live below the poverty line because they have too little land to support them. The average size of holding is .39 hectares in this category.

b. **Small and Semi-Medium holdings:**

This group consists of holdings in the range of 1.0 to 4.0 hectares. There are 28.59 million holdings, more than one third of the total holdings and they account for 57.52 million hectares in this category. The percentage of farmers are 32 in this category and the average size of holding is 2.01 hectares in this category.

c. **Medium Sized holdings:**

This group consists of holdings in the range of 4.0 to 10.0 hectares. There are nearly 8.09 million holdings in this category accounting 9.1 per cent
of total operational holding and these holdings cover 48.34 million hectares, i.e. 29.7 per cent of the total operational area. The average size of holding is 5.98 hectares in this category.

d. Large holdings:

Large holdings in the size of group 10 hectares and above numbering 2.15 million constitute only 2.4 per cent of the total number of operational holdings. They account for a total area of 37.13 million hectares i.e., nearly 22.8 per cent of the total area operated in Indian Agriculture. The average size of holdings are 17.27 hectares in this category.

There are 89.35 million operational holdings in our country, spread over an aggregate area of 162.79 million hectares. The average size of holding is little less than 2 hectares. The small farmers, semi-medium and medium farmers are having 36.68 million operational holdings in our country out of 89.35 million operational holdings. In this way small, semi-medium and medium sized operational holdings cover 41.1 per cent operational holdings. Thus a large majority of farmers in our country come in the category of marginal and small sized holdings whereas a small minority of farmers in terms of size of holdings, belong to large category.
IMPORTANCE AND OBJECTIVES OF THE STUDY:

Farm is the part of agriculture and it is the main occupation of the people. Agriculture plays a significant role in Indian Economy because it contributes nearly 42 per cent of national income of India. Agriculture is the source of livelihood of nearly 70 per cent of the population of the country. The importance of this sector can be judged from the fact that nearly 70 per cent of the working people are engaged in agriculture and allied occupations. This indicates the fact that employment opportunities are greater in agriculture than in other sectors of the economy. Agriculture provides raw materials to the industries. In our country, most of our leading industries depend on agriculture for their raw material. For instance, industries like cotton, textiles, jute, sugar and vanaspati depend on agriculture for their raw materials. The plantation industries like tea, coffee, rubber etc. also depend directly on agriculture. There are a number of other industries whose dependance on agriculture is indirect. Such industries include hand poundering and husking of rice, crushing of oil, weaving of handloom and khadi cloth, etc. Many others like paper, leather and tanning, matches, chemicals etc. depend on allied activities of agriculture like forestry, animal husbandry etc. Although a number of
modern industries like iron and steel, machine tools, engineering, aircraft etc., do not depend on agriculture for their raw materials but these industries supply important agricultural inputs like fertilizers, farm machinery and equipment. Thus both agriculture and industry are inter-dependent.

Agriculture has been a net earner of valuable foreign exchange for the country. At present, about 50 per cent of our exports consist of agricultural commodities. In respect of our internal trade, agriculture makes a significant contribution because most of the internal trade is in agricultural commodities. Agriculture is also the main support for our transport system.

Agriculture also increases in Government's revenues. It provides the food for her 700 million people and 383 million livestock. Thus the significance of agriculture in our country arises also from the fact that the development of agriculture is an essential condition for the development of the national economy. During last two decades, there has been considerable change in almost all the parameters of agriculture in India characterised by marked regional variations. Small
farmers and landless agricultural labourers constitute the bulk of rural households - small farmers represent 52 per cent and agricultural labourers 24 per cent. 62 per cent of the holdings are less than 2 hectares and account for about 19 per cent of the cultivated area.

There has been vertical and horizontal expansion in the field of agriculture. Though from time to time the Government of India has introduced new programmes and policies for the development of Agriculture. But it is unfortunate that the farmers are still destined to suffer from the following problems that have become impediments in the agricultural development.

1) Fragmentation of holdings;
2) Insecurity of tenure;
3) Inadequate and untimely supply of inputs including irrigation;
4) Lack of credit facilities;
5) Unsatisfactory arrangements for storage and marketing etc.

It is in this background that the present study assumes special significance. The present study seeks to examine the plight of small and medium sized farmers who constitute the bulk of rural households. An attempt has been made to identify the needs and problems of small
farmers and to suggest measures to tackle these problems. The importance of the present study cannot be over-emphasised in a country like India where about 70 per cent of the workforce is engaged in agriculture. The government has accorded a high priority to Agriculture in our Five Year Plans and banks were nationalised mainly to finance the rural sector of the economy.

We cannot overlook the needs of rural development because it has its impact on the economic development of our country. If we want to achieve a notable progress on the rural front, our banking industry will have to come up on the for-front with new packages to farmers like high yielding varieties of crops, new fertilizer combination, plant protection devices, use of modern and efficient implements as well as measures for land reforms, credit and marketing facilities and reduce protection risks as well as price uncertainties. This is an uphill task for the banks firm measures should be taken to provide farmers with the advance technical know-how, marketing and financial assistance.

In this study an attempt is made to examine the pattern of credit provided by the nationalised banks to small and medium-sized farmers in Uttar Pradesh. No doubt
the banks have played a vital role in developing the agriculture in Uttar Pradesh in the past. Despite this, the medium and small sized farmers are still facing innumerable problems both financial as well as non-financial. The present study investigates the problems, of small and medium-sized farmers in some selected districts of Uttar Pradesh. An attempt has also been made in this study to suggest measures to overcome these problems so that the small and medium sized farmers could prosper in a conducive environment. Objectives of the study are as under:

i) To examine the pattern of financing of small and medium sized farms by Nationalised Banks with reference to some selected districts in U.P.;

ii) To identify the problems faced by small farmers in getting finance from nationalised banks; and

iii) To suggest remedial measures to tackle the problems faced by small and medium farmers who form the majority of operational holdings in our country.

Apart from the main objectives of the thesis discuss above there were certain secondary objectives of this study, which are given below:
i) to study the importance of agriculture in the national economy;

ii) to study the historical development of the banking industry in India, its structural set up, and to examine the performance of nationalised banks in financing agriculture including farm operations; and

iii) to examine the role of nationalised banks in financing agriculture in the context of high priority accorded to this sector by the government.

**METHODOLOGY:**

An evaluation of the important role played by the nationalised banks in financing farms has been done mainly with the help of the literature available in various books, journals, articles, periodicals etc. which have been duly acknowledged. The analysis of the pattern of financing of small and medium-sized farms by nationalised banks is based on secondary data made available from reports, publications, bulletins of R.B.I. and nationalised banks. For the purpose of conducting a survey to find out the problems of some selected small and medium sized farms in Uttar Pradesh. We have prepared two different Questionnaires to collect relevant information from the borrower and non-borrower farmers.
The questions which were included in the questionnaire were short, simple and they provided information on relevant parts of the main theme. (Questionnaire Form Vide Appendices 1 and 2).

Uttar Pradesh has been divided into three regions western, central and eastern. The six representative districts, namely, Saharanpur and Muzzaffarnagar from western region, Budaun and Aligarh from central region, Basti and Faizabad from eastern region have been selected for the purpose of this study.

The list of 300 borrower farmers was gathered from nationalised banks of sample districts by which they were financed. This sample unit has been further stratified into small, medium and large farmers in the ratio of 3:2:1 respectively. An equal number of non-borrower farmers has been selected randomly from the sample areas, thus, forming a total of 600 sample farmers. These farmers were asked questions through the two different questionnaires prepared separately for participants and non-participants. The farmers thus selected were contacted personally and they were interviewed to find out the problems faced by them in
getting finance from the branches of nationalised bank situated in their respective areas. Discussion also took place with the farmers on the steps that could be taken for improving the procedure for the availability of funds and timely release of disbursements to facilitate the farming operations. The questionnaires were not sent by mail in view of the fact that most of the respondents were illiterate and hence personal contacts were preferred to gather authentic data in time.

**IMPLICATIONS OF RESEARCH:**

The suggestions made on the basis of present study are hoped to be of immense help for the banks in restructuring their financing operations to improve their techniques and practices of providing and recovering the loans from the farmers. Not only the financial aspect is covered under the present study but also several non-financial factors like new technology, high yielding varieties, small irrigations, farm reforms have been briefly discussed and corrective measures have been suggested. Therefore, it is very likely that if these corrective measures are taken by these banks in right directions and at the right time, the small and medium sized farms in India will prosper at a comparatively faster rate.
The present study identifies the difficulties faced by small farmers who constitute the bulk of holdings in U.P. These constraints faced by small and medium-sized farms must be looked into by the economic planners and policy makers in this country. To meet these challenges effectively the present study suggests strategies and policies to be pursued by nationalised banks, which control nearly 90 per cent of the banking operations in the country.

Therefore, the findings of this study are important and useful for revamping the financial systems of nationalised banks as well as for improving the efficiency and productivity of small and medium sized farms in Uttar Pradesh.