CHAPTER I

INTRODUCTION
STATEMENT OF THE PROBLEM:

Agriculture is the livelihood for majority of the population in India. It contributes a major share to the national income. Agricultural sector supplies raw material to certain types of industries. It is the agricultural sector which can supply its surplus labour to other economic activities. Through agricultural development it is possible to earn foreign exchange. Further, agricultural sector also promotes capital formation.

Gunnar Myrdal rightly said that "it is the agricultural sector that the battle for long time economic development in South Asia will be won or lost. Any progress achieved on the front of agricultural production will facilitate the agriculturists to invest not only on agriculture but also helps them to have required consumer goods. This only means that agricultural development paves the way for industrial development.

According to Mishra, to break the vicious circle in which the agricultural sector has been caught up, the first step should consist of a large injunction

of capital in the agriculture. The malady of rural credit assumes importance in the context of extending finance for the development of agriculture. Provision of agricultural finance will help in stabilization of agricultural production. Baladeva Singh is of the opinion that the credit is a phenomenon of the development. Capital lubricates the wheels of development in the agricultural sector. Capital has thus become an important input in the agrarian development.

The Government has been seeking solutions to the problem of poverty by devising strategies to rise agricultural production, productivity and income to create more jobs for burgeoning population and improve the quality of rural life.

Farmers are interested in using high yielding varieties of seeds, pesticides, irrigation machinery, fertilizers, and other improved techniques of production in agriculture. The HYV will yield more only in irrigated lands. Hence the demand for digging wells/borewells went up. This further necessitated the purchasing

of Electrical Motors. Without substantial agricultural production, it is not possible to raise the income levels of the farming community in general and in helping the marginal and small farmers so as to reduce the gap between the rich and poor. Credit used for bringing out certain permanent improvements will help in getting continuous income and also bring about the development in the other sectors of the economy. The National Commission on Agriculture has rightly said that the agricultural sector has grown at a faster rate not only for its development but for the development of the economy. Availability of credit in adequate amount is necessary, because no agricultural transformation is possible without credit. Moreover, the Indian farmer requires credit not only for investment purpose but also for consumption purpose.

In view of the several problems involved in extending finance to the agricultural development it has long been recognised that credit provided by institutional agencies must be sufficient enough to meet the proposed activity if necessary, a part of it must be sanctioned exclusively for consumption purpose. This step will go a long way in utilising the credit only for the intended purpose. When one obtains credit, it only means that it has to be repaid by paying the interest. Hence the rate of interest as far as possible should be low so that
it helps the agriculturists to enjoy the fruits from the investment, otherwise the purpose of obtaining finance will be defeated. Further the repayment schedule should not disturb his economic position altogether. Moreover credit should be sanctioned on easy terms. Only when all these measures are adopted by the financing agencies, then external finance will bring about substantial changes in agricultural production and productivity levels.

Broadly there are two sources of credit available to the farmers, viz., non-institutional or private sources including moneylenders, traders and commission agents, relatives and land-lords and institutional sources which mainly consist of co-operatives, Regional Rural Banks and Commercial Banks.

The Indian farmers are prone to several problems through the finance provided by non-institutional sources. The non-institutional agencies with special reference to money-lenders will finance the farmers with a view to exploit them in all possible ways. Keeping in view the dire need of finance of the agriculturists, the leaders will collect high rate of interest and also they will deduct the interest in advance. For obtaining credit the lender insists on security in the form of tangible assets like land etc. In addition, the non-institutional
agencies adopt those measures which are detrimental to the farmers' interests. As a result, the farmers can hardly benefit from the finance obtained from the non-institutional agencies.

To put an end to the exploitative methods adopted by the private money-lenders, steps were taken by the Government framing rules and regulations from time to time. However, the desired changes have not been brought out in this regard. Hence, the need was felt to have institutionalised credit system to serve the interests of the agriculturists.

Among the important reforms taken up by the commercial banks include providing credit without insisting on mortgaging of land in case of small and marginal farmers. Emphasis was laid on providing credit to generate additional income and additional employment. Procedures in obtaining finance have been simplified to a greater extent. Group financing is also another innovation in the field of agricultural finance. Farmers service societies were also supported by the commercial banks. Inspite of all these measures, there are certain hurdles in channelising credit for agriculture through the commercial banks, and as such, their role is found insignificant in agricultural finance. Moreover, the commercial banks have to cover a wide area (each branch)
and as such commercial banks are inaccessible to many and they tend to floating inadequate credit in rural areas. They have generated fear that the existing institutions as they are presently structured were not able to fill the regional and functional gap in the rural credit institutional system with in a reasonable period of time. The Government of India also felt that it was necessary to establish a new institutions on the basis of attitudinal and operational ethos which are entirely different from those obtaining in the nationalised banks.

The Banking Commission headed by R.G. Saraya, in its report in the year 1972 mooted for the first time the idea for setting up of rural banks to meet the credit needs of the rural areas.

It is viewed that inspite of the existence of the credit co-operatives and the nationalisation of banks in the country, the economic conditions of the weaker sections have not been improved. The Twenty Point Economic Programme, led to the rethinking on rural banks among the policy makers in India. Accordingly the Government of India appointed a working group on rural banks under the Chairmanship of Sri M. Narasimham in 1975.

The working group identified the problems and the commercial banks were asked to fill the regional and functional gap in the rural credit.

The Government of India accepted the recommendations of the group. Accordingly the Regional Rural Banks Ordinance was promulgated by the President of India on September 26, 1975. It was subsequently replaced by Regional Rural Banks Act, 1976. The Act had made various provisions regarding the incorporation of regulations and working of RRBs. According to the Act, RRBs were to develop the rural economy by providing credit particularly to the small farmers, marginal farmers, agricultural labourers, artisans and small entrepreneurs for the purpose of development of agriculture, trade and commerce, industry and other production activities.

It was also thought that necessary changes on the front of credit co-operatives will also meet the financial requirements of the farmers prior to reorganisation of credit co-operatives there are two types of credit societies so as to intensify farm operations i.e., one for meeting the short duration credit requirements and the other for providing long term credit for the purpose of investing huge sums in agriculture otherwise known as investment credit with a view to bring about changes in
the front of agriculture production. These two types of credit organisation helped the farmers in providing the needed finance, but lacked the necessary integration. Hence, the need was felt to have integrations of short-term and long-term credit agencies. This view was expressed by several expert committees and commissions. In Andhra Pradesh too as stated above, primary co-operative agricultural development banks were abolished with effect from April 1987 to pave the way for integration of credit (upto the district level) in the name of Single Window System. This came into being from June 1987.

Regional Rural Banks and the newly emerged co-operatives (under Single Window) were required to play an important role in the development of the farm sector, credit provided by these institutional agencies must be sufficient to meet the requirements and also credit must be provided when the farmer wants to make investment and also the farmer should not feel any difficulty in getting the credit from the institutional agencies. In fact the credit co-operatives (Single Window) system and Regional Rural Banks have been set up to realise these objectives. It is therefore, necessary to examine the role of both banks, i.e., credit co-operatives and Regional Rural Banks in financing the agricultural activities in Anantapur district.
A BRIEF REVIEW OF LITERATURE:

From the available data and information one can find the progress of credit co-operatives, Regional Rural Banks in terms of number of branches, quantum of lending etc. However in our preliminary study it was found that the farmer-borrowers have certain problems in availing finance from the new set up of credit co-operatives (Single Window System) as well as from Regional Rural Banks. Hence it is appropriate to analyse the functioning of the Single Window System and Regional Rural Banks from the point of view of their beneficiaries.

Several studies have been conducted by several scholars about the financing of agriculture by the institutional agencies such as commercial banks, credit co-operatives, Regional Rural Banks etc. Previous studies have mostly covered financing by two types of banks. Moreover the earlier studies are mostly concentrated on the issues like cost of credit, problem of overdues, benefits accrued etc. However the present study is a unique one. In the present study one branch of the RRB and one Single Window Society are purposively selected in the study area to have a comparative study. However it is important to review some of the studies which covered the problem of financing agriculture. The Central Banking
Enquiry Committee\textsuperscript{5} found that the members have not realised the importance of credit co-operatives and as such few member-borrowers were purposefully delayed the repayment.

A systematic study was undertaken by the All India Rural Credit Survey Committee (1951)\textsuperscript{6} to examine the working of credit co-operatives and was found that the co-operatives have not succeeded in their venture and as such the committee rightly said that co-operation has failed but co-operation must succeed. The findings of the report brought out the fact that co-operation has a feature in Indian economy.

Singh, R. et.al.,\textsuperscript{7} found a positive relationship between the credit extended by the co-operatives and to that of the agricultural production and income levels of the borrowers. This clearly shows that credit is an instrument of economic change.

\textsuperscript{5} Government of India, Report of the Central Banking Enquiry Committee, 1931.

\textsuperscript{6} Reserve Bank of India, Report of the All India Rural Credit Survey Committee, New Delhi, 1954.

Choubey, has pointed out that the co-operative credit societies will help the member-borrowers in bringing out several changes in their agricultural production programme which result in increased agricultural production and income.

Singh maintained that as a result of co-operative finance the farmers could invest on improved agricultural practices. This enabled them in increasing the production and productivity levels. As a result the income levels of the borrower-farmers have gone up.

A systematic study of agricultural finance was also attempted by Prof. V.T. Naidu. This study is a macro level study dealing with the importance of credit cooperatives in farm financing. The study mainly covered how the efficiency of co-operatives can be improved.

The Banking Commission in 1969 in its report among other things recommended for coordinated development

of credit co-operatives and commercial banks. The Commission also stressed the need for integrated structure (credit co-operatives) to provide all the requirements of the farmers through one agency.

Ravindra Prasad's\textsuperscript{12} study mainly deals with the management aspect of the Central Bank.

Prof. N.V. Narayana,\textsuperscript{13} in his study examined the issues pertaining to the credit sanction and its utilisation by the borrowers. In his study, attempt was also made to trace the impact of credit on the cropping pattern, production, income etc.

A study on the role of Regional Rural Banks\textsuperscript{14} with special reference to Sree Anantha Grameena Bank was taken up to examine the important aspects like credit disbursement and savings mobilisation. The study revealed that the share of small farmers is low compared to the share of any other category in regard with the credit

\begin{itemize}
\item \textsuperscript{14}Gangi Reddy, Y. "The Role of Regional Rural Banks in Credit Distribution", \textit{Kurukshetra}, Vol. XXXVI, No. 8, May 1988, pp. 16-20.
\end{itemize}
deployment. However, the share of rural artisans in the total advances is less. The study further revealed that the credit provided to the weaker section is much lower than to the upper castes.

The performance of Regional Rural Banks was taken up by Vasam Anand Kumar\(^1\)\(^5\) (All India level). The study has brought out the fact that RRBs have opened branches in unbanked and underbanked areas. Further agriculture and allied activities allotted for nearly 2/3 of the total advances. The performance is better than the rural commercial banks.

Y.V. Rao,\(^1\)\(^6\) has made an attempt to examine the role and functions of co-operative banks. The author observed that 75 per cent of the members in the adopted villages have improved their annual income. Their dependency on money-lenders and big landlords was reduced to a large extent. A large number of labourers in the adopted villages have been provided with regular employment through the activities of the co-operative society. Many villagers learnt the need for savings for their future and are

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operating savings and other accounts in the bank. It can be said that this is a model co-operative society.

A critical study on the problems and prospects of Primary Agricultural Credit Societies by Chaudhary, reveals that the PACS are facing certain problems in their operation. One of the important problems that the PACS facing is overdues. Further the tenants share-croppers, landless labourers and rural artisans were covered to a negligible extent. Hence, there is a strong case for restructuring the organisation, management and financial viability to overcome the listed problems.

Hemachand Jain's research paper deals with the impact of RRBs. The paper brought out the fact that as a result of bank's credit, the agricultural production and employment levels have increased.

Dr. A.R. Patel, in his research article has identified the problems affecting the rural credit structure. The low level of deposits and high level of

overdues, predominance of agriculture finance, earning lower margins with little scope for non-agricultural loans were the contributory factors affecting the working of District Co-operative Central Banks and State Co-operative Banks. Inspite of the steps taken in the direction of re-organisation of co-operatives a large number of PACS continued to have low borrowing memberships, low volume of business and high level of overdues. Land Development Banks are also facing problems like overdues, restricted lending eligibility.

K.S. Ramola and K.S. Negi\textsuperscript{20} have examined the progress of Regional Rural Banks. A few suggestions were made to make the Regional Rural Banks role in rural development a success. However the study has not taken the view of the beneficiaries.

Ramappa\textsuperscript{21} in his study dealt with the main problems confronted by the Regional Rural Banks with specific reference to Anantapur district. The findings of his study altogether are not new, as the earlier studies conducted by others have exhibited more or less the same results.


The study conducted by J.S.Garg, G.W.Singh and R.N.Tripathi (1978) examined the issue of financing agriculture by Regional Rural Banks and found that the small and marginal farmers have benefitted much compared to agricultural labourers. The study further revealed that there is great demand for credit for different uses including for some allied activities.

Suresh Kumar made an attempt to examine the credit utilisation pattern and also the impact of it (credit). The study relates to Rayalaseema Grameena Bank of Cuddapah district of Andhra Pradesh. It is only a micro level study and as such conclusions can not be generalised.

All India Rural Credit Survey Committee thoroughly studied the extent to which the co-operatives are providing the finance. The report clearly brought out the fact that, of the total advances to agricultural sector, only 7 per cent is from institutional agencies.

24. Reserve Bank of India, All India Rural Credit Survey Committee, Bombay, 1954.
Since the role of co-operatives was also found insignificant the committee suggested a few measures for increasing its share for the benefit of the farmers. Further All India Rural Credit Review Committee\textsuperscript{25}, in the light of their study felt that there is a need for providing extension services guidance to those who have obtained finance from the institutional agencies.

It is also important to note that the Reserve Bank of India\textsuperscript{26} in its report on "Multi-Agency Approach in Agricultural Finance" stressed that the commercial banks have to financially help the credit co-operatives in their lending activities.

E.A.Narayana\textsuperscript{27} has made an attempt to examine usefulness of the credit agencies for the farmers of number village. The study revealed that the farmers and others use more often the Vysya Bank for their credit requirements than the co-operative society. The villagers expressed difficulty to visit co-operative society which is located in another village. For the purpose of quick disposal of credit the author has suggested a few measures.

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\textsuperscript{25} Reserve Bank of India, All India Rural Credit Review Committee, Bombay, 1969.
\end{flushleft}
Amal Ray,\textsuperscript{28} observes that adequate institutional support is required for the programmes taken up by the co-operatives and for the development of the institutions in the rural areas lending credit to the farmers through its credit programmes helping the small and the marginal farmers including labourers to meet their basic needs.

According to Patel, D.M.,\textsuperscript{29} the performance of PACS in the financing of the weaker sections is not the desired level.

Shah, V.M.,\textsuperscript{30} observed that only the co-operatives form of organisation is suitable for bringing about changes in the conditions of the tribal people.

Tripathi,\textsuperscript{31} opined that the success of co-operative societies depends on the recovery position.

Kamath, G.S.,\textsuperscript{32} suggested measures such as supervision changing procedure, reducing will full defaulters.

\begin{itemize}
  \item Tripathi, V.P., "Rural Co-operative Financing Agencies", \textit{Productivity}, Vol.25, No.4, 1985.
\end{itemize}
etc., for reducing the overdues of co-operatives. This will go a long way for strong and stable growth of co-operative.

Parikh,\textsuperscript{33} observed that the success of co-operatives depends upon the atmosphere created by the members. They should feel that the society is their's and they must put in their collective efforts to bring in success, which will ultimately mean better life for them.

Co-operative credit structures were well studied by Wall.\textsuperscript{34} He states that the State Co-operative Banks are at the apex of three-tire co-operative credit structure in each State with the PACS at the farmer level and Central Co-operative Bank at the district level. This structure provides short-term crop production finance (to be repaid within one year or a crop season) and medium-term investment finance (repayable in three to five years) for the production assets like irrigation, pumpsets, agricultural implements, bullocks, sheep, goats etc., long-term investment finance to farmers are repayable in 7-15 years and


\textsuperscript{34} Wall, M.M.K., "How Credit Co-operatives Fail to Reach Rural Poor", \textit{Co-operatives News Digest}, 31, 1980, pp.138-141.
are headed by a Central Land Development Bank, formerly called land mortgage banks at the State level, and primary land development at the district level lending credit directly to their farmer clientele.

NEED FOR THE STUDY:

All the above studies were conducted covering the general aspects of RRBs and PACS. So the present study is taken up at micro level. The studies taken by the different scholars mostly refers to the finance extended by a particular institutional agency. A few have examined the performance of different branches of the same bank or the extent of benefit accrued to different categories of borrowers. A good number of studies have also been conducted by the individual scholars to examine how the institutional agencies are beneficial to the farmer compared to that of the non-institutional agencies. All these are routine and traditional way of studying the problem of farm finance. Since there are many institutional agencies extending credit to the farm sector it is worth while to have a comparative study of two institutional agencies. This helps in identification of different institutional agencies in providing agricultural finance. There are no empirical studies in the study area dealing with two different types of institutional agencies in the farm.
financing. In our study we have made an attempt to examine whether the borrowers of two selected institutional agencies have utilised the loans for the purpose for which they were provided, quantum of diversification and the impact of the agricultural loans on the income and employment, productivity levels of farmer borrowers in a drought prone district like Anantapur. The specific objectives of the study are as follows:

OBJECTIVES OF THE STUDY:

1. To trace the origin and growth of credit co-operatives (Single Window System) and RRBs in Andhra Pradesh with specific reference to Anantapur district.

2. To examine the working of the credit co-operatives (under integrated Single Window System) and the RRB in the study area.

3. To examine the socio-economic conditions of the selected farmer-borrowers.

4. To examine the impact of farm credit extended by credit societies (Single Windows) and the RRBs, on crop yields, employment and income level of the sample borrowers.

5. To study the problems of the selected borrowers of co-operatives and RRBs in availing farm finance.
6. To suggest ways and means for improving the functioning of Single Window System and RRBs.

HYPOTHESES:

The following hypotheses have been formulated and tested in our study:

1. The credit gap is more in Single Window Society than the Regional Rural Bank.
2. Credit Co-operatives (under Single Window System) are helping its borrowers in getting higher incomes compared to the borrowers of the Regional Rural Bank.
3. There is no relationship between the credit obtained and additional income derived among different categories of borrowers of Single Window and Regional Rural Bank.
4. Credit deployed by the Regional Rural Bank and Single Window Society has not resulted in additional employment.

METHODOLOGY:

The present study is confined to Anantapur district of Andhra Pradesh with specific reference to Nallamada mandal. The study concentrates on the medium term agricultural loans provided by the credit co-operatives.
(Single Window) and by the Sree Anantha Grameena Bank. The farmers who have borrowed in between 1987 to 1990 have been chosen for a detailed study. This allows a considerable time gap for studying the impact of the loans on the farmer's economy. Since it is an uneasy task to cover the entire district in which the Grameena Bank and Co-operative Banks (Single Window) are operating their activities, the present study is restricted to Nallamada mandal in the district, where loans to agricultural activities, particularly loans for bullock cart, new well, sericulture, sheep, dairy were provided. In order to assess the impact on income and employment levels data have been collected for pre and post-loan period, within the selected mandal. One Single Window Society i.e., Vellamaddi is purposively selected and the Regional Rural Bank Branch (Sree Anantha Grameena Bank) of Nallamada constitutes as our study unit. Further from the jurisdiction of the sample credit society, 48 borrowers were randomly selected from the list of borrowers covering marginal farmers, small farmers, medium farmers and big farmers 12 each. In the same way 52 farmer-borrowers of Regional Rural Bank branch of Nallamada spread over in the Nallamada mandal were randomly selected from the list of borrowers giving equal representation to all land holding categories (13 borrowers from each category).
A total of 100 borrowers spread over in one mandal were selected for a detailed study. The distribution sample borrowers is presented in Table 1.1.

**TABLE 1.1**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Category of the Co-operative Regional Rural Single Window Banks (SAGB) Total</th>
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<tbody>
<tr>
<td>1</td>
<td>Marginal farmers 12 13 25</td>
</tr>
<tr>
<td>2</td>
<td>Small farmers 12 13 25</td>
</tr>
<tr>
<td>3</td>
<td>Medium farmers 12 13 25</td>
</tr>
<tr>
<td>4</td>
<td>Big farmers 12 13 25</td>
</tr>
<tr>
<td>Total</td>
<td>48 52 100</td>
</tr>
</tbody>
</table>

Table 1.1 shows category-wise distribution of sample borrowers. In all 100 borrowers, comprising 25 marginal farmers, 25 small farmers, 25 medium farmers and 25 big farmers constitutes our sample. The primary data collected from the sample respondents, refers to the agricultural year 1992-93, which was collected in the preceding year i.e., 1993-94.

**SURVEY:**

The necessary data for the study is collected from the primary and secondary sources. The primary data
is collected with the help of a schedule constructed specially for this purpose, from the sample borrowers of Nallamada mandal. 100 borrowers were interviewed our sample not only covers all land holding categories but also covers different caste categories.

The secondary data is collected from the head offices of the Sree Anantha Grameena Bank (Anantapur), and Co-operative Central Bank (Anantapur). The records of the selected bank branch of the Grameena Bank and the Single Window Society were also made use of. Further, Books, Journals, Magazines, published and unpublished records, were also made use of wherever necessary.

The collected data has been processed and analysed manually. Both primary and secondary data were tabulated item-wise to bringout the role of co-operative and Sree Anantha Grameena Bank in terms of sanction of agricultural loans, utilisation of credit and the impact of credit on incomes and employment of the borrowers.

STATISTICAL TOOLS :

To analyse the data simple techniques like percentages, ratios and averages were employed.
SCOPE AND LIMITATIONS OF THE STUDY:

Our study exclusively deals with the finance extended by credit co-operatives (Single Window) and the Regional Rural Bank for the specific agricultural development programmes. No attempt was made to study the non-borrowers with that of borrowers. The impact of the study has confined to only a few economic variables.

Owing to the limitation of resources, the study is confined to a specific area, specific target group and data refers to a period of 5 years and of which the borrowers who were provided agricultural loans during 1983 to 1990, were selected in order to get an objective picture. Sree Anantha Grameena Bank branch of Nallamada, Co-operative Single Window of Vellemaddi were purposively selected for the present study. Another limitation of our study is, a few borrowers have borrowed for a specific purpose and have invested for some other productive purpose which actually helped them. Hence, in our study we have not treated it as a diversification. Instead we studied its impact, assuming that they have obtained the loan for the same purpose. The study could not permit the advanced statistical tools. The primary data collected is throughly checked to get the accurate information as far as possible. The conclusion drawn from this study were confined to the specific purpose only and may not be generalised.
CHAPTER SCHEME:

Chapter - I : Introduction:

An attempt is made to review some of the important studies conducted by experts so as to have the first hand knowledge about the nature of the studies that were conducted in the past. Further, in this chapter the problem for the study has clearly been spelled out. Objectives, scope of the study, chosen methodology for the empirical study, sources of data used in the study and limitations of the study were also dealt in this chapter.

Chapter - II : Evaluation of Credit Co-operatives (Single Window System) and Regional Rural Banks (with specific reference to financing agriculture):

This chapter traces the background in which credit co-operatives have started financing agriculture and the purpose behind the introduction of Single Window System. Attempt was also made to examine in detail about the evaluation of Regional Rural Banks in financing agriculture.

Chapter-III : Profile of the Study Area

For any study, socio-economic conditions of the sample units are the basis. Hence in this chapter detailed socio-economic conditions of the study area were dealt.
Chapter-IV : Impact of the Credit Deployed by the Cooperatives and Regional Rural Banks on the Economy of the Sample Farmers - An Empirical Study:

This is one of the core chapters in which the extent to which the set objectives of Single Window System and Regional Rural Banks were realised from the point of view of the borrower-farmers. The impact of the finance was assessed, the problems and opinions of the borrowers in availing finance were examined in detail. Suggestions of the borrowers are also elicited for the effective functioning of the credit co-operatives (under Single Window System) and the Regional Rural Banks.

Chapter-V : Summary and Conclusions:

A brief summary of all chapters is presented and also major conclusions are listed out and at the end a few suggestions are made.