CHAPTER I
INTRODUCTION
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It was estimated in 1991 that 65 per cent of the working population in the country was engaged in the agricultural sector, whereas the contribution of the sector to the national income was about 40 per cent only.

Agriculture sector is playing an important role in the Indian economy. It produces and supplies a varied of food items for the fast growing population. Also it has to supply raw material for an expanding manufacturing sector and certain agricultural products for export purposes to earn foreign exchange needed for the payment of imports of capital goods. Besides this, the rural sector is in a position to supply the man-power required for the industrial sector out of its surplus labour. Also, during the Green Revolution, incomes of some of the rural people have gone up significantly. Such people are able to save some amount and contribute to capital formation needed for the overall development of the country. But it receives an insignificant proportion when it is compared to industry. "India is essentially rural India and rural India is virtually the cultivation".1

The Indian agriculture was in a crucial position in 1960s. The farm products were not increased to meet the fast-increasing population. It had been well recognised that due to population explosion and inelastic nature of land, higher productivity is the only answer to meet the future requirements of food and other farm products.

As a result of new innovations in the agricultural production, revolutionary changes took place time for the Green Revolution which has shown a way-out for the country's food problem and also made the farmer to think in terms of new crops and new technology to replace the traditional crops and primitive farming practices. The New farm technology includes the use of improved seeds, fertiliser, pesticides, insecticides, irrigation and intensive use of agricultural inputs. These inputs, though facilitate higher yields require heavy investment, which the majority of the farmers cannot afford because of their poor economic base. The farmers in underdeveloped countries cannot expect their capital needs to come from savings, because their income from farm operations is barely sufficient to provide the minimum necessities of life. In spite of many developments on

the front of agricultural production, it is not meeting the fast growing needs of our country. Hence, the farmers, have to depend to a large extent on external finance. Under these circumstances farm credit assumes greater importance in the Indian agricultural development. "The role of banks in the process of development is absolute, because of the fact that they provide one of the most essential inputs, namely credit". In the absence of external credit majority of the farmers may not make use of High Yielding Variety (HYV) and other new farm technology. In fact rapid economic development requires among other things, expansion of banking industry. Further to reduce the problem of widespread poverty the need for outside finance is a Sine-qua-non. Rural development in general and agricultural development in particular can be achieved only by way of financial support.

SOURCE OF AGRICULTURAL CREDIT:

Agriculture requires adequate and timely credit in oiling the wheels of agricultural production. Agriculture credit is obtained by the cultivators from different sources. These can be broadly categorised

into two sources, viz., non-institutional credit agencies and institutional credit agencies. The institutional sources include: Government, Co-operative Societies, Cooperative Banks, Commercial Banks, Regional Rural Banks (RRBs). The non-institutional agencies include landlords, money-lenders, traders, commission agents, relatives, friends and others. These institutions will provide money for different purposes of agricultural and allied activities. The credit provided by money-lenders, traders and other non-institutional agencies has not proved beneficial to the farmers. "Cumulative effect of exorbitant rates of interest paid by cultivator, low prices received from the sale of agricultural commodities, and the effect of various malpractices of money-lenders who are also dealers in agricultural produce is that debt once contracted keeps on cumulating". The lenders belonging to the non-institutional agencies advance the loan on the condition that they have to sell their agricultural produce to them or through them and also insist the borrowers to purchase the required inputs from them. Moreover, the farmer will not be paid sale proceeds immediately after the sale of produce nor interest will be paid for the period to which the money was kept. Moreover the accounts pertaining to

the debt may not be settled and as such the farmers will be continuously in the debt records of the lenders concerned. Non-institutional agencies may resort to exploitation due to certain inherent weakness in agricultural sector. In other words, the lender feels that financing agriculture involves risk. To compensate this the private lender exploits the borrowers. This only means that any increase in the income/employment level of the farmer-borrowers through non-institutional credit will not be of any help to the farmer. In other words, it can be said that credit provided by private agencies is mostly unproductive because of higher rate of interest and other prohibitive practices.

COMMERCIAL BANKS:

The role of Commercial Banks in agricultural and rural finance was very negligible till very recently. Commercial Banks branch network had a strong urban basis and did not have an adequate coverage of rural areas. Keeping this fact in view Government took a bold step of nationalising the 14 Banks in 1969 in order to reduce the regional imbalances in regard with the availability of institutional finance. Moreover, banking infrastructure will facilitate the balanced development. As a result of progress achieved through nationalisation, again in
1980, 6 major Commercial Banks were nationalised. It is only after nationalisation of Commercial Banks, have also started advancing agricultural finance. The State Bank of India took initiative in starting branches in the remote areas and extend loans for the development of small scale industries, other neglected activities and also help in promoting co-operative credit, marketing and processing societies. The advances of State Bank of India towards agricultural development are also increased enormously. In view of the problem of maintenance, to start with State Bank of India could not start its branches in each and every village. Instead it has started new type of branches at important centres known as State Bank of India Agricultural Development Banks. The bank (SBI-ADB) with the available resources and by the assistance from the NABARD (earlier known as Agricultural Refinance and Development Corporation) has been assisting the potential farmers. Involvement of Commercial Banks with specific reference to SBI (ADBs) in agricultural finance in a big way is said to be a boon to the agriculturists. Moreover ADBs are providing finance for pumpsets and other related activities which is a gateway for the prosperity of the farmers.

In Anantapur district there are three SBI (ADB) branches. Providing the needed finance to the
different categories. It is important to study the extent of involvement of SBI (ADBs) in agricultural finance and also the extent to which the borrowers have benefited. Hence, an attempt is made to examine the working of SBI (ADBs) in Anantapur district. The SBI (ADB) of Kadiri has been extending its services for more than a decade period. Hence this branch was purposively selected for indepth study.

MAJOR OBJECTIVES OF THE STUDY :

The following are the major objectives of the study:

1. To examine the role of Commercial Banks in agricultural finance with special reference to State Bank of India (Agricultural Development Branches).
2. To analyse the impact of the finance on the sample borrowers, cropping pattern, income and employment levels.
3. To examine the adequacy of credit provided for different schemes.
4. To examine the repayment performance of the sample borrower farmers.
5. To examine the opinions of the borrowers on the finance extended by the State Bank of India (Agricultural Development Branch), Kadiri.
6. To suggest ways and means for improving the operational efficiency of bank branches in financing the rural sector with special reference to State Bank of India (Agricultural Development Branch), Kadiri.

METHODOLOGY:

The investigator has chosen State Bank of India (ADB) branch, Kadiri for the purpose of empirical study. Further, Kadiri mandal in Anantapur district was chosen as the area of the study. This was done because of the limited time and references.

With a view to give representation to different categories of borrowers, 80 borrowers belonging to Kadiri Mandal and who have exclusively borrowed from State Bank of India (ADB), Kadiri Branch have been purposively selected for the present study.

The list of borrowers belonging to Kadiri mandal were obtained from the office of the State Bank of India (Agricultural Development Branch). The bank has provided finance for different purposes and we identified four categories of borrowers (according to the purpose of lending viz., pumpset & borewell, bullock & bullock cart, plantation and sericulture. Out of the total borrowers, 20 from each category making a total of 80 cases spread
over in Kadiri mandal were selected based on the random sampling technique for the present study. While selecting the sample care was taken to include borrowers who have not made such an investment previously. For example the farmers who have availed finance for pumpset must have installed and are using it. This will facilitate to assess the additional benefits accrued as a result of the finance exclusively provided by the SBI (ADB). Further, while selecting the sample sufficient time gap between the time of sanctioning the loan and for generating incremental income was allowed. For this purpose the farmers who have availed finance 5 years prior to the study period were selected. Representation is given to different categories of borrowers i.e., forward caste, backward caste, scheduled caste and scheduled tribes and also covered big farmers, medium farmers, small farmers and marginal farmers. Since all the important schemes and all categories of borrowers were selected for study represented the sample, it is a true representation of universe.

THE SCOPE AND LIMITATIONS OF THE STUDY:

The study is confined to only to the agricultural finance deployed to bullocks & bullock carts, pumpset bore well, sericulture, plantation by the State Bank of India (Agricultural Development Branch) Kadiri, Kadiri Mandal.
The period of study is limited to five years from 1986-87 to 1990-91. This may help in a detailed study of the State Bank of India (Agricultural Development Branch), Kadiri Branch. Further, it is also felt that a period of five years is sufficiently enough to understand the performance of State Bank of India (ADB), Kadiri branch, Kadiri Mandal. The data collected from the borrower farmers refers to 1991-92 agricultural year. As the borrowers do not maintain records pertaining to the credit availed, and other aspects of agriculture, the data collected from them may not reflect the exact situation.

CHAPTER SCHEME:

The study is divided into six chapters. The introductory chapter deals with the study design and the methodology, scope of the study, objectives adopted for the present study.

The second chapter discusses the role of Commercial Banks in agricultural finance. Nationalization of Commercial Banks and their working with special reference to State Bank of India is examined.

The third chapter deals with a brief socio-economic profile of Anantapur district with special
reference to Kadiri Mandal. The chapter deals among other things, geographical conditions, population, land utilisation, climate and type of crops cultivated.

The fourth chapter deals with the performance of State Bank of India (Agricultural Development Branches) in agricultural finance with special reference to Kadiri Branch.

The fifth chapter traces the extent of agricultural finance provided by the State Bank of India (Agricultural Development Branch) Branch in Kadiri Mandal. For this purpose, an empirical study was conducted covering 80 borrowers.

The sixth chapter contains summary of findings and conclusions. A few suggestions were made at the end for the effective functioning of State Bank of India Agricultural Development Branches (ADBs) in general and State Bank of India (ADB), Kadiri in particular.

REVIEW OF LITERATURE:

Several scholars have carried out studies pertaining to the financing of agriculture. However, it is important to note that a few have attempted studies on cooperative banks and a few have undertaken studies on the working of Regional Rural Banks. There are also
studies pertaining to the functioning of commercial banks. However the studies conducted so far are mainly region specific and moreover the problems of the bank borrowers vary from time to time. However, it is appropriate to examine the relevant studies taken up in the past, so as to have an understanding of the existing literature, which serves the basis for conducting an indepth study keeping in view the research gaps.

To make the credit system more useful, it is necessary to extend the credit not only for production purposes but also consumption and other uses. This is the theme of the Report of the Agricultural Finance Sub-Committee.\(^5\)

Agarwal\(^6\) brought out the problem associated with agricultural credit and suggested remedies to resolve them.

Sundar Rajan analysed\(^7\) the agricultural credit in India. He examined the various issues pertaining to

agricultural credit. The performance of different institutes in lending to the agricultural sector was thoroughly examined, pertaining to problem of sanction and recovery, were examined.

The All India Rural Credit Survey Committee\(^8\) found that the share of institutional agencies in the total agricultural advances was about 7 per cent. Further, the contribution of commercial banks is only one per cent. In order to institutionalise the agricultural finance, the committee recommended steps particularly for improving the share of credit from cooperative agencies.

Leela Bai\(^9\) attempted to highlight the problem of agricultural financing in developing economics with particular reference to India.

All India Rural Credit Review Committee\(^10\) made an attempt to review the performance of institutional agencies in providing different types of credit. The

8. Reserve Bank of India, All India Rural Credit Survey Committee, Bombay, 1954.
10. Reserve Bank of India, All India Rural Credit Review Committee, Bombay, 1969.
committee felt that extending finance through institutional agencies alone will help for the betterment of the farmers. Hence, the committee recommended that credit should be accompanied by extension services and also provision of the needed infrastructure will yield the desired results.

Gadgil\textsuperscript{11} favoured the establishment of only one agency to provide all types of loans.

A comprehensive survey pertaining to the progress made by commercial banks in farm financing was taken up by Reserve Bank of India.\textsuperscript{12} The survey brought out the fact that the Commercial Banks in agricultural financing (through Primary Agricultural Credit Societies) suffers from certain weaknesses which includes the problem of mounting over-dues.

Harish Chandra\textsuperscript{13} has studied the role of institutional financing in financing of agriculture during the five year plans. He examined the role of various

\begin{itemize}
\item[11.] Reserve Bank of India, Organisational Framework for the implementation of social objectives, Report of the study group of the National Credit Council, Bombay, October 1969.
\item[12.] Reserve Bank of India, All India Debt and Investment Survey, Bombay, 1972.
\item[13.] Gupta, Harish Chandra, "Institutional Financing of Indian Agriculture under Five Year Plans", Unpublished thesis submitted to Meerut University, Meerut, 1974.
\end{itemize}
institutions financing agencies including the Commercial Banks.

Naresh Kumar\textsuperscript{14} evaluated the policies of Reserve Bank of India with regard to financing of agriculture.

Report on the World Conference on Credit for Farmers in Developing Countries (1975)\textsuperscript{15} examined the institutional agencies involved in financing agriculture. The report further stated that these credit supplying institutions should be supported to provide finance to the farmers thereby reducing their dependence on non-institutional sources, which are said to be exploitative.

The National Commission on Agriculture\textsuperscript{16} found that there is some progress in farm financing by Commercial Banks. The Commission felt that the involvement of Commercial Banks in agricultural finance should be more. Small and marginal farmers should be given loans on priority basis so as to help them in introducing new agricultural practices.

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\textsuperscript{14} Jain, Naresh Kumar, "An Appraisal of Agricultural Credit Policies of Reserve Bank of India, since 1955", Unpublished thesis submitted to Kanpur University, Kanpur, 1973-76.
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\textsuperscript{15} Food and Agricultural Organisation, Report on the World Conference on Credit for Farmers in Developing Countries (Rome & F.A.O.)14-21 October, 1975
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\textsuperscript{16} Government of India, National Commission on Agriculture, Govt.of India Publications, New Delhi, Part XII, 1976.
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Shetty noticed the need for increased supply of credit to facilitate the farming community to transform traditional agriculture into modern agriculture. He also felt the need for redistribution of existing institutional credit in favour of the small and marginal farmers and agricultural labourers, who have been neglected.

The report on "Multi-Agency Approach in Agricultural Finance" by the Reserve Bank of India emphasises the need for streamlining the institutional credit system to meet the growing needs of agriculture. Further, the report stated that the Commercial Banks have to support co-operatives in providing agricultural finance. It is also important to note that the report has emphasised the need for planned branch expansion of Commercial Banks and Regional Rural Banks so as to have the institutional financing agencies wherever they are not exist. Otherwise there is a possibility of opening branches in the rural, semi-urban areas, where the cooperatives and other agencies are meeting the credit needs of the farmers. The Report


also emphasised the need for bringing out the uniformity in the interest rates, charged by different institutional agencies. However, small and marginal farmers should be provided credit at low rate of interest.

Basu\(^{19}\) critically analysed the political economy of banking in India. He examined how the banking system in India is helpful for transferring economic surplus from one sector to another and from one region to another. He mainly examined the inter-district variations in the bank credit and bank deposits. His study covered 283 districts. He also examined about the land concentration and rural asset concentration and also the patterns of influence they exert on bank-finance to agriculture.

Padhy\(^{20}\) examined the rural development experiment taken by up by the Commercial Banks operating in India.

Regional Rural Banks and its role in agricultural finance is studied by Noor Basha Abdul.\(^{21}\) His study area

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is Andhra Pradesh. He suggested various measures to tone up the operational efficiency of Regional Rural Banks so as to extend farm financing for the betterment of agriculturists.

Rami Reddy$^{22}$ concentrated his study on the role of Commercial Banks in agricultural financing in Nellore district.

The Report of the Committee to Review Arrangements For Institutional Credit for Agriculture and Rural Development (CRAFICARD)$^{23}$ recommended the establishment of National Bank for Agriculture and Rural Development (NABARD) with a view to have an apex agency to coordinate the various agencies involved in rural credit. This will also facilitate in providing refinance to the institutions engaged in rural finance with specific reference to financing of agricultural sector. Accordingly NABARD started functioning from June, 1982.

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O.R. Krishnaswamy and K.P. Kandaswamy, in their study examined the Institutional and Non-Institutional sources of credit. Their study area is two revenue villages in Gobichettipalem Block of Periyar District in Tamil Nadu. Their study reveals that majority of the farmers were availing finance from non-institutional source. They studied the repayment position also.

Ranga Rao, made an attempt to study agricultural finance through commercial banks.

Susheela Devi's study pertains to the State of Andhra Pradesh in agricultural finance through commercial banks, cooperative banks and Regional Rural Banks.

Adhikari in his study examined the issue of financing of Integrated Rural Development Programme by different financial agencies. The author of the study

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is of the opinion that most of the programmes are implemented with a view to achieve the set targets without examining their importance.

Pany\textsuperscript{28} in his study made an attempt to examine the inter and intra-regional variations in the supply of institutional credit. He found that the credit gaps were higher in the less developed regions than in the developed regions. The problem of mounting overdues led to supply of credit at very low rate. The study further pointed-out that problems of the institutional agencies in providing the finance. The procedures followed in lending loans were cumbersome and as such the farmer is facing hardship in obtaining credit. Even when he obtain credit the cost of credit is going abnormally which defeat the purpose of institutional financing.

Gupta, S.K. Awasthi, P.K., and Yadav, K.S.\textsuperscript{29} attempted to focus on recovery problems of agricultural loans. They analyses the causes for non-repayment of

\begin{itemize}
\item \textbf{28.} Raj Kishore Pany, "Institutional Credit for Agriculture in India", Asish Publishing House, New Delhi, 1985.
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loans. Among others they suggested that the way for improving the recovery performance of bank.

Singh, R.K.P. Singh, R.P.N. and Singh, B.B.,\textsuperscript{30} have made an attempt to compare the performance of the Commercial Bank rural branches and Regional Rural Bank branches in Bihar State.

In the study, the Commercial Bank branch, thus needs to increase their loan business and exercise more stringer control over expenses for improving the financial efficiency of the branch. To minimise the losses in the banking industry as a whole, the Government, as a policy measure, should give priority to RRBs for opening their branches in rural areas.

E.A. Narayana,\textsuperscript{31} focussed light on the problems of agricultural loans. He studied two banks namely the Primary Cooperative Credit Society and Vysya Bank Ltd in a village namely Nambur in Guntur district of Andhra Pradesh.


Dixit, D.V., 32 focussed on Krishi Pandhari Scheme in Rainfed agricultural villages. He studied the factors which influence in the development of agriculture in Krishi Pandhari villages in Maharashtra state.

Puran Chand and Singh, R.P., 33 have evaluated the different purposes for which they farmers are borrowing and the source of borrowing are critically examined. The impact of credit on the earnings of borrower-farmers in selected districts of Haryana State. It focusses on the fact that there is ample scope for increasing the production level of non-viable marginal and small farmers through reallocation and acquisition of resources supplemented by ancillary enterprises and supported by credit facilities.

The study of Parshuram Sanal and B.C.Hota 34 is to estimate the demand for short-term production credit as necessitated by adoption of improved technology in

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crop husbandry, animal husbandry, poultry and pisciculture and the potentiality of alternative farm plans to repay the loan in time and make itself generative.

Gupta,\textsuperscript{35} studied 270 sample households in the rural areas of the union territory of Delhi. The study reveals that the institutional credit agencies have been fairly successful in reducing the dominance of the village money-lenders who are said to be exploitative. The author suggested measures for streamlining the rural credit societies with a view to help the poor farmers in a better way.

Sunil Kumar,\textsuperscript{36} has conducted a study to examine the impact of the commercial Banks finance in rural development. He pointed out the problems of both the banker and the farmer. And gave suggestions to overcome the problems. His study is concerned to Bihar State.

Malyadri,\textsuperscript{37} has conducted a study to examine the impact of credit (through institutional agencies) on pig farming. The author of the view that the beneficiaries (who availed finance) should be provided with

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the required supporting services for better utilisation of credit.

Savaraiah and Nirmalamani's\textsuperscript{38} study refers to the finance provided by commercial banks. The study reveals that the small farmers are at a disadvantage position in availing finance. As far as the repayment is concerned, it was found that the mostly small farmers are not repaying the loans.

Narasappa, K.\textsuperscript{39} made an attempt to study the problem of overdues in commercial banks. He analysed the reasons for overdues in State Bank of India in Uravakonda Mandal of Anantapur District. He gave suggestions to overcome the overdues in the banks. Important causes for non-repayment of the loans are:

(i) lack of supervision by the bank, (ii) crop failure, (iii) impression that banks loans are like subsidies granted by government which need not to be repaid.

Suryanarayana, D.\textsuperscript{40} studied about cooperative credit societies which have been playing an important

\begin{itemize}
  \item \textsuperscript{38} Savaraiah and Nirmalamani, 'Role of Lead Bank - A Case Study', \textit{Yojana}, Vol.33, No.6, April 1-15, 1989, pp.32-34.
  \item \textsuperscript{39} Narasappa, K. "Over-dues in Agricultural Credit deployed by Commercial Banks (with special reference to State Bank of India at Uravakonda Mandal in Anantapur District),' M.Phil thesis, S.K.University, Anantapur, April, 1989.
  \item \textsuperscript{40} Suryanarayana, D., 'Financing of Agriculture through Primary Agricultural Credit Societies in Anantapur District' Unpublished Ph.D thesis, S.K.University, Anantapur, October, 1989.
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role in the agricultural credit. The study is in Anantapur district.

Umamahesh Patnaik and Sundara Rao's papers deals with the major achievements of the nationalised banks between 1969-1988. The authors found that there is a substantial increase in the branches of commercial banks in rural areas. During the period of study the proportion of rural branches was more than 50 per cent of the newly opened branches. However, the commercial banks were constrained to open branches vigorously in the unbanked areas. The suggestion of establishment of mobile and satellite offices by the bank branches is worth mentioning.

NEED FOR THE STUDY:

Careful examination of the studies conducted in the past about the working of commercial banks reveals that most of the earlier studies are based on secondary data. A few empirical studies were also attempted, which are mostly region specific.

It is also a known fact that the State Bank of India took initiative in opening separate branches for financing agricultural development. There are no systematic studies on the working of State Bank of India (ADBs) in Anantapur district with specific reference to Kadiri State Bank of India (ADB) branch. Hence, the present study may fill the research gap. Further, our study may also help in understanding the working of ADBs from the point of view of its beneficiaries. This micro level study may help in bringing out the changes, if any, that are brought out as a result of SBI (ADBs) finance. Moreover, the present study may help in drawing meaningful conclusions and also helps in making suggestions in the light of the present empirical study.