Agricultural finance has been the subject of discussion for several committees and commissions since a long time. All these discussions led to the conclusion that there are several gaps in the system of institutional finance for agriculture. These gaps may be described as quantitative and qualitative gaps. Quantitative gaps relate to the gap between the demand for and supply of agricultural credit. And qualitative gaps relate to the working of the financing institutions, the problems being faced by the borrowers and the lending institutions themselves. We may now discuss them.

**QUANTITATIVE GAP**

The All India Rural Credit Survey, 1951-52, conducted by the Reserve Bank of India was the first organised effort to find out the pattern and extent of supply and demand for agricultural credit in India. The Survey covered 75 districts.

The proportion of borrowing cultivators (families) varied from

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1. The first Survey known as All India Rural Credit Survey was conducted by RBI in 1951-52. Later All India Debt and Investment surveys were conducted in 1961-62 and in 1971-72. In 1966 the All India Rural Credit Review Committee was appointed. The National Commission on Agriculture 1976, was the latest survey which discussed the agricultural credit policy.
2. All the above surveys estimated the demand for agricultural credit and commented upon the inability of co-operatives to cope-up with the demand.
50 to 80 percent of the total in the various districts surveyed.\(^4\) The All India average borrowing per family was Rs. 160, while the corresponding average was Rs. 210 for cultivators and Rs. 66 for non-cultivators\(^5\). The borrowings also varied between different classes of cultivators ranging from Rs. 357 per family for large cultivators to Rs. 173 for medium and Rs. 111 for small cultivators\(^6\). On the basis of the survey, the total borrowing was estimated at Rs. 750 crores for the country as a whole\(^7\). The amount of Rs. 750 crores was taken as an index of estimated annual demand for short term agricultural credit. Another survey which threw light on the demand and borrowings of agriculturists was the All India Debt and Investment Survey of 1961-62. According to the Survey about 52% of the cultivator families in the country were reported to be in debt\(^8\). The total estimated borrowings of rural households amounted to Rs. 1034 crores as against Rs. 750 crores in 1951-52\(^9\). In 1966, the All India Rural Credit Review Committee was appointed which submitted its report in 1969. The Committee had worked out the short term production credit requirements to be of the order of Rs. 3000 crores in 1973-74\(^10\). The sub-group on Agricultural Credit of the working group on co-operation, for the Fifth Plan estimated the production credit

5. Ibid
6. Ibid
7. Ibid., P.24
8. Ibid., P.25
10. Ibid., P.34
requirements in 1978-79 at about Rs. 3000 crores\textsuperscript{11}. The National Commission on Agriculture estimated the credit requirements of agriculture by 1985 at Rs. 16,549 crores\textsuperscript{12}. All these estimates indicate the rising demand for agricultural credit. But the supply is not equal to demand. Prior to the nationalisation of commercial banks, co-operatives were the only source of institutional finance for agriculture. Later (after Nationalisation in June 1969) commercial banks entered the field of agricultural finance. The total amount of credit advanced by primary credit societies stood at Rs.610 crores in 1973-74\textsuperscript{13}. And the commercial banks' advances to agriculture stood at Rs. 618 crores in June 1974\textsuperscript{14}. Thus the advances of both these institutions fell short of the actual requirements as estimated by the All India Rural Credit Review Committee for the year 1973-74 which placed the figure at Rs.3000 crores. Thus the supply of credit constituted 41\% of the demand. It conclusively show that there is wide gap between the demand for and supply of agricultural credit.

In Rayalaseema region the credit provided by co-operative s amounted to Rs. 7.5 crores during 1974-75\textsuperscript{15}. And the commercial

\textsuperscript{11} Ibid., P.35
\textsuperscript{12} National Commission on Agriculture, Part XII, Supporting Services and Incentives, P.87, Govt.of India, Ministry of Agriculture and Irrigation, New Delhi.
\textsuperscript{13} Ibid., P.19
\textsuperscript{14} Ibid
\textsuperscript{15} Vide Chapter IV of the thesis
banks' advances amounted to Rs. 26 crores up to 1976. But the estimated minimum credit requirements stood at Rs. 152 crores for 1975-76 itself. That is, only 22% of the credit needs were met by the lending institutions. It is unfortunate that in a region like Rayalaseema which is highly dependent on agriculture, the credit gap is more. It indicates that the lending institutions should be more liberal in advancing loans.

QUALITATIVE GAPS

As has been mentioned earlier, qualitative gaps relate to the problems of the lending institutions (mainly commercial banks and co-operatives) in advancing loans and the problems of borrowers in getting adequate and timely credit. Firstly, the number of branches of lending institutions is less compared to the total rural population. Although, co-operatives are more in number, their financial position is not satisfactory. Regarding the commercial banks, they are yet to open more branches in rural areas. In this respect, the starting of Grameena Banks is welcome. But it is of very recent origin and it has to gain momentum to cover the entire rural population in India. In Rayalaseema there is only one Grameena Bank.

16. Vide Chapter III of the thesis
covering Cuddapah and Kurnool districts. Unless the lending institutions start more branches it would not be possible for the farmers to approach these institutions for credit. That is if there are more branches of these institutions the farmers need not travel long distances for availing themselves of banking facilities. Secondly, the ignorance of farmers, regarding the credit institutions, the types of loans given and the formalities that are to be completed in getting credit requires immediate attention. If a farmer wants a crop loan, he cannot get it as easily as he should. For example, the commercial banks insist upon hypothecation of borrowers' lands, crops and other properties for advancing crop loans. For getting the crop loan, the farmer has to submit his land records (obtained from Karanam or taluk office), 'no due certificate' from Co-operative Central banks and Land Development Banks (previously known as Land Mortgage Banks) encumbrance certificate on property (known as E.C) from the Sub-Registrar. (For details vide Appendix V at the end of this Chapter).

The farmers have to incur some expenditure for getting these things done. Even after submitting all the necessary documents, it is not possible for the banks to advance loans immediately. Firstly, they check up the documents and assess
the farmers' actual requirements and then they sanction the loan. This is a time consuming process and in addition it involves considerable expenditure to the agriculturists. And there is no wonder, if a farmer prefers a money lender to the lending institutions for getting credit.

Since commercial banks are custodians of deposits, in the interest of depositors they insist on security for advancing loans. One more difficulty in advancing crop loans is the determination of proper scales of finance (cost of cultivation). Instances have come to light where the financing agencies have a tendency to inflate the scales (to achieve the targets) and borrowers have a tendency to inflate the scales by increasing the acreage\(^7\). Another thing is that since the resources of the lending institutions are limited and the demand is ever increasing, the inevitable process which follows is fixation of 'individual maximum borrowing power'. This may be in the form of an absolute limit of lumpsum amount indicating the ceiling within which credit may be provided to a person irrespective of eligibility based on average and the prescribed scales\(^8\). It indicates that beyond that limit the cultivator must fend for himself. While fixing the 'individual maximum borrowing

\(^7\) Choubey, B.N., 'Institutional Finance for Agricultural Development', P.80
\(^8\) Ibid.,P.79.
power * care must be taken to ensure that the small and marginal farmers who are in large number get adequate amount of credit. The fixation of ceiling should also aim at avoiding concentration of loans in the hands of a few big cultivators, who may start re-lending on higher rates of interest 19. The most crucial part of agricultural finance is effective supervision and careful follow-up of the advances. Although, the lending institutions have strict instructions from the authorities regarding the supervision of advances, these institutions are not in a position to keep a watch on the borrowers' activities and see that the loans are utilised for productive purposes. This is due to lack of adequate and trained staff. Perhaps this might be one of the reasons for the mounting overdues of co-operatives. So far we have discussed the problems of borrowers and the lending institutions. However the part being played by the lending institutions should not be over looked. They are giving loans at a lower interest rate i.e., 11% (Vide Appendix VI) whereas the interest rates being charged by the money lenders vary from 24 to 36% or even more.

It has been mentioned in previous chapter V, that the special developmental schemes like D.P.A.P and S.F.D.A have been

19. Ibid., P.79
in operation in various parts of the country including Rayalaseema. They have been in operation in Rayalaseema for the past five years. It has also been stated that under these schemes, subsidy is available for small and marginal farmers. But there are several drawbacks which reduce the utility of these schemes. The main drawbacks in the scheme of subsidies have been the malpractices in the selection of beneficiaries, administrative delays in the release of subsidies, diversion of inputs subsidised for specific agricultural purposes to other uses and lack of proper technical support and guidance to the beneficiaries from the extension agency\textsuperscript{20}. There has generally been lack of publicity also of the various programme entailing the grant of subsidy, with the result that the majority of small farmers and agricultural labourers have very little or no knowledge of these programmes\textsuperscript{21}. Further the procedure laid down for the grant of subsidy is cumbersome and not easy for an average illiterate and ill-informed farmer to follow\textsuperscript{22}. These are some of the gaps existing in the system of agricultural finance which need immediate attention.

\textsuperscript{20} National Commission on Agriculture, Part XII, Supporting Services and Incentives, P.102
\textsuperscript{21} Ibid., P.103
\textsuperscript{22} Ibid.
SUMMARY

Several committees and commissions have been appointed to discuss the problems of agricultural finance. The discussions lead to the conclusion that there are both quantitative and qualitative gaps in the system of agricultural finance. Quantitative gap relate to the gap between the demand for and supply of agricultural credit. The estimations made by several committees showed that the lending institutions should go a long way in meeting the actual demand for agricultural credit. In Rayalaseema also, there has been a wide gap between the demand and supply of agricultural credit. Regarding the qualitative gaps, they relate to the problems of borrowers in getting adequate and timely credit and the problems of lending institutions to meet the demand of borrowers. Firstly the lending institutions are very few in number and they could not cover the entire rural population. Although rural banks have been functioning, they are yet to open more branches in rural areas. In Rayalaseema, there is one Grameena Bank covering only Cuddapah and Kurnool districts. Another thing, which deserves attention is that the farmers have been facing many problems in getting crop loans as the lending institutions insist on proper security before sanctioning the loan. This will have the effect
of forcing the farmer approach again the village money lender. One more difficulty is they do not have adequate personnel, to speed up the advancing of loans, and to supervise the farms for the effective utilisation of loans.

The special developmental schemes like D.P.A.P, S.F.D.A have some draw backs. The identification of beneficiaries is not properly being done and the amount of subsidy is not being utilised properly. Most of the farmers are not aware of the concept of 'subsidy'. All these difficulties should be taken into account before evolving a suitable policy of agricultural finance.