CHAPTER-III

INSTITUTIONAL FINANCE IN AGRICULTURAL INVESTMENTS:
A REVIEW OF EMPIRICAL STUDIES

A major concern of the development process has been the role of financial institutions in facilitating the investment requirements of the agricultural sector. Several studies have tried to delve into this area and have thrown light on different related aspects. A review of some of the available literature is given below.

3.1. INSTITUTIONAL FINANCE AND ITS UTILIZATION

Sisodia's (1971) study which centered on the relationship of institutional credit with purpose of utilization in Indore district of Madhya Pradesh, came up with the finding that 47% of the loans were utilized for productive purposes while 53% were utilized for un-productive purposes. It also came up with the observation that the institutional agencies played a significant role in financing medium term and long term credit for the purchase of farm equipment and developing irrigation projects.

Singh and Mishra's (1971) study on institutional credit and farm productivity had discovered that the investment on capital borrowed from financial institutions was highest on irrigational structures in the size group of holdings of 3 hectares while the short-term credit requirement was higher in holdings below 3 hectares.
Saikia (1971) in his study of the role of land mortgage banks in agricultural development in Assam has noticed a remarkable effect of credit taken for investment purposes like setting up orchards, fisheries, land-development, etc, on the generation of farm income.

3.2. INSTITUTIONAL FINANCE AND ITS EFFECT ON FARM INCOME

Rai et al. (1975) has studied the role of institutional credit in generating farm income in Kalyanpur block of Kanpur district. The study sample included both borrower and non-borrower farmers. It was found that the borrowers invested larger amount of capital on inputs, compared to the smaller and non-borrower farmers. The higher investment in general was associated with higher per hectare expenditure on modern inputs like fertilizers, seeds, pesticides, irrigation machinery and farm mechanization. The ratio of additional cost on account of institutional credit and income generated indicated that one rupee of credit invested would generate an overall income of Rs.2.72. Hence, the study came up with the conclusion that institutional credit exerts a greater influence on the level of farm income.

Agarwal's (1976) study on agricultural finance which emphasizes on the role of nationalized banks in south Kanara of Karnataka came up with the finding that loans were mainly given for crops, land improvement and pump sets but they were unevenly distributed amongst the borrowers. The study revealed a positive co-relation between the financing of fixed capital
assets like pump-sets to the increasing income of the borrower farmers in the area.

3.3. DISTRIBUTION OF INSTITUTIONAL FINANCE: INTER-DISTRICT AND REGIONAL COMPARISONS

Basu (1976) deals with commercial banks and their role in disbursement of agricultural credit. The author has chosen 283 districts in India for a comparative analysis to find out whether commercial bank’s financing of agriculture has been regionally equitable. The study emerged with certain significant findings. It could establish that commercial banks financing of agriculture has not been regionally equitable. For the 283 districts of India chosen for the study, the co-efficient of variation of agricultural credit per hectare of net sown area was 2.32 as against only 1.39, 1.26 and 0.73 as the same co-efficient for per capita outstanding credit, per capita deposit and number of bank offices per lakh of population. It was observed that while commercial banks had successfully increased the share of agriculture in their total outstanding credit several fold, it had failed to maintain a minimum degree of uniformity in its regional distribution.

Mehrotra's (1987) study related to institutional credit and agricultural growth makes an inter-district analysis of the flow of institutional credit vis-a-vis agricultural growth in the state of Rajasthan. It also includes an analysis of the demand for and the supply of institutional credit (short term only) for small and marginal farmers in Rajasthan. A probe into the short term production credit needs and their income augmenting affects on different sized farms in different regions of the state has also been
undertaken. The study findings point to the fact that there is a positive correlation between the flow of institutional credit and agricultural growth in the state. The inter-district analysis of the flow of institutional credit on the one hand and the foodgrain production per agricultural worker on the other, at two distinct points of time, revealed that the inter-district disparities have increased in both fields. The survey findings indicate that the small farmers, whose per acre production needs were found to be more than that of medium and large farmers, rely more on private agencies for their production credit needs while the medium and large farmers mainly rely on institutional sources of finance.

Munir (1992) critically examines agricultural productivity as a component of regional development in an important region of Uttar Pradesh. Using quantitative techniques like the Cobb-Douglas production function, the study arrived at highly significant results, highlighting developmental strategies for the region as a whole. Apart from the major findings which indicated that agricultural productivity and levels of development with regard to income generation were positive and high, that agriculture as a resource provides the base for industrialization and urbanization, it was also established that to modernize agriculture in the under developed regions, the role of the financial institutions in providing loans on liberal terms to farmers was a must.
3.4. THE INSTITUTIONAL SUPPLY MECHANISM: ITS EFFECTIVENESS AND DRAWBACKS

Kewal Kumar's (1987) study tries to understand the vital relationship between institutional finance and agricultural development. It has attempted to identify the problems of farm credit in the district of Nainital. It deals with the working of different credit institutions in the district and a comparison of their performance vis-a-vis their counterparts in the other states of India. It also identifies the common problems faced by farmers in availing credit. Kumar feels that such problems are the main reasons behind the slow pace of credit absorption in Nainital. He comes up with the conclusion that co-operatives are much better entrenched in the rural areas with regard to coverage of area and loan disbursements of farmers than the commercial banks. He further suggests that an intermingling of these institutions of rural credit, initiating co-ordination and functional specialization would be the real remedy for true all round development in the rural areas.

Sanjeevaiah (1988) makes a comparative study of the performance of rural based credit institutions in Mysore and Tumkur districts of Karnataka. The study tried to assess the performance of three types of rural based credit institutions in mobilizing deposits and in meeting the credit needs of the farmers adequately and on time. It focused on their credit policy and procedures and examined whether they were relevant to the needs and circumstances of the farmers. In assessing the performance of cooperatives, Farmers Service Societies (FSS) and Regional Rural Banks (RRBs), it was observed that the sample primary agricultural credit societies had
extended investment credit ranging from Rs. 0.07 lakh to Rs. 1.891 slakhs during 1981-86 in Mysore and Rs. 0.06 lakh to Rs. 8.78 lakhs in Tumkur. The amount of investment credit disbursed declined by 7% over the period. In case of the FSSs and RRBs, it was observed that the borrowers of term loans for agricultural investment increased considerably in the period under study. In the sample survey of farmers conducted, 56% of the farmers reported that they were not getting required medium and long term credit for such investment and development purpose as digging a well, installation of pump-sets, etc. Even after 18 years of introduction of the multi agency system, only 30% borrow from institutional sources while 70% depend on non-institutional sources. Another interesting fact which emerged from this study was that out of the total agricultural credit provided by institutional sources in Mysore and Tumkur districts, 59% was provided by co-operatives, 23% by RRBs and only 18% by commercial banks.

Reddy's (1989) doctoral thesis is related to institutional finance for agriculture and it deals with a case study with reference to Chittor district in Andhra Pradesh. The study has tried to assess the size of institutional finance for agriculture in different regions of Chittor district. It has also examined the effect of institutional finance on farm business income of sample households and has analysed the distributional aspects of institutional finance among different size groups of farms. The study revealed that 83.4% of the total credit in Chittor district was mainly given out for crop loans. Participation of commercial banks was the highest (66%), followed by RRBs (19%) and Co-operatives (15%) in providing agricultural credit in the district in 1987. The analysis of the distribution of
farm credit showed that total farm credit per hectare and per household was higher in the central region of the district since the cultivation of commercial crops like sugarcane and groundnut was higher in that region. Moreover, it was also observed that farm credit borrowings per household and per hectare were higher in medium and large farmers because area under cultivation was much greater than that of the small and marginal farmers.

Das (1989) made an attempt to study the operational aspects of the existing banking schemes at the grass-root level as well as to know the beneficiaries and non-beneficiaries of the different schemes of banking institutions in Sonitpur district of Assam. The study came up with certain significant findings. From the information gathered about the type of loans preferred by the farmers, an idea of the likely overall demand for institutional credit in the area could be drawn. With regard to farmers preference for credit agency, it was found that nationalized commercial banks were given first preference and then the co-operatives respectively. The study also revealed that bank credit had a favorable impact on land utilization pattern, extension of irrigation and farmers income level. Another point which was highlighted was the high degree of non-repayment of loans by the farmers. This was attributed to the absence of any strict controls at the banks end to check the defaulters.

The prime aim of Veerashekharappa's (1995) study was to examine and analyse the pattern of credit delivery and the utilization of farm finance and factors effecting overdues at the micro level of Hassan district of Karnataka. The analysis aimed to know whether the present system of
institutional credit is meeting the requirements of farm finance and if not, what are the loopholes at the delivery and utilization levels. The study came up with the findings that land holding in particular, and education to some extent are the governing factors of accessibility to credit. Half of the total finance provided by commercial banks, regional rural banks and co-operatives were for long-term investment like irrigation, wells, pump-sets, bullocks, carts and tractors. Time delays in sanctioning of loans ranged from 15 days to 2 months, hence flow of credit was found to be inadequate. Rate of recovery was less than 60% and overdues as a proportion to outstanding amounts was around 25%.

3.5. INVESTMENT FINANCE AND CAPITAL FORMATION

Mohideen's (1991) work on Institutional Credit and Agricultural Development is based on a case study of Annur block of Coimbatore district. The author focuses attention on the supply of and the demand for institutional credit and its impact on agricultural development at the block level (macro level). It also throws light on the farm assets, farm income, credit requirements and other complementary aspects at the farmers level (micro level). The impact of institutional credit in terms of returns per rupee and hectare of investment, repayment and risk bearing capacity and productivity gains has been studied. The survey findings point to certain important facts viz. that the substitution of institutional credit in place of non institutional credit helps in more efficient credit use, that returns per rupee of investment and repayment capacity can be increased if there are changes made in the lending procedures and that use of credit also
depends on inputs like technical advice, irrigation and policy support for input supply and marketing of products.

S. Bhuvaneswari and T. Alagumani's (1996) study in Dindigal-Anna district of Tamil Nadu was taken up to study the nature and extent of capital formation, to assess the rate of capital formation and to find out the determinants of capital formation in agriculture in the said districts. The study came up with the finding that out of the 120 sample farms studied, only 77 reported capital formation, the rate of capital formation being less than the minimum rate required for sustainable development. The study also revealed that the majority of the farms (93.5%) depended on borrowed funds for capital investment. Hence this indicated the role of credit in capital formation. Farm size, subsidy, owned fund, borrowed fund and net income positively influenced net capital formation. The study suggested that adequate amount of credit should be made available to farmers to enable them to invest in productive capital assets for increasing farm income.

A. Kumar and R. K. Pandey's (1996) paper on the role of institutional finance in capital formation in agriculture tried to examine the productive efficiency of capital formation on borrower and non-borrower farms of different sizes in Muzzafarnagar district in Uttar Pradesh. The study revealed that the total value of assets on per hectare basis was the highest on the small farms, followed by the medium, marginal and large farms. It was seen that the marginal farms preferred to acquire irrigation facilities (tube-well / pump-set) on their farms while on other categories of farms, a higher proportion of institutional term loans was used to acquire tractors
and other associated machinery. It was found that MVP (marginal value product) of capital formation on farms is not a sufficient condition for higher productivity but its optimal use is necessary.

R.L. Shiyan and S.B. Vekariya (1996) examined the impact of watershed on capital formation in agriculture in the command area of Madhuvanti watershed situated in Junagadh district of Saurashtra region. The study came up with the finding that the beneficiary farmers were in a relatively better position with regard to net income, family labour income, farm business income and input-output ratios when compared to their non-beneficiary counterparts. The study also stressed on another major aspect i.e. water was found to be one of the most important determinants of capital formation in agriculture.

Rekha R. Gaonkar and P.S. Mundinamani's (1996) paper tried to find out the private capital formation in agriculture through borrowings from the commercial banks in Goa. It studied the purpose for which the loans were obtained by the borrowers and their utilization for stimulating capital formation. The study was based on primary data obtained from the farmers and branches of commercial banks in four villages. The study found that the borrowers mainly take loans for dairy, fishery, crops, pump-sets, sprinklers, plantations and some for land development, poultry, sinking and repairing wells, etc. It was observed that the demand for pump-set loan was high in the backward villages and the farmers were interested in intensive cultivation whereas in the comparatively advanced villages, the demand for pump-sets was low. The study came up with the finding that the farmers were not given sufficient extension facilities which
are essential for both borrowing and utilizing the same for capital formation. Banks were found to be under-staffed and had few specialized staff engaged in farm credit. The farmers also faced problems like complicated banking procedures, lack of knowledge about rules and regulations, inconvenient banking hours and sometimes lack of sympathy of the bank staff.

From the above studies, it is apparent that there has been a good deal of research work carried out in the area of institutional rural credit for agriculture in India. Certain major issues regarding the effect of credit in terms of returns accrued against investments made (on irrigational structures, farm equipment and machinery, etc), repayment, risk bearing capacity, productivity gains, etc have been studied. Besides credit, the size of the farm, resource position of the farmer or owned fund, borrowings or credit, subsidy, net income, etc have been found to have a positive influence on capital formation in agriculture. Yet, studies which have been more analytical and have tried to focus on the investment needs of the agricultural sector vis-a-vis institutional finance are few and far between, specially in the state of Assam. Hence this study is induced by the need to examine and explain the significance of institutional finance in meeting the investment needs of various types in the farm sector of the state.
References

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