Chapter-I

INTRODUCTION
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Statement of the Problem:

Agricultural development pre-supposes a greater flow of inputs as well as institutional and organizational reforms. And "When there is a technological break-through, credit bottlenecks may turn out as a real constraint of agricultural growth".1 Generation and reinvestment of savings as an internal source of finance are usually not possible because of the subsistence nature of Indian agriculture characterized by dis-savings and deficits. So the farmers are forced to depend on external finance for meeting various expenses.

In a developing country like India organization of institutional credit for agriculture poses several problems. The purpose of financing agricultural development through institutional agencies is not just putting more money into the hands of farmers or replacing individual money-lenders but enabling farmers to move on to a level of technology that would create a sustained basis for increasing agricultural output and increase the number of man-days of employment and to have much better indicators of development in terms of productivity, both of land and human beings.2
Nationalization of fourteen major commercial banks in 1969 and of six more in 1980 has been a major step in the right direction of providing finance to the farmers. But, as pointed out by George, this step could not achieve the objective of inter-state and intra-state balances through branch expansion because most of the new branches opened were in rural, semi-urban and urban areas of forward regions and very few branches were opened in backward regions. A number of studies have proved that commercial banks finance only rich farmers and neglect the small ones. Their loan procedures are complicated. Further, the banks adopted varying norms for collection, inspection and other service charges besides interest. Moreover, the farmers had to spend a sizable amount for getting documents required by commercial banks, thus increasing the cost of credit. Thus commercial bank finance was said to be inadequate, delayed, costly, asset-oriented, mis-utilized and inequitably distributed among the beneficiaries. Further, commercial banks also face some problems while financing agriculture.

Taking into consideration the above problems and shortcomings, it was felt necessary to conduct a micro-level study in the working of commercial bank finance to the agriculture sector.
Review of Literature:

A number of studies in India have been undertaken in the field of agricultural credit. For the sake of convenience, the literature is classified into two broad categories: (i) Earlier Studies (before 1969), (ii) Recent Studies (after 1969), considering 1969, the year of bank nationalization, as the basis of classification.

(i) Earlier Studies:

These studies emphasize the organizational changes in agricultural finance with a view to provide cheap credit in the rural areas through institutional agencies.

(ii) Recent Studies:

These studies emphasize the role of credit in the context of agricultural financing such as the estimation of credit needs of the agricultural sector, the availability of credit, the nature of the use of credit, productivity of agricultural credit, etc.

In the following paragraphs an attempt has been made to present a brief review of the available literature for each of the categories mentioned above.

1 Review of Earlier Studies:

The Deccan Ryot Commission, 1875, after reviewing the extent of indebtedness, points out that about one-third of
the occupants of Government land are burdened with debt, that their debts average about eighteen times their assets and nearly two-thirds of the debt are secured by mortgage of land.

The Banking Enquiry Committee\textsuperscript{6} takes up calculation of short-term and intermediate credit required by cultivators. The committee concludes that an amount of Rs.300/- to Rs.400/- crores may be taken as a lower limit for the whole of British India.

The Committee of Co-operation\textsuperscript{7} has identified a number of drawbacks of the existing system of agricultural finance. The symptoms identified by the committee include high rates of interest, heavy debt burden of the farmers and the malpractices adopted by the money-lenders. The Committee on the basis of its findings, emphasized the need of institutional credit arrangements.

The Reserve Bank of India\textsuperscript{8} survey of 1951-52 observes that about 63 per cent of the rural families are indebted. Small cultivators have a higher burden of debt. It is inferred that nearly 92.7 per cent of farmers' borrowings come from private sources, whereas the share of co-operatives is 3.1 per cent. The Government provided 3.3 per cent and the commercial banks provides 0.9 per cent. The Reserve Bank of India conducted the rural credit follow-up surveys for 1956-57, 1957-58, 1958-59 and 1959-60.\textsuperscript{9} The aim
of these surveys was to review the main features of the credit situation in the rural areas of the country. According to these surveys there was a greater need for (i) efforts at reorientation of the loan procedures, (ii) efforts at introducing crop loan system, (iii) making the primary credit society a viable unit, so that it is in a position to employ a full-time trained secretary, (iv) implementing a policy regarding state participation in co-operatives, (v) vesting powers of supervision in central financing agencies, and (vi) promoting a more rapid growth of co-operative marketing etc.

The Reserve Bank of India\textsuperscript{10} conducted one more survey in 1961-62 to estimate the level of debt and to find the sources of borrowing of the cultivators. The survey reveals that nearly 81.6 per cent of the debt of the cultivators came from non-institutional agencies.

The Bombay State Co-operative Bank\textsuperscript{11} had appointed a committee under the Chairmanship of Prof.D.G. Karve in 1956 to evaluate the working of the crop loan system in Bombay province. This Committee inferred that in some areas and for some crops the system worked with remarkable success. The overall achievement of the scheme, however, failed short of expectations. Part-II of this committee report, based on 16 case studies, discussed various difficulties in implementing the crop loan scheme such as inaccurate crop acreages on which loans were based, failure to relate the
loan amount to actual crop acreages and estimated outlay and inadequate supervision, etc.

The Committee\textsuperscript{13} on Co-operative Credit in 1960, under the Chairmanship of Shri. V.L.Mehta, observed that with increasing tempo for issue of long-term loans for land improvement purposes for increasing agricultural production, it would be necessary for land mortgage banks to raise resources in larger volume. Besides the Reserve Bank of India and the State Bank of India, some other agencies like Life Insurance Corporation of India having huge resources could be induced to interest themselves in providing funds to the land mortgage banks.

Leelabai's\textsuperscript{14} study on "Agricultural Finance in Underdeveloped Economies with Special Reference to India", has highlighted the evolution of the rural credit policy, nature of borrowings, credit problems of different classes of farmers and role of borrowings in capital formation.

The Reserve Bank of India appointed, "All-India Rural Credit Review Committee"\textsuperscript{15} under the Chairmanship of Shri. B.Venkatappaiah. This committee made the following recommendations. To begin with, the commercial bank finance may lend to farmers High-Yielding Varieties etc., but slowly they should finance cultivators in every category. Banks also should extend help to co-operatives by way of loans, interim accommodation and support of debentures etc., so as to enable them to assist marketing, processing and dairy co-
operatives. The committee also stressed the setting up of Agricultural Finance Co-operation. The commercial banks should recruit agricultural graduates and also give training to their staff in agricultural finance.

F.A.O. has pointed out that farmers in developing countries depend heavily on non-institutional agencies for their credit needs and the rates charged by these sources are high and exploitative and this high cost of credit would narrow the range over which investment would be economic.

From the above review of the earlier studies, it is obvious that most of them are of survey types and their emphasis is on the estimation of rural indebtedness. The defect of these studies is that they do not make any attempt to link finance with agricultural production. Most of the earlier studies have concentrated on co-operative credit. Studies on commercial finance are limited. Further, it is also found from the above discussion that all these studies have neglected the micro-level credit problems.

2. Review of Recent Studies:

Recently, the economists have realized the importance of finance in boosting up agricultural production and accordingly several studies have been undertaken to find out the importance of credit as a means of increasing agricultural productivity. Here is a brief review of the recent studies.
Choudhary and Sharma\textsuperscript{17} have studied the crop loan system in two states, namely, Andhra Pradesh and Punjab. They have found that while in Andhra Pradesh as high as 80 to 90 per cent of borrowings were used for meeting the expenses of labour, in Punjab 63 to 89 per cent of borrowings were used for buying seeds, fertilizers, manures and pesticides. Thus, the study concludes that the relationship of credit with various inputs varied according to the agro-climatic conditions.

Dinesh\textsuperscript{18} has pointed out that prior to bank nationalization, commercial banks were mainly interested in approaching the more technologically affluent farmers where security risks were minimum.

Desai and Desai\textsuperscript{19}, in their empirical study pointed out that the working capital is inadequate to meet the requirements of the new technology.

Shukla\textsuperscript{20} found that the flow of finance tends to gravitate to relatively better off states and states like Assam, Bihar, Orissa and West Bengal which have been identified as less well-off states, are neglected.

Sharma and Prasad\textsuperscript{21} estimated the credit needs by size of farm and by regions at different stages of technological development in agriculture in Tarai, Nainital and Rampur districts of Uttar Pradesh for the agricultural year 1968-69. Linear Programming Technique was used to estimate the
credit needs by way of preparing farm plans at current technology and improved technologies with and without borrowing of cash. It was found that at the current level of technology, a large potential market of credit existed which was expected to double in the next five years as a result of further technological development in agriculture production. Credit needs were expected to grow faster in relatively progressive areas than in less progressive ones. Introduction of improved technology without adequate credit facilities was not likely to create any significant impact on the incomes of farmers.

P.C.Bansil projected Rs. 987 crores as total credit needs for agriculture on the assumption that 50 per cent of the value of the three major inputs for farm business would be met through borrowings and the estimated credit needs for miscellaneous purposes during 1973-74 would be Rs. 274 crores.

Sisodia, in his micro-level study found that nearly 53 per cent of loans taken were utilized for unproductive purposes and only 47 per cent of the loans were utilized for the purposes for which they were actually obtained.

Bhatt's study on division of long-term loans advanced to selected borrowers found that the extent of diversion of loans was 37 per cent in Madhya Pradesh, 21 per cent in Orissa and 11 per cent in Gujarat.
Dadhich, 25 in his study points out that wilful defaulters are generally those having large holdings, of higher castes, with a higher level of education and members and ex-members of the managing committees. He gave reasons for wilful default; they are re-lending co-operative credit to make profit out of it, to harass present managing committees, uncertainty in availing of fresh credit and an element of fear about the future financial position of the co-operative society.

Ghosal 26 observed that the borrowers' cost of credit consists of interest and incident expenses to be borne by the borrowers at the time of taking loans.

Acharya, Dhogade and Lopes 27 found that the smallest farmers utilized nearly 45 per cent of the credit for consumption purpose, whereas large farmers utilized 23.5 per cent for it. Since small and marginal farmers are financially backward, they are forced to divert the credit for consumption purpose.

Pandey 28 has studied agricultural advances made by the Lead Bank in Kashi Vidyapeeth Block of Varanasi District, Uttar Pradesh. The study inferred that large-size cultivators enjoyed a larger share of the total loans advanced than the medium and small farmers.

Another study by Raju, Srivastava and Sirohi 29 was undertaken to find out the impact of the direct finance
provided by Dena Bank in Raipur district of Madhya Pradesh. The study pointed out that the equations derived using data for the years 1966-67, 1967-68 and 1968-69 did not establish any relationship of investment on short-term inputs with the farm business income. But the equations using data for all the four years from 1966 to 1970 showed the highly significant influence of bank borrowings on the farm business returns of the sample borrowers.

Singh and Mehrotra 30 have studied the problems of credit and indebtedness with the small and marginal farmers and agricultural labourers in the Ballia district of Uttar Pradesh. It has been found that among the sample households, the most highly indebted sample households belong to the landless labourers and the marginal farmers. The study further reveals that the percentage of households in debt decreased as the size of holdings increased, while the size of debt per household increased with the size of the holding. The small and marginal farmers received about 80 per cent of their borrowings from institutional sources like the government and the co-operatives, the landless labourers mostly borrowed from the village money-lenders.

Agarwal and Kumawat31 analysed in 1971-72 the potentialities of increasing farm incomes through provision of credit as well as through adoption of new agricultural technology on different sizes of farms. They observe that in all sizes of farms, there exist enough potentialities to
raise income. If sufficient funds are provided, even with the existing technology farm income would increase by 41 per cent. And the adoption of new technology without any credit facilities reduce the income by 38 per cent and the adoption of technology with sufficient finance resulted in an increase in the incomes of all the sizes of farms by as much as 73 per cent.

As per the survey conducted by the National Council of Applied Economic Research (NCAER), 30.3 per cent of the total borrowings made by the cultivating households in the country was from three institutional agencies, viz., Government, co-operatives and commercial banks in 1970-71. Among these three agencies, the share of co-operatives was the highest (22.7 per cent), followed by commercial banks (4 per cent) and then by the Government (3.6 per cent).

Rao doing a survey of three villages of Vishakha Patnam district of Andhra Pradesh infers that the small farmers borrow mostly from money lenders and the big farmers mostly from the co-operatives. That means co-operatives advance more to big farmers and small farmers depend on money-lenders.

Galgalikar, Gadre and Bhole in their empirical study, "Small Farmers and Institutional Credit", in two villages of Akola district of Maharashtra, financed by the Central Bank of India, observed that besides interest, the
cost of finance was to the extent of 3.82 per cent and 2.83 per cent for short-term loans and 6.55 per cent and 2.83 per cent for long-term loans in the two villages respectively.

Bihari, Singh and Singh, \(^{35}\) in their study in Tanda Block, Faizabad, Uttar Pradesh, observes that the cost of a loan is higher because more amount is wasted in conveyance and incidental expenses.

Lavenia, Bhalerao and Tiwari, \(^{36}\) in their study conducted in Gazipur district, Uttar Pradesh, found that the rich farmers are benefitted more from institutional finance, while the poor farmers are deprived of benefits. The study also showed that all the institutional agencies have a tendency of assisting large farmers.

Rajput and Singh \(^{37}\) have observed that the highest number of borrowers took loans for the extension of irrigation facilities, followed by those taking loans for purchase of improved agricultural implements. And the number of borrowers taking loan for fertilizers crop and dairy development was the lowest.

Banerjee \(^{38}\) opines that in developing countries it is only the Government which can remove the imperfections bringing about one adequate change. The author further holds that a big farmer's financial capacity to face hard times is better than that of others belonging to small income strata. Therefore a small farmer is expected to be
cautious since a wrong decision would cause a severe cumulative effect to the extent of ruining the entire venture.

Desai conducted a study in 30 randomly selected villages of the districts of Coimbatore and Salem of Tamil Nadu to analyse the flow of funds of farm loans and factors affecting them. The study found that in villages where there was only one commercial bank, the variance ratio indicated flow of funds from the rural branches from the urban centres but in the three-bank villages the variance ratio revealed that the funds were flowing to rural branches from the urban centres. The study further found that the magnitude of short and medium term loans had been comparatively higher in the one-bank villages while this pattern changed slightly in favour of long term loans in two-bank villages. The short and long term loans are the major components in the three-bank villages. The study also pointed out that the funds flowed out of villages where there was no competition amongst banks; and competition among banks had a positive impact on the village economy.

According to Kumar, Joshi and Muralidharan, the demand for credit by the marginal farmers was inelastic with respect to the rates of interest and highly elastic with respect to prices of both inputs and outputs and steps to bring down interest rates on loans to marginal farmers could not be of much help.
Tewari and Sharma have analysed the disparities in the flow of rural bank credit by using multiple regression analysis. The study found that due to the expansion of rural branch network in recent years, the inter-state disparities have declined slightly. The main reasons for the regional imbalances in agricultural advances are: (1) difference in the percentages of area under HYVs, (2) progress of rural electrification, and (3) the spread of bank branches.

Sinha has studied the development and prospect of agricultural credit in India since 1951. He has shown that the share of indirect finance has been increasing and the share of direct finance has been declining. The study reveals that neither the co-operatives nor the commercial banks have succeeded in providing credit on the scale needed for the weaker sections of the community. The author infers that the available credit is inadequate, unevenly distributed in different regions, and mainly in favour of the rich and affluent class of farmers.

Pandey and Muralidharan have examined the recovery performance of different categories of farmers by conducting a case study in Banda district of Uttar Pradesh. The sample size is confined to 109 defaulters of 68 primary agricultural credit societies. The study reveals that even though the number of defaulters is higher amongst marginal and small farmers as compared to the medium and large
farmers, their share in the total amount of overdues is very much less as compared to the medium and large farmers. Again, among the different categories of defaulters, medium and big farmers were the major chronic ones, i.e., with overdues for three years and more. Nearly 59.63 per cent defaulters are wilful defaulters. Wilful defaulters mostly are from the higher castes (73.85%), the illiterate group (75.68%) and have higher operational size of holdings (85.29%), whereas non-wilful defaulters belong to the middle class (67.00%) are illiterate (74.29%) and have lower size of holdings (73.68%).

In a case study of six sample villages of Anantpur district in Andhra Pradesh, Reddy has examined the direction of agricultural credit advanced to 51 participants by three commercial banks. The study observes that there is no bias in the distribution of commercial banks' loans among sample farmers as the small and marginal farmers have bagged 38.2 per cent of bank loans though they possess only 15.3 per cent of total land.

Krishnaswamy and Kandaswami have examined the extent to which small farmers have secured from different agencies and to identify the factors which affect the repayment of credit by them. The study indicates that the majority of borrowers have borrowed from money-lenders, while only 16 per cent of them had taken loans from commercial banks. Nearly 65 per cent of total borrowings are taken from money-
lenders, 26 per cent from co-operatives and only 9 per cent from commercial banks. Nearly 72.73 per cent of the borrowers complain that the amount of credit is inadequate. Further, it is observed that in case of loans given by money lenders, the percentage of overdues to outstanding is 17.46. It is 88.30 per cent for co-operatives and 100 per cent for commercial banks. This implies that borrowers have given high priority to the repayment of the high-interest-bearing private loans.

Prem Kumar \(^4^6\) in his study has highlighted the reasons for the neglect of priority sectors by commercial banks. They are prevalence of urban banking, banker's apathy towards these sectors, illiteracy of farmers, traders, etc. The scholar further points out the change in the attitude of bankers towards the priority sectors. Moreover, the banks do not insist on tangible security but on the assets acquired from the borrowed funds. The study also expressed that the banks advance term loans after examining the purpose of a loan, its economic viability, income generation from the use of borrowed funds, etc.

Rao \(^4^7\) in his study conducted in Madala village, Guntur district, Andhra Pradesh finds that institutional borrowings account for about 69.98 per cent and the non-institutional borrowings account for 30.02 per cent of the total borrowings of farmers. The small farmers have borrowed both from institutional and non-institutional sources. Out of
the total institutional borrowings of medium and large farmers, 62 per cent are from the Land Development Banks. In the case of marginal farmers this percentage is only 3.73, while the proportion of loans taken from commercial banks is 39.65 in this case.

In the case of marginal and small farmers' non-institutional borrowings, money-lender's share is high. Another important observation of the study is that the medium and large farmers are relending institutional funds at higher interest rates.

Panda has examined the problem of agricultural indebtedness in irrigated and dry regions of Puri district in Orissa. The study shows that farmers of irrigated regions borrow more from institutional agencies compared to the dry land owner farmers. An interesting finding of this study is that the diversion of credit for non-productive purposes was less for small size farms, as compared to medium and large size farms. The study also observed that the default of the large and medium farmers was wilful, whereas of small farmers was due to their non-repaying capacity.

Narasimhan in his study, "Banks and Agricultural Credit in India", points out that the growth of agricultural credit has been phenomenal since nationalization of banks in 1969. There is an increase in the number of borrower's
accounts. The author also observes that there has been a sharp decline in the average size of amount borrowed which today is less than Rs. 5,000/-. This shows that banks are financing small and marginal farmers.

Banakar and Suryaprakash\textsuperscript{50} made an attempt to identify the borrowing and utilization pattern of crop production credit in irrigated and unirrigated areas of Harapanahalli taluka, Bellary district of Karnataka state. A group of 199 cultivator borrowers were selected on a random basis. The scholars found that a vast majority of the farmer borrowers had shown preference to the regional rural banks over the co-operative societies and commercial banks in meeting their credit requirements. This might be due to the inefficiency of co-operative institutions and the reluctance of commercial banks in advancing agricultural credit. The study also found that an increase in the average amount of loan per acre could increase the intensity of input utilization per acre. It was concluded that the average loan per acre was increasing with an increase in the size of holding and diversion of loan for unproductive purposes per acre decreased with an increase in the size of holding.

Sunil Kumar\textsuperscript{51} infers that the commercial banks have turned towards rural areas since nationalization, but still their coverage in terms of financing is inadequate.

Pandey and Ashok Kumar\textsuperscript{52} examined the structure and growth of co-operative credit in different states and the
disparity in disbursement of credit in different categories of holdings. The study was based on secondary data. The study indicates that the number of primary agricultural societies has come down in all the states during the period 1970-81. The compound growth-rate of short-term credit was maximum in West Bengal, whereas growth-rates in medium term credit were positive and statistically significant in all the states except in Punjab. The study further indicates that per hectare credit availability on small and marginal farms is higher than on farms above 2 hectares in almost all states. The study further revealed that the disparity in distribution of credit on per hectare basis has increased during the period 1977-78 to 1983-84.

Suryawanshi examined the requirement, availability and credit gap in irrigated agriculture in Bhima Command Area of Western Maharashtra. The data were collected from a sample of 96 farmers. The study pointed out that the area under cash and commercial crops increased significantly due to irrigation and irrigation accelerated the use of high cost inputs, resulting in increased demand for credit. In the command area, the requirement of cash expenditure for crop production during the benchmark period worked out to be Rs. 1,896/- per farm; however, it increased by more than three to five times during the three monitoring years after the introduction of irrigation. The study further indicated that even in an assured irrigated area, there exists a
substantial gap in meeting the credit requirements. The author suggested that the financial institutions should provide more credit to the agricultural sector and while deciding the loan policy, the working expenditure on cost of cultivation of crops must be taken into consideration.

Balishter presented a critical analysis of the problem of the non-repayment of agricultural loans taken from banks with special reference to Agra Division of Uttar Pradesh. The author laments that in some areas farmers do not repay the bank loans in spite of having repaying capacity. The extent of overdues problem is more serious in agriculturally backward blocks than in agriculturally progressive blocks. The author suggests measures to eliminate the local influence in respect of wilful defaulters, like debarring them from getting further advances.

Sarma points out that the small borrower is generally known to be conscious of his obligation to repay. According to the researcher, non-recovery affects not only further availability of production credit but also the health of the institution and its eligibility to borrow. The study suggested that we have to encourage competition in recovery and certainly not in write-offs.

Sharma has studied the commercial bank financing to agriculture in Bihar. The study found that the share of agriculture in total bank credit rose sharply from a mere
2.6 per cent at the end of June 1969 to as much as 24.1 per cent at the end of June 1983. The share of direct finance rose impressively from 0.5 per cent to 18.2 per cent, while that of indirect finance increased from 2.2 per cent to 5.7 per cent during the same period. The study further expressed that the total agricultural credit provided by commercial banks in the state was inadequate and the distribution of agricultural credit between different regions of the state was quite uneven.

Ramola and Negi have analysed the role of various agencies involved in "Service Area Approach" in Tehri-Garhwal district of Uttar Pradesh. The study found that sector-wise achievements of all commercial banks and RRBs are 114.00, 160.38 and 81.12 per cent under Agriculture and Allied, SSI and Trade and Service Sector respectively. The commitments were fulfilled by more than 100 per cent by commercial banks and RRBs.

Singh and Jaiswal have studied the magnitude of commercial banks' advances to priority sector. According to them, during the post-nationalization period, banks have started financing the priority sector. Among the different priority sectors, agriculture claimed 19.1 per cent of total bank assistance to priority sector as at the end of 1988, followed by small scale industries 17 per cent and other sectors like small business road and transport operations, self employed and professionals, exports and education,
etc., received 28.8 per cent. The authors conclude that in the post-nationalization period, banking sector of the country has changed from 'class' banking to 'mass' banking, from 'rich' to 'poor', paying special attention to backward and traditionally neglected sector of the economy such as agriculture and small scale sector.

The Agricultural Credit Review Committee (ACRC) appointed by the Reserve Bank of India at the request of the Government of India, under the Chairmanship of A.M. Khusro to go into the entire gamut of rural credit in India submitted its report to the Reserve Bank of India in August 1989. The main recommendations of the committee are - (1) Since the weaknesses of Regional Rural Banks are endemic, the RRBs should be merged with the sponsor banks. (2) There should be rationalization of lending rates for the agricultural sector. (3) There should be only two categories of rates, namely (a) a concessional rate exclusively for small and marginal farmers, at 1.5 per cent above the highest rate of interest on deposits allowed by scheduled commercial banks (implying a lending rate of 11.5 per cent at present), and (b) the rate of interest for other borrowers will be from directions/ regulations subject, however, to a ceiling of 15.5 per cent which is the existing maximum. This would in effect imply a lending rate of 15.5 per cent. (4) The establishment of an Agricultural and Rural Infrastructure Development Corporation for Bihar, Orissa and West Bengal
and one for all the North-Eastern states to adopt a bolder strategy for increasing the tempo of agricultural lending. (5) Setting up under an act of Parliament a separate corporation for implementing the crop insurance scheme and setting up of an expert committee consisting of actuaries, insurance experts, agricultural economists, etc., to conduct a study of the proposed scheme. (6) Establishment of an apex agency to develop comprehensive training strategy for rural bankers. (7) A block should be allotted to one commercial bank, which has the largest presence through its branches in the block so as to reduce the cost of supervision, improve quality of monitoring and be beneficial to the customers.

The Agricultural Credit Review Committee has provided an in-depth review of the major problems and issues relating to the rural financial system. The committee has also stressed that the financial viability of lending agencies must be maintained for improving and enlarging the flow of credit to the rural areas. It has also pointed out that the financial viability of a large number of Regional Rural Banks has seriously been eroded and as a result their ability to provide credit to target groups has been impaired.
CONCLUSION

On the basis of the summaries of the above studies relating to various aspects of agricultural credit, it may be concluded that:

(a) There is a close relation between the new agricultural technology and the availability of credit,
(b) Small and marginal farmers have less access to institutional finance. They also borrow for consumption purpose,
(c) Farmers who have obtained finance have witnessed the increase in productivity and income levels, and
(d) There is a scope for further investment of capital in various agricultural operations particularly on smaller farms.

The inferences noted above are derived from the experiences of different areas with diverse socio-economic background. Though the above-mentioned studies have been useful in highlighting the different issues relating to agricultural financing, by the very nature of their objectives, they have not been able to probe deep into various aspects of financing of agriculture by commercial banks. Secondly, no study about the problems of agricultural credit by commercial banks in Goa has yet been made. So it is felt that there is a need for in-depth studies at the rural commercial banking level to fathom and
appraise the intensity of the problem, particularly with reference to Goa. It is obvious that the agricultural credit policies will be effective when they are related to the specific conditions prevailing in a region. Hence, specific studies of an area are essential so as to enable the formulation of appropriate credit policies for various regions of the country. In the light of this conclusion, the present study has been conducted with special reference to the state of Goa.

HYPOTHESES

The following specific null hypotheses were set up for the present survey:

1) That there is a dearth of farm credit in the state.
2) That the commercial banks have entered the area of farm financing on a massive scale and have increasingly taken up the financing of small/marginal farmers and landless labourers with a view to ensuring their viability and adding to agricultural productivity.
3) That there is a credit gap in the state.
4) That the bank financing of agriculture has led to the adoption of modern technology on a large scale.
5) That the bank financing of agriculture has resulted in the increase in the income of the farmers, and
6) That the bank financing of agriculture has helped to improve the standard of living of farmers.
OBJECTIVES:

1) To know the need for finance in the agricultural sector,
2) To ascertain the role of commercial bank finance in the agricultural sector in India and in Goa,
3) To study the progress of commercial banks in rural and semi-urban areas in India and in Goa,
4) To assess the performance of selected banks in Goa,
5) To identify the beneficiaries of selected commercial banks,
6) To study the utilization and benefits of loans,
7) To know the problems of commercial banks in extending loans and the problems faced by farmers in getting credit,
8) To know the effect of credit on capital formation and cropping pattern, and
9) To suggest suitable policy measures bearing on certain useful findings arising out of the present study.

Methodology of Study

The present study confines itself to the investigation of the financing of agriculture by commercial banks in Goa. Banks in the co-operative sector are not included in the study. The term agriculture is used here in a broad sense, i.e., besides cultivation it also includes fishery, piggery, dairy, poultry, etc.
Selection of the State

Goa state is selected for the present study for the following reasons:

1) Goa is one of the smallest coastal states in India where a study of agricultural financing has not been done so far.

2) Goa is also unique in the sense that throughout the state fishery forms an important component of the economy of the villages.

3) As compared to other states of India, Goa is recently freed from colonial rule and as such it offers an ideal situation for a comparative study of agricultural finance with the rest of India.

4) There is a good network of commercial bank branches in Goa. The average population per bank office as at the end of June 1991 was 4000, whereas this figure for the whole of India was 11,000. So it was felt necessary to study the attitude of the commercial banks towards agriculture.

5) Yet another reason is that Goa is now in the process of fast urbanization. Therefore, it would be of great academic interest to know what role the commercial bank finance is playing in this modernization process.
Selection of the Districts

Goa state has two districts namely South Goa and North Goa. On the basis of banking offices and other infrastructure facilities, North Goa district can be considered as forward and South Goa district as backward. The number of bank offices, including commercial banks and co-operative banks as on 31st March 1991 was 128 in South Goa and 179 in North Goa. The number of Post Offices were 91 in South Goa and 147 in North Goa. The number of Large and Medium Industries were 14 in South Goa and 28 in North Goa. Small scale industries were 1814 in South Goa and 1949 in North Goa. Hospitals in South Goa were 13 and in North Goa 65. South Goa had 854 Schools and North Goa 1183. Both these districts namely South Goa and North Goa are included in the present study.

Selection of the Talukas

In South Goa district, Canacona, the most backward taluka and in North Goa, Tiswadi, the most forward taluka, were chosen for the present study. This selection was done on the basis of the availability of credit and infrastructure facilities. The percentage of gross credits advanced by banking institutions in Goa is highest in Tiswadi i.e. 28.3 per cent and lowest in Canacona i.e. 0.7 per cent. Tiswadi, as a forward taluka has more infrastructure facilities, while Canacona, as a backward taluka has few. Tiswadi taluka has 44 commercial bank
branches and 10 co-operative bank offices, whereas Canacona taluka has only six commercial banks and three co-operative banks. Further, the number of villages/towns connected by all weather roads are 17 in Tiswadi, whereas only nine villages/towns are connected by all weather roads in Canacona. Number of post offices in Tiswadi taluka are 24 whereas in Canacona they are only 12.

Selection of the Villages

In Tiswadi taluka, the most advanced village namely St. Cruz and the most backward village namely St. Estevam were selected. Similarly, in Canacona taluka, the most advanced village namely Agonda and the most backward village namely Maxem were selected. The selection of villages was done on the basis of Annual Credit Plan under Service Area Approach prepared by the Lead Banks (State Bank of India) in South Goa district and North Goa district for the year 1991-92. The village for which the highest credit outlay was planned by the Lead Bank was chosen and considered as the advanced village and the village for which the lowest credit outlay was planned was chosen and considered as the backward village.

Selection of the Sample Beneficiaries

A list of the total borrowers (excluding closed accounts) was obtained from the commercial bank branches
operating in the selected villages. A total of 180 bank beneficiaries were interviewed; 45 farmer-beneficiaries in each village were selected on the basis of random number table. Forty five beneficiaries each of the Canara Bank, St. Cruz, State Bank of India, Agonda, State Bank of India, Maxem were selected. In case of the State Bank of India, St. Estevam there were only 11 agricultural accounts. All these 11 beneficiaries were taken and the remaining 34 beneficiaries selected were of the Indian Overseas Bank, St. Estevam.

Selection of the Commercial Banks:

Only the commercial banks operating in four selected villages namely, Canara Bank, St. Cruz, Indian Overseas Bank, St. Estevam, State Bank of India, St. Estevam, State Bank of India, Agonda, State Bank of India, Maxem were included in the present study. Managers and agricultural officers in these selected banks were interviewed. Discussions were also held with the Lead Bank managers, NABARD authorities, Regional and Divisional Managers of the Banks in the State.

Questionnaire

Separate questionnaires were prepared for bankers and farmer/beneficiaries for collecting the primary data. The initial short-comings were removed in consultation with the banks and farmers. Questions were of a simple nature. Care was taken to avoid trivial questions in the questionnaires.
The questions were short and required short answers which would provide information on relevant parts of the main theme.

Matter and Material Used:

Besides the primary data, the study is also based on secondary data which are drawn from the report of the Directorate of Planning Statistics and Evaluation, Government of Goa, Panaji, Reports of the Lead Banks (State Bank of India) in South Goa and North Goa districts, Reserve Bank of India, Government of India. Several periodicals such as Agricultural Situation in India, Reserve Bank of India Bulletin, Co-operative News Digest, Indian Co-operative Review, IMF Staff Papers, Finance and Development, Agriculture and Agro-Industries Journal, Economic and Political Weekly, Indian Journal of Agricultural Economics, Indian Journal of Commerce, Indian Economic Journal, Yojana, Kurukshetra, The Economic Times, and Pigmy Economic Review have also been consulted. Primary data is collected from five branches of the three major commercial banks located in four selected villages of the state to meet the needs of the present study.

Importance of the Study:

It is universally accepted that agriculture is the backbone of Indian economic development and it is quite essential to make a study of the ailments from which
agriculture suffers. The lack of adequate credit has been one of the serious problems. It has also been claimed that with the entry of commercial banks the agricultural credit has undergone a definite and welcome change. However, the aggregate figures conceal many things than they reveal. Hence, a state-wise assessment of the requirements and problems is an important step in formulating a proper policy for overall guidance.

Such a study can help improve the credit acquisition and help utilization capabilities of the cultivator. Understanding the principles and problems involved in financing agriculture can help the lending agencies in (1) improving the repaying capacity of the borrower (2) realistically appraising the credit worthiness of the cultivator so that the returns of the fixed farm resources are maximised (3) Participation in production planning and management will maximise the returns of the farm resources, which will lead to an improvement in the repaying capacity of the borrower-cultivator and as a result would reduce the risks of the cultivator.

In brief, the rationale of the present study lies in identifying the peculiar problems of agricultural finance and suggesting suitable policy prescriptions for the removal of ills and the evolution of an integrated approach.
Limitations of the Study:

Like any other study on agricultural finance, the present work suffers from the following limitations in the case of primary data. Firstly, the information collected from farmers relates only to the agricultural year 1990-91, during which the survey was conducted. Secondly, the data were obtained by the survey method where the farmers provided information from their memory. So far as data are concerned, it has neither been possible to collect all the desired information nor to include all the collected information in the present study. The reluctance and faulty answers furnished by the respondents might have affected the absolute accuracy of the figures, but that the conclusions on the whole are correct is more than probable.

The data from the selected banks is taken for a period of only five years, i.e. from 1986 to 1990. Data for the earlier years were not made available by the selected bank managers and hence not included in the present study.

In Goa, the majority of the farmers are marginal and small. Therefore, farm sizewise comparison of borrowers regarding utilization, repayment and benefits has not been done in the present study. Further, the study focuses mainly on the various problems faced by the selected banks while financing agriculture, problems faced by farmers while getting finance, overdues and recovery, utilization and mis-
utilization of loans, adequacy of credit, credit gap, benefits of loan with regard to savings and capital formation, etc. Other issues relating to agricultural financing are beyond the purview of the present work.

Chapterwise Scheme of the Study:

The present study has been divided into eight chapters.

Chapter-I - Introduction:

Introduction (i.e. the present chapter) chapter deals with a review of literature and statement of the problem, research methodology, objectives of the study, limitations and importance of the present study.

Chapter-II: Role of Agricultural Finance:

Initially the chapter throws light on the significance of finance in agricultural development and in the development of the economy as a whole. This chapter further discusses the importance of agricultural development and credit needs of agriculture and credit estimates.

Chapter-III: Commercial Banks and Agricultural Finance:

The role of commercial banks in economic development and the overall policy of commercial banks towards farm finance have been analysed in the earlier parts of the chapter. Further, an attempt is also made to examine the trend and progress of commercial banks in India. And in the
later part of this chapter, the progress made by commercial banks in Goa is assessed.

Chapter-IV : Performance of Commercial Banks in the Selected Villages of Goa:

In the beginning of this chapter, a brief history of the selected commercial banks is given. The trends in deposits and advances of these banks is analysed. The purposewise distribution of loans sanctioned by selected banks to sample farmers is also discussed.

Chapter-V : Utilization and Benefits of Loan:

In the earlier parts of this chapter, an attempt has been made to analyse some of the issues in the utilization of loans by the farmers. The role of extension, family size and nature in utilization of farm credit is discussed. The benefits of credit with regard to cropping pattern, and capital formation, credit gap, adequacy of credit, utilization and diversion of loans are also discussed.

Chapter-VI : Overdues and Recovery of Loans

The problem of recovery and overdues, the importance of timely recovery of loans is discussed. And then the recovery of overdues problem of the selected banks is analysed. Further the default cases among the selected beneficiaries are also examined.
Chapter-VII : Problems of Agricultural Financing :

The problems faced by selected commercial banks in financing agriculture are discussed in this chapter. Similarly, various problems faced by farmers while borrowing from banks are also dealt with.

Chapter-VIII : Summary and Conclusion :

In this chapter an effort is also made to offer certain policy suggestions for tackling the numerous farm finance problems.

THE AGRO-ECONOMIC ENVIRONMENT OF THE GOA STATE

The geographical area of the state of Goa is 3702 square kilometres. The state of Goa is situated on the Western Coast. "The boundaries of Goa are defined in the North by the Terekhol river which separates Goa from Maharashtra. The Eastern and Southern boundaries are defined by the State of Karnataka while the Western boundary is defined by the Arabian Sea". The state presents a hilly area sloping downwards to the coast with the rivers providing inland waterways, with a navigable length of 256 kilometres.

Goa is divided into two districts, North Goa and South Goa. North Goa district is divided in six talukas, namely, Tiswadi, Bardez, Pernem, Bicholim, Satari and Ponda and
South Goa district is divided into five talukas, namely, Sanguem, Canacona, Quepem, Salcete and Mormugao.

Economic Importance of the State:

The state of Goa is rich in natural resources such as forest, navigable rivers, minerals like iron, manganese, ferro manganese, agricultural lands, natural harbour and beautiful coastline.

Population:

According to 1991 Census, the population of Goa state is 11,68,622, of which the rural population is 6,89,201 and the urban 4,79,421 and scheduled caste and tribes 21,309. Density of population in Goa is 272 persons per sq.km.

Land Use Pattern:

Out of the total area of 3,61,113 hectares in Goa state, 29.16 per cent is covered under forest, 9.18 per cent of land is not available for cultivation and 5.26 per cent is put to non-agricultural use. Besides this, 3.72 per cent is barren and uncultivable land. 22.76 per cent of land is considered as cultivable waste, including fallow land. Thus the net area cultivated in Goa is 1,38,604 hectares (38.38%), of which the area under paddy is 53,702 hectares (14.87%), under other cereals, millets and other pulses 3,922 hectares (1.09%), under coconuts 23,468 hectares
(6.50%), under arecanuts 47,958 hectares (13.28%) and under sugarcane, cashewnuts, vegetables and garden crops 60,780 hectares i.e., nearly 18 per cent.

Irrigation:

The total irrigated area is 14,105 hectares (i.e. 3.91%). The number of pumpsets used for irrigation in the state was 10,092 according to 1991 estimate made by the Directorate of Planning, Statistics and Evaluation, Panaji, Goa. In Goa more lands are cultivated under rainfed conditions. The area under double crops in the state is 13,192 hectares. Goa possesses a good network of rivers with tributaries which can be easily tapped for irrigation with lift and bund arrangements instead of going in for very heavy capital intensive major and medium irrigation projects.

Soil:

The soils of Goa are generally classified in three categories: (i) laterite or lateritic (81%), (ii) alluvial (7.4%), (iii) sandy (11.6%). The soil of Goa is mainly lateritic. The agricultural low-lying lands, mainly of coastal talukas, are alluvial belts, mainly formed through sedimentation along the principal rivers. Along the coastal lines there are sand dunes. Most of the remaining land which is under forests originates from the archaeological rock formations.
Climate:

The climate of Goa is warm and humid. During the months from June to September, Goa gets a heavy rainfall from south-west monsoon. "The average annual rainfall in the state is about 3,500 mm and humidity is generally above 60 per cent. All the year round the temperature varies on an average between 20° and 36° centigrade." 65

Fisheries:

Fishing activities play an important role in Goa not only because they are a source of substantial income for the people employed in this activity but also because fish forms part of the staple diet of most of the people of Goa. "Nature has blessed Goa with considerable marine and inland fishing potential. It has a coastline of about 105 kms, with a fishable area of about 5,200 sq. kms upto 200 fathoms, and about 250 kms of inland water ways and number of tanks covering about 100 hectares of area." 66 The major marine fishing resources of Goa are sardines and mackerels followed by prawns, cat fish, butter fish, etc. It has been estimated that there is a potential of about 15,000 tonnes of demersal resources with prawns, lobsters, etc. upto 200 metres from the coast of Goa. According to 1990-91 estimate made by the Government of Goa, the value of marine fish catch was Rs.2,692.55 lakhs and the value of inland fish catch was Rs.447.97 lakhs.
Tourism:

Tourism is one of the important industries of Goa not only because of the availability of Goa's own touristic resources, but also because it can provide substantial employment in terms of investment employment ratio. Goa has an attraction of lovely beaches, historic monuments, churches, temples, fountains, springs, waterfalls, greenery matched with river fronts, valleys, hillocks. It is inhabited by people who have the touch of European culture mixed with Indian hospitality and care-free manners which makes the state an enjoyable, peaceful and relaxing spot. Tourism is an industry which has its special significance since it provides good employment opportunities per unit of investment and generates growth in other sectors of the economy like horticulture, animal husbandry, cottage and handicraft industries, transport, animal husbandry, hotels etc. There are 325 hotels and lodging houses in Goa. As per 1990-91 provisional data estimated by the Directorate of Planning, Statistics and Evaluation, 8,00,000 Indian tourists and 1,00,000 foreign tourists visit Goa every year.

State Income:

According to the Directorate of Planning, Statistics and Evaluation, Panaji, in 1991 Net Domestic Product of Goa state at current prices was Rs.85,087 lakhs and at constant prices Net Domestic Product (NDP) was Rs.45,098 lakhs. Per
capita income at current prices and constant prices in 1991 was Rs.6,939 and Rs.3,678 respectively.

Status of Education:

According to the 1991 estimate made by the Directorate of Planning, Statistics and Evaluation, Panaji, literacy rate for Goa state is around 57.25 per cent. The literacy rate for males is 65.99 per cent and for females it is 48.29 per cent. The state has a wide network of educational facilities including primary, secondary, college and university, vocational and professional educational institutions.

Background of Agriculture in Goa:

'Gaocares' or 'Communidades'

"Since the origin of Goa, agriculture has played an important role in the economy of the state. The very fact that the original settlers of Goa, brought extensive lands of the place under cultivation and later on formed themselves into associations which became known as "Gaocares" or "Communidades" indicates the importance the people of Goa have been giving to agriculture." The early settlers in Goa organised themselves in distinct, compact and well-defined villages. Much of the village land remained as common property and was managed by a body of men known as the Gaocares. Each village had its own Gaocares, who represented the common ancestors of all the free kinsmen
of the village. According to the 'Foral de Usos e Custumes', (Register describing social system of Goan villages) dated 16th September, 1526, the term Gaocar refers to a governing or managing headman. In the Deccan or on the West coast, the term was used in a special sense meaning the holder of "mirasi land" as well as the "village headman". When at a later stage, the village communities of Goa came successively under the rule of Kadambas, the Muslims and the Portuguese, these two functions, namely, the governing and management of village affairs became the primary duties of the village Gaocar.

The council of the Gaocares was known as Gaocaria. The Gaocaria was a representative body and not a body with an inherent authority. However, the position of the members of the Gaocaria was hereditary.

The Gaocares had the sole ownership of the cultivable land of the village. Even those plains within the limits of the village which were wild and unreclaimed were under their control. The Gaocares could give the vacant, waste and uncultivated land for cultivation to village servants like the Temple Brahmin, the Gatekeeper, the Washerman, the Cobbler, the Carpenter, the Blacksmith, the Temple Sweeper, dancing girls, etc. These persons received rent-free land for their services. The grants were irrevocable. No servant could be removed and another put in his place. However, no Gaocar could make a rent-free grant to any person who was
not a resident of the village. The Gaocar could, however, grant waste or fallow land within his village to any applicant who agreed to bring the waste under cultivation. The cultivator of such a land was required to pay rent at a concessional rate for 25 years. After that he had to pay the full customary rate. If a Gaocar desired to sell any inherited property in the village, he had to obtain the consent of all the Gaocares and also no one could purchase without similar permission.

"This common ownership of land by the Gaocares or Communidades has prevented the concentration of economic power in the hands of a few individuals. All the best and most productive and cultivable land where it is possible to grow one or more crops in a year is owned by the Communidade in all parts of Goa with the result that even those who have the financial resources are not able to buy such land." 71 Many of the cultivators in Goa are cultivating such comunidade land without having property rights even today.

Agricultural Conditions:

"Before liberation from Portuguese hands, agriculture was not given primary importance but was regarded only as a subsidiary industry. In fact no serious thoughts to the development of agriculture in Goa was given and the most of the required food products were imported which worked cheaper than investing in agricultural inputs to produce
them locally. Due to this reason, agricultural practices in Goa remained backward and even now it is based upon the century old systems of conservation of water for irrigation by small bunds made of mud. With the increase in other activities like mining in Goa after liberation, the old system of agricultural practices are gradually becoming ineffective particularly in low-lying areas.  

After the liberation of Goa and particularly more recently, agriculture is being regarded as an important industry. In spite of the fact that over three-fifths of the working population has agriculture as the primary occupation and 39 per cent of the total surface area is under agricultural crops, yet the contribution to the regional income from this sector is only about one-sixth of the total. In spite of the rich variety of high value crops like paddy, coconut, mango, arecanut, pineapple and vegetables that are grown, the average production thereof is still unsatisfactory affording immense scope for development.
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