Chapter-II

ROLE OF AGRICULTURAL FINANCE
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This chapter is divided into five sections. Section one deals with the role of agricultural finance. Section two gives the objectives of agricultural credit. The third section highlights the importance of agricultural development. The fourth section provides a bird's-eye view of the credit needs of agriculture, classification of credit requirements and criteria for a good system of credit. The fifth section throws light on credit estimation in India.

Section I Significance of Agricultural Finance

Agricultural credit is provision of money for productive purposes so as to increase the production and productivity. Credit is a phenomenon of development and the banking system along with entrepreneurship is a key input in the process of economic development in general and agricultural progress in particular. Large masses of small and marginal farmers in the underdeveloped countries are generally illiterate, uneducated and unskilled. The capital equipment they use is extremely small and crude without any technological improvement. Most of the small cultivators are resource poor. They follow primitive methods of cultivation. Schickele Rainer explains the farmers' position as follows:
"The great masses of small farmers live so close to a bare subsistence level that their low rate of savings from their own net income is barely sufficient". Due to the pressure of rapidly growing population and increasing unemployment, modernization of the small farms appears to be the most desirable strategy of agricultural development in underdeveloped countries. It is in this context, i.e. modernization of the small farms that credit assumes crucial importance. Unless adequate and timely finance is made available to the small farmers and that, too, at a reasonable rate of interest, modernization of agriculture cannot take place. Further, Meir and Baldwin observed that the three prime factors that perpetuate low level of development in underdeveloped countries are market imperfections, backward people and capital deficiency possessing circular relationship. A number of factors have been identified as the causes for the slow growth of agricultural productivity like defective land tenure systems, market imperfections, underemployment, primitive techniques of production, deficiency of capital, absence of reasonable prices, existence of intermediaries and absence of farm entrepreneurship.
Finance is a significant factor in agriculture, even more so in modern agriculture. Among the essential pre-requisites for achieving sizable progress in the agricultural sector, credit occupies a very important place. It is well postulated in the statement of T.W. Schultz, "Once there are investment opportunities and efficient incentives, farmers will turn sand into gold". Several economists have emphasized the role of finance for agricultural development. For instance, Agarwal expressed that "providing agricultural finance for agricultural operations is like oiling agriculture to make its wheels move softly and smoothly". That means credit plays a pivotal role in the process of agricultural transformation. Provision of credit can encourage the modernization of agriculture to a very great extent. Similarly, non-availability or scarcity of credit often retards agricultural progress in particular and rural development in general. According to the Sector Policy Paper of the World Bank: "Not only can credit remove financial constraint but it may accelerate the adoption of new technologies. Credit facilities are also an integral part of the process of commercialization, higher productivity or income among the rural poor. Success in this respect depends on many factors
including the availability of inputs and services, sound credit policies, well-managed institutions and appropriate delivery channels". Hacque and Shirohi\(^6\) also hold the same opinion. Thus, faster agricultural growth is possible with adequate credit. Sadhu and Singh\(^7\) opined that "agricultural credit through institutional channels is the only way to break agricultural stagnation". By using more credit on the farm, the farmer expects to improve his financial position. Morman\(^8\) states, "By enlarging his credit, the farmer may expect to increase his financial welfare. By credit, the farmer can increase his work and his efficiency; he can procure better implements". Thus credit enables the efficiency of the borrower thereby helping him to buy better implements. Another important role of finance is it helps the farmers to increase productivity and his standard of living. Sharma\(^9\) expressed the importance of credit in the following words, "The role of credit consists in laying the foundation stone of farm revolution and maintaining the structure built thereon". Thus, it is clear that agricultural finance is one of the most important resource inputs and the timely supply of finance will help to increase agricultural production, thereby leading to modernization and commercialization of agriculture.
Further, it helps in maintaining sustainable growth in agriculture.

An agriculturist has to make investment to raise the productivity of land. F.A. Nicholson\textsuperscript{10} has emphasized the crucial role of credit in a systematic way. "The lesson of universal agrarian history from Rome to Scotland is that an essential of agriculture is credit. Neither the condition of the country nor the nature of land tenures, nor the position of agriculture, affects the one great fact that agriculturists must borrow. If the country is underdeveloped... harassed by the uncertainty of season acting upon defection methods, are forced to borrow; if the country is highly civilized and populated, its farmers are driven to intensive agriculture for which their capital is seldom sufficient... The peasantry of India must by the very existence and tenure, borrow and borrow freely, annually and continuously". Credit also helps to remove agricultural stagnation by enabling the use of improved farming methods.

Credit is a very powerful instrument in bringing about development, particularly agricultural and rural development. The significance of finance is more in case of poor families as their savings are meagre. They are in a
vicious circle of low income, low savings and low capital, low productivity and consequent low income. Credit, if properly channelled, can break this circle by providing them means to acquire productive assets or by providing employment opportunities. Hence, "in raising rural incomes, credit has a substantial role to play".  

In India agriculture has always been a way of life rather than a business and has suffered from stagnation due to low productivity arising from inadequate investment. The only way to bring about a solution from such a state of affairs is to find ways of increasing capital investment. It has been pointed out by William G. Murray  that "credit makes it possible for farmers to take advantage of new machines, good seed, fertilizer, livestock and labour, all of which enable the farmer to organize and operate his farm on a more profitable basis". In order to adopt High Yielding Varieties, farmers need huge finance. Since their own savings are negligible, expansion of credit institutions is a pre-requisite for technological change which will facilitate agricultural prosperity. Dantwala  rightly states that "provision of good credit facility to the farmers at the right time, in the right place, in the right proportion is a requisite for the transformation of
traditional agriculture. It is a well accepted fact that finance is an essential input to adopt new technology so as to achieve agricultural prosperity. The Green Revolution of Punjab is the best example to support this statement. Frankel has cited the example of Ludhiana in Punjab where timely and available credit in combination with other inputs resulted in a successful Green Revolution. He writes "During the first four years of the package programme between 1961-62 and 1964-65, the consumption of nitrogenous fertilizers increased by 8 times and of phosphatic fertilizers by over 20 times. This was made possible by the bold and dynamic policies of the government. The village level workers were authorized to sanction spot loans of Rs.150 for fertilizers and Block Development Officer and District Agricultural Officers were authorized to sanction loans upto Rs.1000. Co-operative societies also came out with generous and prompt aid loans to farmers for purchase of fertilizers and pesticides. In order to extend help to small farmers the criteria for eligibility were relaxed both by the Government and land mortgage banks. In 1967, the Agricultural Department lowered its requirements so that the farmers with 15 acres of land were eligible for minor irrigation loans. By 1969, farmers with 5 acres of land
also became eligible for tube well loans. This example was followed by land mortgage banks. Indeed so great was the consideration shown that a small farmer could mortgage 2 acres of unirrigated land to qualify for a loan of Rs.5000 repayable in seven equal instalments. Even more liberal terms were laid down. For instance, a sum of Rs.6,500 repayable over nine years, with only repayment of interest during the first year was sanctioned for tube well. Thus easy credit availability made it possible to achieve a phenomenal growth in agricultural production in Punjab.

Robert observes, "Without capital he must usually work as a hired labourer; some capital may enable the farmer to become a tenant; and still more a part-owner, a mortgaged owner or a full owner". The reluctance of the farmers to borrow is disappearing gradually even in rural areas. This shows that "the rapid increase in the use of borrowed funds reflects increased willingness by farmers to make money with money owned by others and to let others hold more of the investment in farm assets." Thus, even the poor farmers have understood the importance of finance in agriculture so as to adopt improved technology. Obviously, "credit for agriculture has become more important in recent years owing
to new technological developments which have increased capital requirements, which cannot be met from the farmer's own funds, and the inadequacy of capital has been identified as a major cause of low farm farmers.\textsuperscript{17}

To conclude, it is observed that the provision of adequate and timely credit is the pre-condition of agricultural development.

Section II Objectives of Agricultural Finance:

Agriculture is dependent upon outside finance for its development. It is a fact proved by history and evidenced by the appalling indebtedness of almost every person everywhere engaged in the industry of agriculture. The main objective of credit is to increase the rate of agricultural development by facilitating capital flow in agriculture.\textsuperscript{18}

The following are the important objectives of agricultural finance:

1) To increase agricultural production,
2) To fill the existing credit gap in the field of agriculture,
3) To provide adequate and timely credit for viable agricultural schemes,
4) To achieve the national plan objectives, with special emphasis on the weaker section,
5) To inculcate banking and saving habits among the rural people, and
6) To assist cultivators in adopting improved methods of agriculture.

In order to fulfil these objectives, a country must have (i) a wide network of branches of banks and other financial institutions, and (ii) a sound system of agricultural credit. The requisites of a sound system of agricultural credit are: (a) It should generate and mobilise savings in rural areas by devising appropriate mechanisms, (b) It should ensure a net inflow of funds into agricultural sector, (c) It should deploy credit with maximum efficiency and quality, and (d) It should reduce risks as far as practicable to the borrower, credit institution and the lender. Institutional agencies should keep in mind these requisites while advancing in rural areas.

Thus, agriculture being the oldest industry, "needs finance to fulfil its commitment to the society" says Nakkiran. Hence, it is the commitment of the financial
institutions to make available the finance required by the agriculturists at the right time and in right quantity.

Section III - Importance of Agricultural Development:

Agriculture is the very foundation of any socio-economic system. It plays a crucial role in the overall development of the economy of a country, particularly in developing countries like India. Rapid agricultural development facilitates the process of economic growth.

Agricultural development implies increased production of food and farm products, higher income and improved standard of living for peasants. Similarly growth of agricultural sector accelerates overall economic development. It is rightly observed by Davis\(^{20}\) that "Agriculture is the foundation of manufacture and commerce". The development of agriculture is a *sine qua non* for the growth of the economy.

The significance of agriculture is stressed by Morman\(^{21}\), "What promotes agriculture benefits mankind; the progress of agriculture and the progress of civilization go hand in hand. Our industries are closely related and dependent one upon another, and the raw materials for many of them are
provided by agriculture." It is generally accepted that industrialization can follow on the sound heels of agriculture. Strong and prosperous agriculture provides the sound foundation for rapid industrial development, besides feeding the teeming millions of people.

Several economists and international organizations have stressed the importance of agriculture in economic development. Kindleberger\(^{22}\) opined that 1) Agriculture can provide labour to industry, (2) It can furnish demand for industrial output and can provide savings for use in industry, (3) It contributes taxes to the government, (4) Agriculture earns foreign exchange through exports, and (5) It provides food for industrial workers.

According to Simon Kuznets\(^{23}\) agriculture assists economic development in following ways: (1) agriculture makes a product contribution by increasing the supply of food (2) agriculture makes a market contribution through its trade contacts with other sectors, (3) agriculture makes a factor contribution by releasing labour force for non-agricultural sector. Further, Johnston and Mellor\(^{24}\) classified the contributions of agriculture to economic development in five groups: (i) Economic development is
characterized by a substantial increase in the demand for agricultural products, and failure to expand food supplies in pace with the growth of demand can seriously impede economic growth. (ii) Expansion of agricultural products may be one of the most promising means of increasing income and foreign exchange earnings, particularly in the earlier stages of development. (ii) the labour force for manufacturing and other expanding sectors of the economy must be drawn mainly from agriculture. (iv) agriculture, as the dominant sector of an underdeveloped economy, can and should make a net contribution to the capital required for overhead investment and expansion of secondary industry; (v) rising net cash incomes of the farm population may be important as a stimulus to industrial expansion.

The Food and Agricultural Organisation (FAO) of the United Nations has explained the significance of agriculture for economic development: “Agriculture increases farm production that meets the growing demand for food, failing which it adversely affects the economy as a whole.”

Johnston and Mellor opined that “if food supplies fail to expand in pace with the growth of demand, the result is
likely to be a substantial rise in food prices leading to political discontent and pressure on wage rates with consequent adverse effects on industrial profits, investment and economic growth". If there is a deficiency in food production, the country has to increase the food imports at the cost of diverting scarce foreign exchange resources from the import of the capital goods needed for industrialization.

The significance of agriculture is noticed in almost all the countries, but more particularly in developing countries. Prosperity of agriculture creates agricultural surplus. Essentially agricultural surplus means the physical quantity of food production by which the total food production exceeds the total food consumption of the farm population. Higher the agricultural surplus, faster is the growth of a country’s economy.

Similarly agricultural development helps to generate more income, thereby providing a market for manufactured goods. It also facilitates a higher level of capital formation and growth with stability. It is rightly observed by Pawar that the performance of the agricultural sector determines the growth rate of the economy.
Further Earl, O. Heady and Herald Jensen stated explicitly that agriculture is the dog which wags the tail of industrial prosperity—when agriculture is prosperous, so is the rest of the country and when agriculture is poor, the rest of the country is poor. That means that "the prosperity of the whole economy hinges upon the prosperity of agriculture, and that depressed farm income leads to overall depressed economic conditions".

Thus, agriculture contributes significantly to the economic development of a country. It occupies a central place in the country where its development is an integral part of overall economic development. Obviously, therefore, the agriculture sector needs careful handling and planned stimulation. Otherwise it can obstruct the development of the entire economy.

Section IV -
Need for Credit in Indian Agriculture

Like any other industry, agriculture requires a 'push' of capital. "Without adequate equipment peasants may only be wasting the land on which they work and also the resource they wish to exploit." Credit is a vital factor in farm production in Indian agriculture where the prospect for a
plough back is weaker as compared to trade and industry. According to Sharma, "The more backward the agriculture, the wider and deeper shall be the need for credit to provide necessary face-lift to agriculture". Nearly 70 per cent of total Indian farmers are small and marginal; and are at the subsistence level virtually without surplus or savings left for future investment and production purposes. After harvest, they have to repay the old loans; as a result, very little surplus remains for consumption. That is the reason Nicholson said, "All farmers, especially small proprietors must of necessity will borrow at one time or other. Hence, credit is not necessarily objectionable nor is borrowing necessarily a sign of weakness". Credit is a way by which capital can be formed without reducing the borrower's present consumption level. Madan has aptly stated that "the need for credit is more urgent in India, because of two basic characteristics, namely, small units of production and uncertainty of rains."

The reasons for the need of finance for agriculture in India are given by Nakkiran as follows:

1) Indian agriculturists are having debt as an ancestral property and it is passed on from generation to
generation. To liquidate the old debt, finance is needed by the farmers.

2) To safeguard the interests of agriculturists and to keep them to continue the occupation of agriculture, finance is needed. Farmers who are indebted to the money-lenders must be released from their clutches; otherwise all possibilities are there for the transfer of lands to such inexperienced people. Thus to keep agriculture in the hands of the trained agriculturists, credit must be given to them.

3) Agriculture is susceptible to natural calamities and in countries like India, it is still depending on the monsoon. Enormous risk in the form of uncertain income, bad weather, drought, flood, cyclone, pest attack, low prices etc. have encumbered agriculture. Hence, to continue cultivation in good and bad seasons, credit is required.

4) Returns in agriculture are not certain. Right from sowing to the marketing of the produce, lots of risks and uncertainties make the farm income uncertain. To continue the cultivation for next season he has to borrow.
5) To make agriculture a viable business, finance is very much needed. This is quite applicable in the case of cultivation of commercial crops. When the motive is to get fair income, heavy investment must be made and for that purpose credit is indispensable.

6) In order to increase the agricultural productivity, adoption of intensive agriculture and improved agricultural practices are essential. Modern inputs like improved seeds, chemical fertilizers, pesticides etc. are costly and to meet such costly inputs, the farmers have to borrow.

7) In agriculture, there is a time-gap between the investment and return. The gestation period of crops varies from months to years. To meet all the expenses till the income period, credit is essential. Hence to meet the continuing expenses, finance is needed by the farmers.

8) To make permanent improvements, and to purchase machinery, finance is a must. Digging of wells, fixing of pumpsets, purchasing of tractor, land reclamation etc. are costly and the farmers must borrow money from institutional agencies to meet such heavy costs.
9) To institute subsidiary farming like dairying, poultry etc. farmers must be given credit. Only by encouraging such activities, the farmers can stabilize their incomes.

10) To convert the small farmers into viable farmers, credit is essential.

Thus, for the farmer credit is no less important than other inputs like seeds, fertilizers, water etc. His permanent capital is land and equipment. The All India Rural Credit Survey aptly stated that "the cultivator's need for credit may arise in a number of ways. He may, in the course of business, want short term funds for current production; or he may have to borrow a long-term loan for digging a well or improving his land. The same gradation may arise in connection with family expenditure; there are current consumption needs; there may be occasions such as illness calling for somewhat larger expenditure; and a special event like marriage may mean even larger expenditure and a longer period of repayment. The need for production finance is related to the structure of farm business."

Like any other productive activity, agriculture needs financing for its various production - processes like
purchase of inputs, sale of output in town markets, land improvement etc. All these processes involve payments for which money has to be found. Even in case of traditional agriculture, these needs are there; but they are much more in the modernized agriculture.

A broad classification of agricultural credit can be made as (i) directly productive and (ii) indirectly unproductive expenses. It has rightly been said that "one fertilizes, and the other water logs the soil. From one springs the crop by which debt can be repaid and from the other half, the ills that shackle body and mind." 36

A peculiarity of agricultural finance is that it is needed both for production and for consumption. It is because the nature of agricultural operations is such that in quite many cases it is not possible, nor helpful to make any distinction between the two. Agricultural operations are seasonal in character in the sense that the production activity is not spread throughout the year. This character is stronger in traditional agriculture, wherein most of the places a single crop is grown and there is no diversification of occupation. But the character of consumption of farmers is non-seasonal. So, the farmers
should either have savings from the past harvest or they should borrow against a future harvest. Mellor opines correctly, "In traditional agriculture, problems of finance and credit arise in large part from a seasonal cycle of production which is superimposed on a largely non-seasonal or steady pattern of total consumption".37 Moreover, the needs of saving and credit, relative to net income, are substantial because the opposite seasonality characters of production and consumption stand in sharp contrast to each other.

**Unproductive Needs:**

As against the productive credit for such purposes as buying of inputs, digging of wells etc. and for consumption during the waiting time between sowing and sale of the produce, which can be repaid, there are items of expenditures which have no returns. For eg. money spent on birth and death ceremonies, marriages, litigations etc. does not contribute to production. These loans are essentially unproductive.

**Unusual Needs:**

There are also the credit needs arising out of unusual events like crop-failures which reduce the income of farmers
well below the average. These events occur more in traditional agriculture since environment control is far less compared to modern farming. The losses associated with crop-failures are normally huge, and hence the credit requirements are too large to be repaid in a very short period. The occurrence of such losses and their magnitude cannot be known in advance; yet they occur frequently.

Needs of Technical Change:

The need to purchase new inputs like High Yielding Varieties of seeds, chemical fertilizers, tube wells, farm-based storage facilities, spraying equipment, instruments for new practices of irrigating land like sprinkling, buying or renting of tractor etc. constitute needs of technical change. As it is observed by Subramaniam, "The crux of the new technology is the introduction of intensive cultivation using new high yielding varieties of seeds backed by more and better plant nutrients, effective plant protection and adequate water supply." The use of this new agricultural technology has increased the demand for farm credit.

In fact, if improved techniques of production are adopted without adequate capital, it might result in returns
lower than those of traditional agriculture. It has been rightly pointed out by Rajgopalan that "farm technology without adequate capital to facilitate its use is like a high cost dam without field channels for irrigation". The farmers with their scarce resources find it difficult to meet this capital requirement. The majority of farmers in India have no or very little marketable surplus. So, there is very little doubt that "unless credit and other necessary inputs of agriculture are made available to the farmer, almost at his door-step at a cheap cost, the tempo of the agricultural revolution cannot be stepped up." Thus if agriculture in India is to be developed, timely and adequate supply of finance must be made by the financial institutions.

The credit requirements of farmers are classified clearly by Sharma as follows:

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<tr>
<th>Classification</th>
<th>Items of Requirements</th>
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<tbody>
<tr>
<td>A. Purpose :</td>
<td></td>
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<tr>
<td>1. Capital expenditure</td>
<td>Purchase of land, land reclamation, construction and repair of wells, irrigation sources, purchase of farm machineries, their repair, replacement, addition etc.</td>
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2. Current expenditure
Purchase of seeds, manures, fodder, hire charges of water, machines, wages, rent etc.

3. Family expenditure
Purchase of clothes, utensils, medical and educational expenses, litigations, marriages, festivals etc.

4. Repayment of debts
Repayment of debts and interests.

B. Period:

1. Short term credit
Recurring expenses for the period not exceeding 15 months.

2. Medium-term credit
Expenses on farm assets of temporary nature like deepening of wells etc. for the period not exceeding more than 60 months.

3. Long-term credit
Covering a period of 5 to 20 years: redemption of debts, purchase of heavy machinery etc.

C. Nature:

1. Consumption credit
Personal, domestic etc.

2. Production credit
Farm Expenses of recurring nature and related to agricultural operations.

3. Investment credit
Expenses incurred on permanent additions and improvement of farm assets.

An important feature of agricultural credit in India is that the aggregate credit requirements of farmers vary from season to season, region to region and from crop to crop. According to the All India Rural Credit Survey, "the period-wise classification is a general classification of
which the other classifications may be regarded as sub-divisions within each group”.

The short term farm credit refers to the amount of money required by the farmer to meet the costs of inputs and to modernize the equipment during a given period of time. The short term loan includes the working capital for the purchase of seeds, manure and other raw materials, a reasonable amount for the maintenance needs for the farmer and his family. The duration of the short-term loan does not exceed 15 months.

Medium term credit represents the loans advanced for a period ranging from two years for purposes like buying of bullocks, milch animals, small agricultural equipments, digging of a well or bringing about minor improvements on cultivable land, construction of farm houses and cattle sheds.

Long-term credits are loans repayable in periods exceeding five years. Generally, long term credit in India is spread over from 7 years to 15 years, while in certain other countries it extends even up to 75 years.
Long-term loans are granted for the following purposes:

1) Minor irrigation such as dug-wells, bore wells, tube-wells, seed bed tanks, improvement of old wells and tanks and lift irrigation schemes.

2) To buy devices of lifting and supplying water like oil engines, electric motors, sprinkle irrigation equipment, laying of pipelines and field channels etc.

3) To buy tractors, power tillers, sprayers, crushers, threshers, transport equipments etc.

4) Land development purposes like levelling, bunding, land reclamation, soil conservation etc.

5) Orchards, plantations, horticulture etc.

6) Farm houses, godowns, motor sheds, cattle sheds, tobacco barns, cold storage etc.

7) Purchase of land and land rights by tenants, paying of old debts, purchase of shares in agro-based industries in the co-operative sector etc.

8) Other purposes such as sericulture, pisciculture, piggery, sheep-rearing, poultry farming, dairy-farming etc.
9) Credit needs of infrastructural agencies such as those engaged in the distribution of fertilizers, processing and marketing of produce.

The period of loan even for the same purpose may differ from one cultivator and another depending upon the repaying capacity of the farmers. Moreover, the institutional agencies providing agricultural credit are changing the duration of the loans and there is no uniformity among them about the duration and length of medium-term and long-term loans.

Criteria for a Good System of Agricultural Credit:

The famous Agricultural Economist Louis Tardy has laid down the following criteria for a good system of agricultural credit.

1) Credit should be granted for a sufficiently long period commensurate with the operation which it is designed to facilitate.

2) It should be granted at a low rate of interest.

3) It should be adequately secured to avoid any abuse of credit facilities, but the security need not necessarily be material; it should, if necessary, be in the form of
personal credit secured mainly by the borrower's moral standing and farming ability.

4) It should be adapted to the average yield and capacity for repayment of the farms, particularly during periods of economic depression.

5) It should be placed in the hands of institutions the directors of which have received special training and had actual banking experience.

The lending institutions and policy-makers must keep in mind the above mentioned criteria in order to have a smooth flow of credit to the farm sector.

Section V - Credit Estimates in India:

A significant feature of agricultural credit in India is that the aggregate credit requirements of farmers vary from season to season, region to region and from crop to crop. Under such varying conditions and due to inadequate information regarding individual credit needs, it is a difficult task to determine the exact credit requirement for various agricultural activities. However, several attempts have been made for the estimation of agricultural credit requirements.
The All India Rural Credit Review Committee had appointed a Panel of Economists headed by Dantwala for estimating agricultural credit requirements during the period of Fourth Five Year Plan. This Panel estimated the total demand for agricultural credit by the end of Fourth Five Year Plan at Rs.4000 crores.

The Fifth Five Year Plan estimated that by the end of the plan, the annual short-term production credit requirement for the country as a whole, would be around Rs.3,000 crores and the medium and long-term credit requirement would be around Rs.2,400 crores. Thus, this estimate placed the total agricultural credit requirement at Rs.5,400 crores.

The Working Group (1965), set up by the Agricultural Production Board of the Government of India, estimated the total credit needs of agriculture at Rs.1,106 crores for the year 1970-71. The All India Rural Credit Survey Committee had fixed the total agricultural credit requirements at Rs.2,000 crores.

Another estimate placed the agricultural credit requirement at Rs.5,000 crores by the end of 1978-79. The National Commission on Agriculture has worked out the
credit requirement of farm sector by the year 1985 at Rs.16,550 crores.

Agricultural Credit Review Committee\(^{52}\) (1989) estimated Rs.27,551 crores as the direct demand for agricultural credit in 1989-90. The committee further estimated the demand for agricultural credit as Rs.57,316 crores in 1994-95 and Rs.110,873 crores in 1999-2000. As against this, the resources available in the banking system would be of an order of Rs.28,694, Rs.51,829 and Rs.89,447 crores respectively in 1989-90, 1994-95 and in 1999-2000. The resulting deficits of Rs.5,487 and Rs.21,426 crores in 1994-95 and 1999-2000 could be met by the banking system by further aggressive deposit mobilisation.

From the above estimates, we can draw the conclusion that the magnitude of credit requirement is rising rapidly. This tendency will continue in future because of the insecurity of weather conditions, widespread drought and floods in one or the other part of the country and also because of the extension of new agricultural technology, continued rise in prices of various agricultural inputs, increasing demand for credit for increasing modernization of agriculture.
Achievements

According to the National Credit Council, the credit agencies met only about 38 per cent of the estimated credit requirements for agriculture in 1967-68. There have been only marginal improvements in this position by 1973-74. As against the credit requirements of Rs.4,000 crores for that year as estimated by the All India Rural Credit Review Committee, the institutional credit agencies provided Rs.1,537 crores (38.4 per cent) only, comprising Rs.919 crores (23 per cent) from the cooperatives and the balance (15.4 per cent) from the commercial banks. The two major systems have, therefore, to plan expansion of the lending capacity and performance on a much more ambitious scale and have to explore and adopt new strategies, linkages and methods so as to achieve a notable improvement in servicing this gap of over 60 per cent between the total requirements and availability of institutional credit.

Agricultural finance is not merely a question of money lending but it is "to enable agriculture and the farmer to move on to a level of technology that would create a sustained basis for increase in agricultural output, to increase the number of man-days of employment and to have
much better indicators of development in terms of productivity of land, labour and capital itself. 55

From the above discussion, the following observations can be made (1) credit is essential for the development of agriculture, (2) The main objective of credit is to increase the rate of agricultural development in particular and rural development in general, (3) It is said that sufficient credit thereby leading to agricultural growth will facilitate the process of economic development, (4) Credit is needed for various purposes such as buying of chemical fertilizers, High yielding varieties of seeds, pesticides, tractors, pumps, farm equipments, land levelling, bunding etc., and (5) Several committees have estimated the credit requirements of agriculture. But unfortunately, credit supplied by institutional agencies is inadequate as pointed out by the National Credit Council.
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41 Sharma, R.D., Op.Cit., Sl.No.9, p.27.


