CHAPTER ONE
RESEARCH DESIGN AND METHODOLOGY

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INTRODUCTION

1.1 Financing of crop loans by commercial banks has assumed great significance in agricultural lending as it results in raising the productivity of agriculture. The basis for crop loans is not "land" but, "Production potential". It shifts the emphasis from "real property" to "crop" as a security. This also brings all classes of actual cultivators, including tenants, under the purview of lending, as potential borrowers. The amount of loan relates mainly to business needs. It is a short term production loan having built in provision for repayment as repayment of loan is done immediately after the harvest from the sales proceeds of the crop. The crop loan requirements of the farmers depend on the area cultivated, type of land, the nature of crops, level of cultivation and agricultural practices adopted by the farmers. The crop loan is used as "Working capital" to meet operational expenses by the farmers. The current needs such as buying of seeds, fertilisers, payment of labour charges, irrigation and electricity charges and buying of pesticides are met by using crop loan amount. Crop loan is thus the working or circulating capital for conducting agricultural operations.

1.2 Farmers in India are very poor. Agricultural productivity in our country has suffered as our farmers are entangled in the vicious circle of poverty. They do not have adequate funds
to finance their operational needs. Since finance is an important input, our agriculture could not prosper in its absence. In the past, farmers in India depended heavily for their financial needs on non-institutional agencies like the money-lenders. Money-lenders adopted many unfair practices and exploited the farming community to such an extent that once a person was caught in the clutches of money-lender he never came out of it. A proverbial saying became common under these circumstances that an Indian farmer is born in debt, lives in debt and dies in debt. This proves effectiveness with which money-lenders dominated the rural credit scene. It is only after the nationalisation of commercial banks in July 1969 and subsequently in April 1980 that there has been greater institutionalisation of rural credit. Banks have not only gone to the villages but they have reached villagers. They have started providing direct finance to agriculturists. The total number of bank offices has gone up from 8262 in June 1969 to 57,744 in June 1989. The number of rural branches has increased from 1832 in June 1969 to 31,429 in June 1989 accounting for a jump from 22% to 57.2%. The average population served per bank office has improved from 65,000 in June 1969 to 12,000 in June 1989. The deposits mobilised by commercial banks have increased from Rs.4385 crores in March 1969 to Rs.1,46,000 crores in March 1989. Deposits as a proportion of national income have increased from 15% to 49% during the same period. The credit deployment activity of banks in the post-nationalisation period has also been quite-impressive. The total bank credit rose from
Rs.3599 crores in June 1969 to Rs.81,23U crores in Dec.1988. The priority sector advances recorded an increase from Rs.441 crores in May 1969 to Rs.34,623 crores in March 1989. The percentage of priority sector advances to total advances has gone up from 14.6 per cent to 45.1 per cent during the same period. Financial assistance provided by commercial banks under new 20-Point Economic Programme amounted to Rs.10,250 crores in March 1989 covering about 214 lac borrowal accounts. Liberal terms and easy flow of credit to rural areas has been a feature of bank lending in the post-nationalisation period. All these facts indicate that commercial banks have evinced keen interest in agricultural lending.

1.3 In this context, crop loans have assumed great significance in the whole gamut of rural lending. They have been playing a critical role in raising agricultural productivity in India.

B. THE PROBLEM OF RESEARCH

1.4 The problem of research selected for the present study is:

"Financing of Crop Loans by Commercial Banks - A Case Study of Chikodi Taluka".

1.5 India is a land of villages. Majority of our population resides in six lakh villages spread far and wide the country.
About 70 per cent of population is dependent on agriculture for its livelihood. Economic development of India is totally linked and dependent on the growth of agriculture and development of villages. Mahatma Gandhi has rightly pointed out that the prosperity of India lies in the prosperity of villages. The development of agriculture has suffered due to the lack of adequate and timely availability of institutional finance.

1.6 The all India Rural Credit Survey Committee 1953 in its report has pointed out that the financial needs of our farmers are of three types viz. Short term, Medium term and Long term Credit. Farmers require Short term credit to meet their day-to-day expenditure for conducting agricultural operations. They are able to repay this loan immediately after the harvest. This is 'Working/Circulating Capital' requirement of agriculture. Commercial banks mainly provide this type of credit. Crop loan scheme is an attempt of meeting this requirement. It helps in improving productivity and production of agricultural output.

1.7 Since crop loans have a direct bearing on agricultural productivity and output, the researcher thought that it would be worthwhile to empirically test as to how far financing of crop loans by commercial banks has helped the development of agriculture in the study area i.e. Chikodi Taluke and what is its impact on the standard of living of the farming community.
In the whole of agricultural lending, crop loan scheme has become important in that it generates effects in the immediate future. Hence, this problem has been chosen.

1.8 The problem of research selected for the present study has the following connotation.

(a) What is the special role commercial banks have been playing in financing crop loans?

(b) What is their contribution to agricultural development with particular reference to Chikodi Taluka?

(c) What are the merits and demerits of the present crop loan scheme?

(d) How far the process of agrarian development has advanced with the help of crop loan scheme?

(e) What steps would be required to make the present scheme of crop loans more effective?

(f) Has the crop loan scheme resulted in improving agricultural productivity and output?

(g) Does the scheme result in increasing household income of the farmers?

(h) Do banks provide adequate quantity of finance through crop loan scheme?
(i) What problems borrowers face in getting crop loans?

(j) Is crop loan amount used for meeting only operational expenditure of current nature?

(k) What is the impact of crop loan scheme on small and marginal farmers?

All these questions created a keen interest in the mind of the researcher to select this problem at the micro-level. Since the number of bank offices serving the area is quite big, it was thought proper to concentrate at taluka level and make an in-depth study to touch particular aspects of the scheme rather than cover a wide area and draw broad generalisations. Hence, the study is confined to a taluka.

1.9 The present problem was also selected to find out the extent of awareness among the farming community about the scheme and the degree of usage.

C. IMPORTANCE OF THE STUDY

1.10 The present study at the grass-root micro level assumes special significance as it deals with the financing of crop loans by commercial banks which have become active agents of economic development in the post-nationalisation period. Commercial banks have accepted social responsibility of developing our agriculture.
The crop loan scheme of commercial banks is the outcome of rich experience, expertise and banking innovations. As such, the content of the scheme has far reaching effects. In this context, a number of studies were conducted. But the studies conducted so far have their own limitations. In the light of limitations, the present study is quite different and has much social relevance in this part of the country.

1.11 A study on "Crop Loan System" conducted by the National Institute of Community Development, Hyderabad\(^1\) drew the attention of this researcher. The study relates to two selected districts—one in Andhra Pradesh and the other in Punjab. The districts have been categorised as IADP and Non-IADP districts and a comparison is drawn between them as regards impact of crop loan scheme. Though the study has made significant contribution to improving the crop loan scheme, it suffers from serious limitations that reduce its importance in the present context. The study was made applicable to only one particular year i.e 1968-69 for both Khariff and Rabi seasons. The study was conducted within a period and three years of implementing new strategy of agricultural development. Further, it related to pre-nationalisation period when commercial banks were not providing any finance to agriculture. Therefore, the study seems to have concentrated

\(^1\) Choudhary, P.S. and Sharma, J.N.; 'Crop Loan Scheme' A Study in Andhra Pradesh and Punjab, Published by National Institute of Community Development Hyderabad-30, 1970, pp.9-11.
on the crop loan scheme of co-operative societies. The study undertaken by the present researcher deals with the crop loan scheme as implemented by only commercial banks and it relates to post-nationalisation period. It is wider both in content and coverage. The study extends to over a period of five years in the recent past covering both Khariff and Rabi seasons. In this context, the present study is more relevant and useful and totally different from the one referred above.

1.12 Another study conducted by Shri K.Dinkar Rao and Shri D.P. Khankoje of the National Institute of Bank Management conducted at the Micro level concerning the "Multi-Agency Approach in Agricultural Finance in Belgaum District" analyses advantages and problems of multi-agency system in respect of crop loans. The study reveals that about one-third of total direct agricultural advances by majority of banks were in the form of short term credit inclusive of crop loans and the remaining two-third have been used for financing medium-term loans. As against this, co-operative societies in the area use about 96% of their total agricultural advances for providing short-term crop loans.

1.13 A study pertaining to the lending procedures, uniformity


and securities to be offered by the borrowers as regards crop loans has also been done by the expert group of the Reserve Bank of India in 1978.

1.14 The study conducted by Shri. B.V.S. Baliga and Shri. K. Rangarajan\(^4\) about "Agricultural-Finance-Crop Loans by Commercial Banks" (1972) and a study entitled "How crop loan system can be adopted by Commercial Banks" by Shri. T.S.K. Chari\(^5\) also need a mention.

1.15 Many of these studies were conducted much earlier and their reference period makes them less relevant in the present context. The studies also consider different aspects and their findings have less bearing on the present state of crop loans. The present study is forward looking and useful in the changed context. It provides a new/fresh look to the problem in the changed circumstances. The study is socially relevant and useful to further improve the financing method and consequently developing agriculture.

D. OBJECTIVES OF THE STUDY

1.16 The main objectives of the study are:


i) To review the procedure and techniques of crop loan scheme as financed by the commercial banks:

ii) To know the extent of crop loan provided by commercial banks in the study area;

iii) To analyse the problems of bankers and beneficiaries concerning crop loan scheme;

iv) To ascertain the effect of crop loan on savings, investment and productivity patterns;

v) To test whether there has been double/multiple financing by institutions;

vi) To evaluate the contribution of commercial banks to agricultural development through crop loans in the study area; and

vii) To make suitable policy recommendations for the improvement of crop loan scheme so as to make the scheme more effective and useful.

E. HYPOTHESES

1.17 The study intends to test the following hypotheses.

a) "Financing of crop loans by commercial banks in the study area is satisfactory and has helped in improving the standards of living of the rural poor";
b) "Crop loan financing by commercial banks has improved productivity of agriculture"; and

c) "Crop loan scheme has benefitted farming community and has significantly contributed to the development of the region".

NULL HYPOTHESES

a) "Financing of crop loans by commercial banks in the study area is not satisfactory and has not helped in improving the standards of living of rural people";

b) "Crop loan financing by commercial banks has not improved productivity of Agriculture"; and

c) "Crop loan scheme has not benefitted farming community and has not made any significant contribution to the development of the region".

F. STUDY AREA

1.18 The present study is confined to CHIKODI taluka of Belgaum district in Karnataka. Chikodi taluka is one of the important talukas in the district. It has a revenue Sub-division. The soil and climatic conditions are suitable for growing cash crops such as Sugarcane and tobacco. The taluka forms the part of Gadinnad area and is located at 16°-2' north latitude and 74°-1' east longitude.
It is 610 meters above sea level. The taluka consists of 99 villages and 03 townships. The researcher has selected this taluka for present study as it is a taluka having highest number of villages in the entire district of Belgaum. About 09 per cent of the total villages of the district area located in this taluka. This makes the study more representative.

1.19 The total area of Chikodi taluka is 1269.5 square kms. Its population is 4,22,259 as per 1981 Census. It is the second largest taluka in terms of population in the district next only to Belgaum. The taluka has a rural population of 3,43,776 and urban population of 78483. The density of population of the taluka is 332 per sq Km. which is more than the national average of 222 per sq. Km. Though the average rainfall in the taluka is 787.8 M.M. which is above the district average, it has always in recent years suffered from inadequate rainfall.

1.20 Agriculture is the main occupation of majority of people in the study area. The total land area is estimated at 126949 hectares. Of this, the net area sown is 1,00,635 hectares and area covered by forest is 547 hectares. The area sown more than once stood at 5459 hectares. The barren and uncultivable land area in the taluka is 12258 hectares and the other uncultivable land is a around 4571 hectares. The net area irrigated by different sources is estimated at 18143 hectares.

1.21 The study area is served by 42 branches of the scheduled
commercial banks. There are 30 branches of co-operatives in the taluka with one Primary Land Development Bank. The population served per commercial bank office is 10,800 as against 11,500 for the entire district.

G METHODOLOGY

1.22 The methodology adopted for the present study is a case study method supported by a survey technique. To collect information about crop loans, a mailed questionnaire was sent to commercial bank branches in the Taluka. Of the 42 branches, 39 branches responded to the request by sending back the duly filled in questionnaires. Three branches viz. State Bank of India, ADB branch, Nipani, Malaprabha Grameena Bank, Branch Benadi, and Branch Kurli did not respond despite repeated requests and frequent visits. There was around 93 per cent response by the banks.

The study area which consists of 42 branches included 19 branches of nationalised banks, 08 branches of the non-nationalised scheduled banks and 15 branches of the Regional Rural Bank. The response to the mailed questionnaire was 95% from the branches of nationalised banks, 87% from the regional rural bank branches and 100% from the non-nationalised scheduled banks.

1.23 The researcher also held discussions with the officials of the banks who included the Rural Development Manager of the State Bank of India, ADB, Chikodi and Branch Managers of Vijaya Bank, Nipani and Chikodi, Union Bank of India, Chikodi
and Nipani, Syndicate Bank, Sadalga and Chikodi; Bank of India, Nipani and Kognoii and Branch Managers of Malaprabha Gramoena Bank Branches of Kerur, thikodi, Kabbur and Bhej, Sangli Bank branches of Examba, Galataga and Ratnakar Bank branches of Ankali and Shamanevedi.

1.24 In order to study the impact of crop loan scheme on the farmers, a survey of 932 beneficiaries was conducted by the researcher covering almost all the villages (83) of the taluka. The sample covered ten percent of the loanees in each village. More weightage was accorded to small and marginal farmers and persons belonging to the weaker sections of the rural community. The survey of beneficiaries was conducted on random sample basis. Interview schedules were personally canvassed by the researcher contacting the target group of population in each of the villages. While conducting the field survey, adequate representation was given to the farmers cultivating dry lands, irrigated lands and seasonally irrigated lands.

1.25 The mailed questionnaire for banks, canvassing of interview schedules among the target group of beneficiaries, and personal discussions with the concerned constituted the main tools of study.

II SCOPE AND LIMITATIONS OF THE STUDY

1.26 The study mainly relates to the financing of crop loans
by commercial banks only. It confines to Chikodi taluka of Belgaum district in Karnataka. Its main emphasis is on the use of survey technique at the operational level to consider the various dimensions of crop loan scheme. The conclusions of the study would help in reviewing, reforming and re-orienting the crop loan scheme to cater to the needs of farmers adequately.

1.27 The study is restricted to the performance of 42 bank branches in the field of crop loans in Chikodi taluka. It covers a period between December 1985 to December 1989.

I DEFINITIONS OF CONCEPTS

1.28 The present study has used certain concepts more frequently, the definitions of which are given below:

(a) Crop Loan:

Crop Loan, for the purposes of this study, is a short-term production loan given by the commercial banks against the security of standing crops in the fields. When the amount of crop loan exceeds Rs.10,000/-, the banks mortgage the land in addition to crops for the purposes of security.

(b) Rural Development:

Rural Development⁶ means a package of programmes for

agricultural development, development of economic and social infrastructures, fair wages, housing, village planning, health, education, literacy and transport and communications. Its main aim is to improve the quality of life of the villagers. It implies overall development of the village by using optimally the available resources.

(c) Co-Operative Society:

Co-Operative Society in the context of this study means the co-operative credit societies which provide short-term and medium term loans to agriculturists to carry on agricultural operations. These societies are organised in three-tier structure with State co-op Bank at the apex level, Central Co-op. Banks at the district level and Primary Agricultural Credit (Co-Operative) Societies at the village level.

(d) Commercial Banks:

Commercial banks, for the purposes of this study, are those banks which provide short-term finance and organised on the lines of joint stock companies. These include nationalised public sector commercial banks, non-nationalised, private sector scheduled commercial banks and the regional rural banks which are included in the second schedule to the Reserve Bank of India Act, 1934.
(e) **Small Farmers:**

A small farmer is one who owns either 2.5 acres of irrigated land or 5 acres of dry land. This definition as given by NABARD is accepted for the purposes of present study.

(f) **Marginal Farmers:**

A Marginal farmer is one who owns either 1.25 acres of irrigated land or 2.5 acres of dry land.

(g) **Big/Large Farmers:**

Big/Large farmers are those who own either more than five acres of irrigated land or more than 10 acres of dry land.

(h) **Scale of Finance:**

Another important concept used in the study is the scale of finance. The scale of finance means the average amount required per acre to grow a particular crop irrespective of the nature of crop. This is also referred to as an acreage financial requirement of a particular crop. It relates to a compact area, having similar agro-climatic conditions, cropping pattern and the method of cultivation. It is determined at the district level review committee on behalf of NABARD and circulated to all.

7. NABARD Guidelines: Personal Discussion with RDO's of commercial banks.
The scale of finance recommended by NABARD is accepted for the present study.

(i) Intensive Agriculture District Programme:

This scheme of agricultural development was introduced by the Government of India in 1962. Its aim was to use scarce agricultural inputs like new varieties of seeds, fertilisers and pesticides only in selected districts with a view to get good results. As this strategy concentrates on a small but selected area and applies in an intensive manner all the inputs, it has come to be known as "Intensive Agricultural District Programme".

(j) Short Term, Medium Term and Long Term Credit:

Credit provided by Commercial banks to Agriculturists for a period not exceeding 15 months is called as short term credit. The loans that are lent to the Agriculturists for a period from 15 months to 5 years, is known as Medium term credit. If a credit is provided for a longer period exceeding 5 years, it is named as long term credit.

(k) Kharif And Rabi Seasons:

A crop that is harvested at the beginning of the winter is called as Kharif crop. A crop that is harvested at the end of the winter is named as Rabi crop. Kharif season generally...
exists in India from May to September of every year and rabi season since Sept to April.

(1) Multi-Agency Approach :

It is a policy of financing Indian agriculture through many institutions including Commercial banks and co-op. Societies of India. In order to fill up the credit gaps in large areas, where co-operatives are weak, an integrated approach called as multi-agency approach was evolved by the Govt. of India.

(m) Revenue Sub-Division :

Chikodi taluka comes under Belgaum Revenue Division. Chikodi has a Sub-divisional revenue head quarters with Assistant Commissioner and Sub-divisional Magistrate as its head. It covers Chikodi, Athani and Raibag talukas.

(n) Land Development Banks :

These banks established by law, provide long term finance to agriculturists i.e. for a period ranging from 15 to 20 years, against the mortgage of their lands. The loans are provided to enable the farmers to pay off their old debts or to purchase new lands or new implements and to develop their agriculture.
(o) Nabard:

The National Bank for Agriculture and Rural Development was set up in July 1982 by the Act of Parliament. Since its establishment it took over the refinancing function of the R.B.I. in the sphere of rural credit and also the functions performed by Agricultural Refinance and Development Corporation of India. It is an apex institution which gives guidelines to credit institutions in matters relating to the formation and implementation of rural development programmes. It co-ordinates the activities of institutions involved in rural lending.

(p) Lead Bank Scheme:

The R.B.I. devised the L.B.S. in 1969 in accordance with the Report of the Gadgil Study Group and the Committee of Bankers. It aimed at reducing regional disparities. The scheme is entirely based upon the concept of an "area approach" by allocating all the districts in the country to major commercial banks for intensive development. With the introduction of L.B.S., a scientific approach to the spread of branches and economic development was evolved.

(q) Agricultural Refinance and Development Corporation:

The Agricultural Refinance Corporation was set up by the Government of India in 1963 for providing medium and long term finance to Agriculture. However in 1975
it was renamed as agricultural refinance and development corporation so as to emphasise on the developmental role of A.H.C. It was set up to supplement the resources of the state co-op land Development Banks, State Co-Up. Banks and Commercial Banks in their lending to agriculture. But since the establishment of NABARD in 1982, the functions of ARDC have been transferred to NABARD.

(r) Service Area Approach:

The Service Area Approach Scheme is the result of the OJHA Committee Report (1988). It was implemented throughout the country since 1st April 1989. It aims at providing all the villages of India with the required amount of bank credit. Under the scheme, specific areas are identified and allocated to rural and semi-urban branches of commercial banks including Regional Rural Banks. Each bank on an average covers about 15 to 25 villages in its vicinity as its "SERVICE AREA".

1.29 The study is presented in SEVEN chapters. The first chapter deals with 'Research Design and Methodology'. It explains the problem of research, reviews the past literature, states the objectives, hypotheses, methodology, study area, and scope and limitations of the study. It also defines various concepts frequently used in the study.
1.30 A review of agricultural finance in India is presented in the Second Chapter. It deals with the plight of rural credit in the pre-nationalisation and post-nationalisation period.

1.31 The third chapter provides the rationale and genesis of the crop loan scheme. It encompasses areas of the Crop Loan Scheme. It encompasses areas of evolution, objectives, eligibility, components, scale of finance, programmes and weaknesses of the crop loan scheme.

1.32 The fourth chapter deals with the 'Study Area', i.e. Chikodi Taluka. It presents Geo-Economic profile of the taluka.

1.33 Financing of Crop Loans by Commercial Banks in Chikodi Taluka constitutes the theme of the core chapter five. It analyses the performance of Commercial Banks in the sphere of crop loans and evaluates it against the backdrop of the survey of beneficiaries.

1.34 The Sixth Chapter presents the main findings and conclusions of the study. Broad generalisations concerning the study find place in this chapter.

1.35 The Seventh Chapter relates to the recommendations made on the basis of the study-results for improving and making more effective financing of crop loans by Commercial Banks.