CHAPTER VI

SUMMARY, FINDINGS AND POLICY MEASURES

6.1 Summary:

Indian economy is predominantly dependent on rural resources specifically agricultural output. The agricultural sector has a significant role to play in the economic development of the nation. Agriculture provides livelihood to about 64 percent of our labour force and contributes to nearly 25.5 percent of our GDP and accounts for 18 percent of the share of the total value of the country’s exports.

Finance is considered to be life-blood of any economy. Finance is one of the important resources and every sector of the national economy, agriculture, industry and services requires finance both for carrying on day-to-day activities and for growth and progress. In other words, there would not be any economic development without adequate dose of finance. However, the role of credit is more crucial and needs no further emphasis. As stated earlier, a large section of rural community in India live in a subsistence economy and therefore, they have to depend upon outside finance for financing their economic activities.

Finance is considered to be life-blood of agriculture in modern age. In the modern money economy, the role of financing has been gaining with an increasing pace. Modernizing Indian agriculture requires massive financial assistance. It is due to the realization of this ever-increasing importance of finance in the modern agricultural operation that role of institution engaged in agricultural finance has come to be recognized as of crucial importance. Credit is an important factor in the adoption of technological innovations. Evidence suggests that credit facilitates the adoption and spread of technology, though in a complex manner. Farmers
need credit for the purchase of material inputs such as seeds, fertilizers, pesticides and so on. Credit is also required for the purchase of cattle, implements, raw materials to improve land and to create irrigation infrastructure and drainage system. The growing importance of capital for transportation of agriculture implies increased need for credit when a majority of cultivators have little ‘owned funds’ to operate costly technology. Though in the early stage of the adoption of new technology, ‘owned funds’ were the main source of finance, because of big farmers being the main participants in it, yet in the large stage the need for credit was felt when the small and marginal farmers also adopted the technology. Many recent studies have shown that the small farmers have not merely adopted the technology, but have positively proved themselves efficient like the large farmers in increasing the yield of these crops. However, though the issue relating to the adoption of the new technology by the small farmers is controversial, yet the predominant view is that the new technology is size-neutral because of the divisibility of factor inputs. The new technology necessitates increased credit for the cultivator in general and the small farmer in particular.

The various sources from which the peasantry procures loans can be classified into two groups:

i) non-institutional agencies, and

ii) institutional agencies

Among the non-institutional agencies, we include the local money lenders and their agents and landlords. The institutional agencies are classified as cooperative societies, commercial banks, regional rural banks, land development banks, etc.
The period of credit is the most common means of describing it, e.g. short-term, medium-term and long-term. Short term or seasonal credit is one which provides farmers with the working capital to run their farm efficiently, to obtain the crop in the best possible circumstances and to hold the credit until the harvest can be sold. This short-term loan may be borrowed for consumption or for production; on personal security or with land as a collateral; from money-lender or from a cooperative society. The period of credit of this type does not exceed 15 months. Medium-term credit is one which provides the farmer capital to purchase livestock and farm machinery, as also to carry out improvements of an average duration, e.g. the conversions of the system of cultivation. These credits are for a period longer than 15 months but not more than 5 years. Long-term credit has duration upto 20 years and it helps to make permanent type of development on the farms, e.g. drainage, construction of wells, embankments and the erection of livestock quarters, store houses and other farm buildings, litigation and repayment of old debts. All India Rural Credit survey committee (1954) has provided data about finance provided to agriculture by different sources in 1951-52. This report indicated that non-institutional source provided 90.9 percent of agricultural credit whereas the share of cooperative societies and commercial banks was 3.1 and 0.9 percent respectively. All India Debt and Investment survey (1991-92) showed that the share of non-institutional sources in agricultural credit went down to 32.7 percent, whereas the share of cooperative societies and commercial banks went upto 21.6 percent and 33.7 percent respectively. In the year 1994, the share of cooperative societies was 34 percent and share of commercial and regional banks
was 35 percent. This reveals that the institutional agencies have, lately, made a
dent in the agricultural finance situation.

In the rural areas money-lenders have played a very important role in the
agricultural finance but their rate of interest has been very high. Efforts to build up
the institutional finance system for agriculture commenced with the adoption of
the Cooperative Credit Societies Act in 1904. Cooperatives were nurtured as the
primary institutions to relieve farmers from the traditional burden of debt and to
promote thrift. The banking system also made certain pioneering efforts in this
sphere. Since the nationalization of bank in 1969, the commercial banks have
taken growing interest in financing agriculture. Cooperative societies and
commercial banks taken together have become a viable system of financing the
agricultural needs. The short and medium-term cooperative credit generally has
three-tier federal pattern of structure, comprising of state cooperative banks at the
state level, central cooperative banks at the district level, and primary agricultural
credit societies at the base level. The long-term cooperative credit structure
consisted of state level or central land mortgage/development banks and taluka or
district level primary land mortgage/development banks or branches of the apex
bank.

The primary agricultural co-operative credit societies provided loan to the
farmers in rural areas. They have distributed loans and advances of Rs. 29.13
crores in 1951. In the year 2000, the loans and advances went up to Rs. 19023.79
crores. This shows a rise in the loan distributed by the primary agricultural co-
operative credit societies. In 1951, there were 1,15,462 societies, but in the year
2000 this number was reduced to 93,816. Every district has one district central co-
operative bank and it covers all the societies in that district. The number of district central cooperative banks in the country had steadily declined from 505 in 1951 to 337 in 1981. But thereafter, there has been a moderate increase in their number to 367 in the year 2000. In the year 2000, loans and advances by them stood at Rs. 44,356.51 crores.

In short-term cooperative credit structure, state co-operative banks are at apex level. They provide loans to the primary agricultural co-operative credit societies through the district central co-operative bank. This apex bank gets loans from RBI through NABARD. In 1951, there were 15 state co-operative banks and in 2000, they became 29. These banks' loans and advances stood at Rs. 39507.62 crores until 2000.

Land development bank play a major role in providing long term loan. As mentioned earlier, the agencies for long-term cooperative credit to agriculture and rural development are the primary land development banks at the base level and the central agricultural development bank, which is the federation of primary banks at the state level apex institution. The land development banks were originally conceived as land mortgage banks. The loans provided by these banks are at fairly low rate of interest and have to be repaid in easy installments over fairly long period, say 15 to 25 years. These banks had provided loans and advances of Rs. 1697 crores in 1981. In 1991, these banks had provided loans and advances of Rs. 4232.53 crores and 2495.91 crores in year 2000. The loans and advances by this bank showed sharp increase in 1991 over 1981, but indicates sharp decline in 2000 over 1991.
Having identified certain deficiencies in the role of the two major rural credit agencies in the field, the cooperative and the commercial banks, the Narsimham committee came to the conclusion that the regional and functional gaps in the rural credit cannot be met within a reasonable period by reorganizing or restructuring the two systems. At the same time, recognize certain commendable features in both the systems which could be combined in a new type of institution called Regional Rural Banks. Thus came RRBs on rural credit scene sponsored by scheduled banks usually by public sector banks. RRBs are visualized as the rural arm of the commercial banks. RRBs thus came to form third component of the multi-agency credit system for agricultural and rural development.

During the calendar year 1988, RRBs disbursed a sum of Rs. 959 crores in 31.73 lakh accounts. RRB’s disbursement had gone up from Rs. 977 crores in 1993-94 to Rs. 4061 crore in 2000-01. It means that there has been a little over four-fold increase in the credit supplied by RRBs to agriculture in the recent period.

Role of commercial banks in financing agriculture is very significant though in most of the developing agricultural economies, these have entered this field recently. In past, commercial banks have been found lending to non-agricultural sector where returns have been adequate and mostly certain, thus ensuring the repayment of bank loan. Very recently, however, many popular governments in under – developed countries have encouraged the commercial banks to lend money to farmer by providing some incentives to such banks. Some of the governments in such countries have gone to the extent of nationalizing their
banks and then encouraging them to open branches in rural areas so that they can come forward to help the farmer. Rising prices of farm products and high farm productivity have made bank loans to agricultural sector a very happy experience. The data of the All India Rural Credit Survey, have confirmed that the contribution of commercial banks to rural credit was negligible. The general picture of commercial bank participation in agricultural credit which emerged from the All India Rural Debt and Investment Survey in 1961-62, was no more encouraging than the one revealed by the All India Rural Credit Survey in 1954. In fact, the loans as a portion to total borrowing of the cultivators showed a small decline from 0.9 percent in 1951-52 to 0.6 percent in 1961-62. The amount of credit supplied to agriculture by commercial banks went up steadily from Rs. 5,400 crores in 1993-94 to 24,693 crores in 2000-01.

A review of the studies on agricultural finance carried out in the different parts of the country shows that cooperative societies were the major source of agricultural finance. The studies relating to credit needs indicated, in general, that the adoption of improved technology is closely associated with the availability of credit. A study of demand pattern of credit shows that the farmers borrowed for digging and repairing of wells, tube-wells, installation of pump-sets, etc. The commercial banks also play an important role in agricultural finance by mobilizing rural resources. In some states commercial banks made commendable progress in comparison to cooperatives. The studies relating to the availability of credit and its use revealed that the small farmers in general have less access to institutional credit and their borrowing for consumption are significant. The studies dealing with the relation between credit use and efficiency of farming indicated that
borrowers in general have higher average level of productivity of resources, investment in operation expenses, adoption of modern practices and farm returns. The study of association between socio-economic factors and repayment of cooperative dues bring out that the association is not significant between caste, land, amount of loan borrowed and repayment of cooperative dues.

The Latur district is predominantly an agrarian district of Marathwada region. About 79 percent of the working population in the district is engaged in agriculture. The soil of the district is of two types. Ahmedpur, Udgir, Chakur, Jalkot, Devani and Shirur Anantpal and some parts of Ausa taluka have light to medium type of soil suitable for kharif crops, and Latur, Renapur and some parts of Ausa taluka have soil ranging from deep black cotton soil to shallow light soil suitable for both kharif and rabi crops. The average annual rainfall in the district is 742 mm to 900 mm. About 84 percent of the annual rainfall in the district is received during the south-west monsoon season, the rainiest month being July. Manjra is the most important river and the Tiru, Manyad, Lendi, Gharani, Tawarja, Terna are also other rivers in the district.

The total population of Latur district in 2001 was 20,78,237 of which the rural population was 76.42 percent and urban population 23.58 percent. Among the 10 tehsils of the district, Latur tehsil 5,42,224 (26.09 percent) was the most populous while Jalkot tehsil 69,196 (3.33 percent) was the least populous. As per 2001 population census the sex ratio was 934 females per one thousand males. The percentage of literacy is 72.34 percent. For the district as a whole the literacy rate for males is much more higher than that of females. Male literacy rate is 83.63 percent while females account for only 60.28 percent. Rural literacy is
69.54 percent while urban literacy rate is 81.33 percent. Among the 10 tehsils of the district, the taluka-wise breakup shows that Latur taluka with 76.14 percent literates tops the list, while Nilanga taluka with 69.03 percent literates stands at the bottom.

The cropping pattern is dominated by food crops. Kharif and rabi jowar, wheat, gram, moong, tur, udid are the main food crops. Whereas sugarcane, fruits and vegetable crops are also grown in the district. Whereas cotton, oilseeds are the important non-foodgrain crops of the district. The proportion of area under rice, kharif and rabi jowar, bajra and cotton has decreased and that under wheat, gram, tur, moong, udid, sugarcane, oil-seeds and fruits and vegetables has increased over the period under study. The total net irrigated area in Latur district is 38,740 hectares. The talukawise picture revealed that on the irrigation front Renapur taluka is at the top having the maximum area under irrigation. The rate of agricultural mechanization has been slow in this district but the rate of increase in electric pump-sets and tractors has been sufficiently fast. By the end of March 2000, the total number of bank branches in Latur district was 201 comprising of 60 commercial banks, 38 regional rural banks, 98 cooperative banks, 5 land development banks, 58 urban and semi-urban banks and 143 rural branches.

Empirical studies have indicated that institutional finance is more likely to be available for well to do among the rural community. Further, backward regions have less access to institutional credit than other do. Non-availability of timely credit and the cumbersome procedures for obtaining credit also contributed to backwardness of regions like Marathwada. Hence the present study has been
undertaken to address all these aspects and problems of institutional finance with reference to Latur district of the Marathwada region.

The present study was undertaken mainly to study the growth of institutional finance in India, Maharashtra and Latur district and also to analyse several aspects related to agricultural finance at micro-level.

The present study consumed both primary and secondary data. The secondary data about institutional finance in India, Maharashtra and Latur district were collected for the period of 18 years i.e. 1982-83 to 1999-2000. The secondary data about institutional farm finance in India was collected from the different publications like R.B.I. Bulletins, Currency and Finance Reports, Publication of the banks, bankers, Agricultural Situation in India etc. Source-wise data about crop loans, term loans was also collected for the district as a whole for the period from 1982-83 to 2000. These data about agricultural loan distributed was collected from the Annual Credit Plan of Latur district. Primary data about the utilization of institutional farm finance was collected from 200 (20 borrowers from each taluka) farmer-borrowers by canvassing the questionnaire. Purposive stratified random sampling technique was used for selecting sample borrowers.

6.2 Findings: The main findings of the present study are summarized below:

1) The aggregate agricultural loans distributed in the district have shown rising tendency and they grew at an average annual rate of 18.06 percent per annum during the period of this study. Crop loans constituted 77.21 percent whereas term loans formed 22.79 percent of the aggregate agricultural loans distributed in Latur district during the whole period under study. The overall tendency of the crop loans distributed is rising one. This
growth rate is found to be 15.83 percent per annum, which is positive and very high.

2) During both the terminal years Latur, Nilanga, Ausa, Udgir and Ahmedpur talukas have shared relatively higher share (22.48 percent, 21.35 percent, 18.06 percent, 17.88 percent and 17.21 percent respectively) in aggregate agricultural credit distributed in Latur district. The lowest share was received to Renapur and Chakur talukas (1.33 percent and 1.69 percent respectively).

3) The Latur District Central Co-operative Bank has been the main source of agricultural credit in the district as it provided 75.03 percent of the aggregate loans during the study period. The other major sources of agricultural credit in this district are the State Bank of India (6.78 percent), Land Development Bank (4.20 percent), Marathwada Gramin Bank (4.05 percent), Bank of Maharashtra (3.45 percent) and the State Bank of Hyderabad (2.38 percent). It is found that these six banks together supplied as much as 95.98 percent of the aggregate agricultural credit distributed in the district during the period under study. The share of Central Bank of India was 1.29 percent and for Bank of India it was 1.10 percent. Other banks of the aggregate agricultural credit distributed in this district during the period under study.

4) In 1994, out of the total amount of agricultural loans only 53 percent was recovered and proportion of overdues was about 47 percent. In 1994, the Latur District Central Co-operative Bank’s share in total agricultural loans distributed was at the top and the recovery percentage was also very high
(i.e. 60.65). Recovery of agricultural loans was also good in case of Bank of Baroda (57.39 percent), State Bank of Hyderabad (57.28 percent), Allahabad Bank (54.10 percent), Union Bank of India (51.25 percent), Land Development Bank (49.86 percent), Marathwada Gramin Bank (33.96 percent) and State Bank of India (32.86 percent). The study indicated that the overdues of all sectoral loans were 47 percent of the total outstanding in the year 2000. The total recovery position of agricultural loans in Latur district was 55.23 percent during the period from 1988 to 1999.

5) A study of the main features of sample borrowers in the district indicated that the average family size of the sample borrowers was 6.22 persons and it was the highest in case of Chakur taluka (7.35 persons) and lowest (5.40 persons) in case of Renapur and Udgir talukas of the district under study. About the social status of sample borrowers it is found that 20 percent sample borrowers belonged to schedule castes, 10 percent belonged to scheduled tribes, 19.5 percent belonged to other backward classes and the remaining 50.50 percent borrowers belonged to open category. The percentage of literacy among the sample borrowers is found to be 71.97 percent. Among 10 talukas of the district, the percentage of literacy is found to be very high (79.20 percent) in case of Latur taluka and lowest of (67.24 percent) in case of Jalkot taluka. A study of age composition of sample borrowers revealed that about 64 percent of them were of the age between 30-50 years and 16 percent were of the age above 50 years. A study of the occupational distribution of sample borrowers indicated that 59
percent of them were engaged in farming alone and 27.50 percent were working as labourers.

6) The study indicated that the sample borrowers had three different sources of income. However, agriculture was the main source of their income as it constituted 72.13 percent of their total income from all sources. Income from agricultural wages constituted 16 percent and income from other sources was 11.87 percent of their total income from all sources during the survey year.

7) About the economic status of sample borrowers the study indicated that 57.50 percent borrowers belonged to the low income group, 24.50 percent belonged to medium income group and the remaining 18 percent sample borrowers belonged to the high income group. It means that the sample is dominated by the low income borrowers. The study further indicated that 59 percent of the total borrowers selected for the present study were small and marginal farmers, 25.50 percent were medium farmers and 15.5 percent were big farmers.

8) The study indicated that the proportion of irrigated land to total land held by the sample borrowers of this district was 26.10 percent during the year of survey. The maximum percentage of irrigated land was 50 percent in case of sample borrowers from Chakur taluka and the minimum of 14 percent in case of borrowers from Devani taluka of the district under study.

9) It is found that 68.50 percent of the total sample borrowers had taken short term agricultural loans, 17 percent had taken medium term loans and 14.5 percent had taken long term loans.
10) It is found that the Latur District Central Development Bank was the single largest source of agricultural credit to the sample borrowers. 41.46 percent of the total loans sanctioned to the sample borrowers were from this bank alone. The other major sources of agricultural credit to sample borrowers were Land Development Bank (33.70 percent), Marathwada Gramin Bank (8.26 percent), State Bank of Hyderabad (7.16 percent), Bank of Maharashtra (6.69 percent) and State Bank of India (2.72) percent. This study further indicated that sample borrowers from Latur taluka had shared the maximum part of loans advanced (26.11 percent) and the lowest share (4.23 percent) was found in case of sample borrowers from Shirur Anantpal taluka of the district under study.

11) A study of purposewise agricultural loans distributed among sample borrowers of the district revealed that crop loans constituted 25.88 percent, digging of wells 14.89 percent, pipelines 15.03 percent, electric motors 12.49 percent and tractors 32.00 percent.

12) It is found that the average cost of obtaining loans was 2.43 percent of the amount of loans sanctioned to the sample borrowers. It was as high as 2.79 percent in case of borrowers from Latur taluka and as low as 2.09 percent in case of borrowers from Jalkot taluka. 56.00 percent of the total sample borrowers have opined that District Central Cooperative Bank is the most costly source of agricultural finance.

13) The sample study indicated that the proportion of recovery to total loans was 56.07 percent. Udgir taluka had the highest recovery percentage of
58.21 percent and the lowest recovery percentage of 54.15 percent was in case of Jalkot taluka.

14) The study indicated that the farmers do not get sufficient agricultural finance in the study area. 53.50 percent of the borrowers have opined that they had received agricultural credit sufficient enough to meet their requirements. But the remaining 46.50 percent of the sample borrowers had not received credit sufficient enough to meet their requirements. As a result, 46.00 percent of the total sample borrowers had to borrow from non-institutional sources like money-lenders. It means that despite massive expansion of institutional credit facilities, many farmers still have to borrow from the non-institutional sources in the study area.

15) It is found that only 20 percent of the sample borrowers were of the opinion that present rates of interest are reasonable. About 80 percent borrowers have reported that the present rates of interest are unjustifiable.

16) About utilization of agricultural finance, it is found that 94 percent of total sample borrowers had made proper utilization of agricultural credit. Only 6 percent of the sample borrowers had misutilised the amount of loan.

17) An examination of survey data revealed that post-loan income of these sample borrowers has increased considerably. Addition to income per borrower is found to be Rs. 1694.26. Further a majority of the farmers have opined that availability of agricultural finance enabled them to bring waste lands under cultivation, changing cropping pattern in favour of high value crops, increased use of chemical fertilizers and pesticides, permanent improvements on land, increase in employment, improvement in standard
of living etc. Almost one-half of the borrowers have said that there is no increase in productivity and no expansion of allied activities.

18) 71 percent of the sample borrowers have suggested the reduction in interest rates whereas about 13 percent borrowers were of the opinion that there should be quick sanction of agricultural loans. The rest of the borrowers suggested that there should be easier procedure of granting loan.

6.3 Policy Measures: On the basis of above findings the study suggests the following policy measures:

1) The sample study indicated that the Latur and Ahmedpur talukas have enjoyed relatively higher share in total agricultural credit. As a result, talukawise economic imbalance has increased. Hence there should be equity in supply of agricultural loans so that economic imbalance can be reduced. In this regard, the lead bank of this district should take up necessary measures.

2) It is found through the present sample study that the more loan supply has been made by Latur District Central Cooperative Bank (41.46 percent) alone. The other major sources of agricultural credit to sample borrowers were Land Development Bank (33.70 percent) and other banks accounted for 24.83 percent of total loan supplied to sample borrowers. This finding allows us to suggest that all other banks should shoulder equal responsibility in financing agricultural sector of this district.

3) It is found in the study that average cost of loan sanctioned was 2.43 percent. The banks must adopt a positive approach in cost reduction.
4) The sample study indicated that the proportion of total recovery to total loans was 56.07 percent. The banks should take up a detailed investigation of their overdues. It would be necessary to investigate each overdue loan account to determine the course of action to be taken for recovery of such overdue. At the end of each year, the bank should carefully review the working of units, to which it has sanctioned loans, with a view to verify the levels of return and repaying capacity.

5) It is found that 46 percent of the total borrowers had taken loans from non-institutional sources like money-lenders. Hence the amount of institutional loans should be sufficient enough to meet requirements of the farmers. Further, the loan should be given according to agricultural plans of cultivators. It is found in the study that majority of the borrowers (80 percent) reported that the present rates of interest are exorbitant and hence unjustifiable. So rate of interest should be reduced and duration of loan be increased. Reforms are quickly needed in the cooperative bank's interest rate structure.

6) The study indicated that the recovery of loans at the both micro and macro levels was a little over 50 percent of the sanctioned loans. Overdues act as an obstacle in the way of lending activity performed by the banks. It is, therefore, essential to promote the proper utilization of agricultural loans by the farmer-borrowers. Misutilization of credit should be controlled by paying spot visit for verification of assets. Priority in loan disbursement should be given to the borrowers who have cleared their past outstanding debt. The payment of loan should be made by crossed cheque only. It will
promote saving also. Strict action should be taken against willful influential defaulters by way of attachment of proportion and cancellation of membership of agricultural societies.

7) The farming is largely governed by the natural factors. Therefore, there is need of timely supply credit to the farmers by the agricultural financial institutions. For that financial system needs to be made easier by simplifying the loan procedure in the form of reducing the number of formalities in that regard. Further, efficient staff should be appointed in the cooperative societies and banks. At least one agricultural officer needs to be appointed by each bank.