ROLE OF INSTITUTIONAL CREDITS IN THE
SOCIO-ECONOMIC DEVELOPMENT OF SMALL FARMERS
-A STUDY OF MYSORE DISTRICT

Introduction

Agriculture plays a crucial role in the development of the Indian economy. It accounts 19 per cent GDP and two-third of the population dependent on agricultural sector. The importance of farm credit as a critical input to agriculture has reinforced by the unique role of Indian agriculture in the macro-economic framework and its role in poverty alleviation. Recognizing the importance of agricultural sector in India’s development, the Government and the Reserve Bank of India (RBI) have played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector. Agricultural policies in India have been reviewed from time to time to maintain pace with the changing requirements of the agriculture sector, which forms an important segment of the priority sector.

Credit plays a pivotal role in agricultural development. Agricultural development and growth are possible only when adequate capital and proper technology are used. The changes in the technology of agriculture enhanced the need for credit. Credit also acts as a catalyst, to change the farmers mind set from traditional agriculture to modern agriculture. Credit provides a command over resources and needed liquidity to farmers who do not have sufficient funds to exploit opportunities. Modern agriculture requires considerable investment with both of recurring and non-recurring nature. The recurring capital is repetitive i.e., seeds, fertilizers, insecticides, labour
etc. The non-recurring capital is investment in agricultural implements, tractors, tillers etc.

Majority of the farmers with small holdings and lack of assured irrigation are poor. They could not sustain from agriculture income alone. For such farmers, augmenting income from other economic activities is important for living. Thus, apart from agriculture credit, credit for non-farm sector activities also important and should be provided by rural credit agencies adequately. Creating the job for rural poor in the rural sector has important as not all poor farmers could be expected to augment non-farm income from non-farm activities. Meeting the total credit needs of farmers, therefore, should be the policy of institutional lending in the rural sector. Besides, the banks should also support adequately small sector, rural industries, agro-processing units etc.

Institutional finance for agriculture in India dates back to 1793 when the system of taccavi loans initiated. Agriculture finance was given priority by the government for the rural credit system. Earlier the finance was provided to the farmers through the department grants as well as cooperative system. In the pre-independence period, agricultural credit to farmers was exclusively provided by cooperative banking system (1904). Such credit has no explicit relationship with input or farm investment and seen as an alternative to the village moneylender. The State Cooperative Agriculture and Rural Development Banks (SCARDB) then called the Land Mortgage Banks provided long-term loans to repay the old debts.

**Existing Credit System in Mysore District**

The Mysore Maharaja’s government started a new breed bank styled as Agriculture Bank in 1894 in the district. The bank was opened in
Synopsis

Nanjangud during July 1897 and second one in Sargur (H.D.Kote) in 1898. Hence, the financing to agriculture by Commercial Bank has the old phenomenon in the district. At present, there are 35 Commercial Banks having nearly 70 rural branches in the district. The State Bank of Mysore is the Lead Bank of the district. All 35 Commercial Banks are providing agricultural finance through service area approaches. The district has a fairly good banking network with 245 branches, out of which 36 Commercial Banks with 176 branches, Cauvery Grameena Bank with 53 branches, Mysore District Central Cooperative Bank (MDCCB) with 9 branches financing through 245 Primary Agricultural Cooperative Societies (PACS) and 7 PCARDBS one in each taluk. Of these branches 93 are in rural, 23 in semi urban and 129 in urban areas in 2007-08.

The Mysore District Central Co-operative Banks (MDCCBs) has provided to the short-term requirements of credit through its 9 branches and 245 Primary Agricultural Societies. After the introduction of Development Action Plans (DAP) as per guidelines of NABARD, the bank has been making steady progress. The Cauvery Garmeena Bank has been operating in the district with their branches in other districts like Chamarajanagar and Hassan. The functioning of the bank is guided by the parameters prescribed under the Development Action Plans. The DAP has been conceived by NABARD as instruments to diagnose the problems confronting cooperatives and RRBs and are aimed at improving the viability of these institutions so that they could serve the economy of the district in a greater measure.

Significance of the Study

Farmers are the backbone of agricultural economy. As we know that finance is one of the most important aspects to increase agricultural output
and also to improve the socio economic condition of small farmers at all the extent. For a long period, it has been assumed that Indian farmers born with debt and die with debt. The debt gets transferred from generation to generation. The informal loans availed from the money lender, commission agents and relative, who are charging high rate of interest as a result of this barrowers were unable to pay back the loan, instead of that they were paid only interest and principal amount which would continue to accelerate whatever additional income derived by farmers was used to pay only interest. Hence, farmers were unable to invest on their socio-economic development. Apart from this, the informal sector lending loan without considering the priority to productive or non-productive proposes. India is the largest country among the South Asian Countries. Agriculture is one of the largest sectors in the Indian economy. Hence, improving the productivity of agricultural sector requires a greater effort either from the government or the NGOs. Consequently, agricultural finance is one, which could play a greater role to enhance the level of agricultural output. The Indian farmers could be categorized on small, marginal, medium, semi-medium and big farmers. The Indian farmers are the largest serving body, who are currently facing their epidemic of suicide. For a country, the Indian farmers were dependent on subsistence farming. However, in the recent time, particularly after the green revolution, the agriculture in India is not only serving as subsistence but also it serves for the improvement of the socio-economic development of the farmers. In order to empower the farmers, the government of India has formulated several policies, plans and programmes. Expansion of institutional credit was found to be inadequate and direct policy intervention by the government in the field of institutional credit was envisaged. This made the central government to issue special directives to
give priority to small and marginal farmers both in credit disbursement and credit linked subsidies. These policy interventions are small Farmers Development Agency (SFDA), Marginal Farmers and Agricultural Laborer (MFAL), Differential Rate of Interest Scheme (DRI), and Integrated Rural Development Programme (IRDP) had an impact and the increased the share of institutional credit to the small and marginal farmers and agricultural laborers. This includes the establishment of the nationalization of banks, introducing Lead Bank Schemes, NABARD, revitalized credit system in India, and however the availability of institutions that provides a credit to the farmers is still in their early stages. In this regard, several studies have been conducted at different geographical areas in the state in connection with the contribution made by the institutional credit in the field of agriculture. However, there were no other studies on the “Role of Institutional Credit in the Socio-Economic Development of Small Farmers” conducted at the district level. In view of this, there is a need for this kind of research at gross root level that would be very useful for the changing the socio-economic status of the farmers in the Mysore district.

Research Gap

Review of studies clearly indicate that the relationship between institutional credit and socio-economic development of farmers in India. From the above review of literature it is clear that researchers have not considered the performance of the credit institutions in upliftments of small farmers in general and institutional credit in particular. And none of the study on the “Role of Institutional Credits in the Socio-Economic Development of Small Farmers” has conducted at the district level. In view of this, there is need for this kind of research at gross root level that would
be very useful for the changing of socio-economic development of the farmers in the district. In order to fill the gap, the present study is undertaken.

**Objectives of the Study**

1. To identify the extent of finance lent by the institutions to small farmers in the study area.
2. To assess the viability of the financial assistance extended to the small farmers.
3. To trace out the utilization of the institutional credit by the small farmers.
4. To find out the impact of the institutional loan on the socio-economic conditions of the small farmers.
5. To study the extent of the relief from the moneylenders.
6. Identify the problems faced by the farmers and suggest the measures to overcome the problems of small farmers.

**Hypotheses of the Study**

1. There is an increasing trend in the extent of finance lent to the small farmers by the various institutions in the study area.
2. The viability of financial institutions increases the annual income of the farmers
3. Annual Income contributes the repayment performance of small farmers in the study area.
4. The utilization of the credit by the farmers has contributed to the improvement of the socio-economic condition of the small farmers.
5. There is a decreasing trend in the relief of the moneylenders to the small farmers.
Methodology

The study is based on both primary and secondary data. The secondary data has been collected from the various reputed institutions/Organizations and libraries such as Gandhi Krishi Vignayan Kendra (UAS), Institute for Social and Economic Change (ISEC), Department of Agriculture, Directorate of Economic and Statistics, Department of Cooperative Registrar, National Bank for Agriculture and Rural Development (NABARD) Bangalore, National Institute of Rural Development (NIRD) Hyderabad, District Statistical Office Mysore, State Bank of Mysore (Lead Bank), Deputy Assistant Registrar of Cooperatives Mysore, Mysore District Central Cooperative Banks, Cauvery Kalpataru Grameena Bank in Mysore district and also published documents from various concerned institutions/Organization, Journals, Research papers, RBI Bulletin, NABARD Quarterly issues, Seminar papers and various daily news papers has been classified and tabulated. Information in the table have been analyzed and interpreted by using simple statistical methods such as.

1. Trend line
2. Annual growth rate
3. Multiple regression analysis
4. Compound Growth rate

Sampling Design

Primary Data: The selection of the respondents was done by visiting to the Bank Manager of the selected banks to collect the lists of their Bank branches and small farmers’ agricultural loan beneficiaries. Fifty respondents were randomly selected per bank from the list collected. Thus, a
total of three Hundred and Fifty respondents were selected for the study. Survey conducted through administered questionnaire on the selected small farmers of agricultural loan beneficiaries. 350 farmers were selected for the study. The 50 farmers from each taluk, Mysore district encompass of seven taluks namely, H.D.Kote, Hunsur, K.R.Nagar, Mysore, Periyapatna, Nanjargud and T.Narasipura. The primary data was collected by interview method with the farmers in the village selected for the study through personal contacts. The Sample size consisting of all the taluks of the district those who have borrowed loan from the various institutional agencies in the study area.

**Data Base:** The reference year for the primary data collection was during 2008-09. The secondary data was collected from 1996-97 onwards. The primary data was collected during the year 2008-09.

**Scope and Limitation of the Study**

The role of institutional credit is a very vast subject in the field of agriculture. In a country like India agriculture financed has the integral part of farming. When we observe insight of its importance obviously this plays an important role in increasing the level of agricultural production. An attempt has been made to bring out the significant contribution of institutional credit particularly on the socio-economic conditions of the farmers. The study is confined to micro-level study of Mysore district and the secondary data consists from 1996-97 onwards to assess the growth of credit facilities provided by scheduled Commercial Banks, Co-operative Banks and Cauvery Kalpataru Grameena Bank. The study is also depended on co-operation of farmers and personal observation and inferences. Though they are quiet a
good number of studies on institutional credit and no specific studies focused on small and marginal farmers.

**Organization of the Study**

The First chapter consists of introduction to agricultural credit, significance of the Indian agriculture, importance of agricultural credit in India, agricultural credit in India-before independence, institutional credit for agriculture and allied activities, committees estimation on agricultural credit, agricultural credit under five year plan period, significance of the study, objective of the study, hypothesis of the study, methodology, scope and limitation of the study and organization of the study.

The Second chapter is devoted to review of literature. It has been categorized under two headings are:

a) Studies related to Cooperative, Commercial Banks and agricultural credit.

b) Studies related to agricultural credit in India.

The Third chapter deals with socio economic profile of study area i.e. Mysore district. It includes location, area and administrative division, population climate and rain fall sources of irrigation, irrigation facilities, area under principal crops and land holdings.

The Fourth chapter deals with institutional finance in Mysore district, Growth and their programmes in the district. The main focus of this chapter includes non-institutional sources, agricultural credit, and the role of Commercial Banks in agricultural credit, Cooperative Banks in the field of agricultural Credit, The role of PACs and the role of RRBs in agricultural credit in the district.
The Fifth Chapter consists of analysis of on the socio-economic aspects towards development of small farmers, to identify the distribution of finance from institutional credit and non institutional credit in the study area.

The Sixth Chapter deals with Summary, findings, suggestion, and conclusion the study

The study shows the link between institutional credit and impact of socio-economic development of small farmers in Mysore district. Time series data has been used for the period of 12 years from 1996-97 to 2007-08. Percentage, Trend line, Annual Growth Rate and Multiple Regression tools have been used to examine the institutional credit disbursed to the small peasants. The various tools have been used to measure the repayment performance, utilization of credit and the impact on socio-economic conditions of the farmers such as Total Loan, Annual Income, Crop Grown, Food Crops, Commercial Crop, Dry Land, Wet Land, Irrigation, Education, Assets Owned and its Impact on the Small farming community.

Estimating the total credit requirements by realizing the importance of agricultural credit, several committees were constituted to evolve the modality of extending the credit facilities to the small farmers from time to time. The various attempts have been made to estimate the credit requirement of farmers in the study area. As per recommendations made by the committees, the government of India has launched several ambitious programmes and its strategy to include growth. Many of these programmes are aimed at small and marginal farmers, agriculture labourer and rural artisans. For example Small Farmers Development Agency (SFDA), Marginal Farmers and Agricultural Labour (MFAL), Differential Rate of Interest Schemes (DRI), and Integrated Rural Development Programmes.
(IRDP) had increased the share of institutional credit to ensure the upliftment of small farmers and agriculture labourers.

The Government of India has changed the policy of single agency system and distributed credit through Co-operatives and Multi-agency approach as per the recommendations of the Kamat Working Group. The institutions comprising under Multi-agency system are Co-operatives, State Governments, Commercial Banks and Regional Rural Banks. The State Governments provide 'Taccavi Loans' to farmers and also extend financial support to State Co-operative Banks and State Co-operative Agriculture and Rural Development Banks (SCARDS). At the grass-root level, Primary Agriculture Co-operative Societies (PACS) provide short-term and medium term credit and Primary Co-operative Agricultural and Rural Development Banks (PCARDS) provide long-term credit to farmers. The Commercial and Regional Rural Banks provide Multi-purpose and Multi-term credit for agriculture and allied sectors. The Multi-agency approach adopted by the Reserve Bank of India has helped in increasing the quantum of institutional credit for agriculture and rural development and this has, thus, helped to reduce substantially the dependence of rural households on exploitative non-institutional credit sources.

Karnataka is one of the Southern sates of India. Its share of agriculture is 32 per cent in State Domestic Product. Nearly 70 per cent of population of the state is directly or indirectly engaged in agriculture and allied activities. 42 per cent of per capita income of the state is derived exclusively from primary sector during 2008-09.

Institutional credit is playing significant role in uplifting small farmers, credit expansion to agricultural sector and to allied activities. In the study area the agriculture development is depending upon availability of
institutional finance. In that particular aspect, Institutional finance has done crucial role for expansion of rapid development of agricultural sector. It depends upon modern techniques of farming. These modern techniques require huge amount of finance. In this regard institutional finance is performing well in credit expansion to agricultural sector. In Mysore district 85 per cent of the farmers depending on agriculture and allied activities, in such circumstances finance is essential for development of above said sectors. Hence, Institutional Finance played positive role in providing timely credit to small farmers in the district.

Commercial and Cooperative Banks also playing another important role in mobilization of deposits. It is one of the ways to accumulate the deposits and savings from the farmers and it also paves to inject the credit dispersion to agricultural and non-agricultural sector. We could notice this factor with the help of 13 years data from the Credit-Deposit Ration.

The government has implemented various programmes in the study area, many of these programmes aimed at rural areas and population, for example Swarna Mitra Scheme to provide easy loans to needy farmer community to meet their immediate agricultural needs in order to provide basic inputs. At the same time, Kisan Credit Card Scheme & Kisan Gold Card Scheme these two schemes are aimed at providing for immediate cash credit and consumption credit requirements and purchasing of agricultural implements, bullocks cart, Land Development, repairs to farm machinery, consumption needs, etc., of the farmers. Scheme like, Rain Water Harvesting Scheme for SC/ST farmers in order to augment their income generating capacity and providing facilities to their homesteads farm land.

Banks play a positive role in economic development of farming communities, their savings and as a lender of credit in the country. Indian
banking aided to economic development during the last few years (1979-1999) in an efficient way. The banking sector has shown remarkable progress to the needs of planned economy. It has brought about considerable progress in its efforts at deposit mobilization and has taken a number of measures in the recent years for accelerating the rate of growth of deposits.

As recourse of this, the Commercial Banks opened a number of branches in urban semi-urban and rural areas and have introduced a number of attractive schemes to faster economic development of the farmers. In this connection, in Mysore district institutional agencies have played a tremendous role in providing agricultural credit as compared to non-institutional finance. Institutional credits have been playing a catalytic role in area development, financial assistance to agricultural activities and extended financial support to rural development in a significant manner.

It is understood from the study that the bank has increased supply of credit to agriculture sector for upliftment of socio-economic conditions of small farmers in the district. Commercial Banks and Regional Rural Banks have disbursed agriculture credit at increasing trend. That accelerated number of bank branches, deposits and advances in agricultural loan. Further, banks have showed that bank need not depend upon credit expansion alone, this concentrates farmer’s socio-economic status have been improved.

Present study shows the impact of institutional finance on small farmers in the Mysore district for supply of timely institutional credit. The study also proves that the institutional role is very important for upliftment of the socio-economic conditions of the small farmers in the district.
It has been witnessed that the institutional Finance helped to improve socio-economic condition of the small farmers in the study area, it is proved from Annual Growth Rate & Trend Analysis. There is difference between Institutional and Non-institutional farmers who borrowed loans more from the various banks, which is proved from ‘Multiple Regression Analysis’.

Findings

An attempt has been made to present main findings of the research study are as fallows.

1. Education-wise classification of farmers reveals that the majority of the farmers (72.28 per cent) have completed Primary, High School, college level education. Only a few of them (27.72 per cent) were illiterate.

2. Caste-wise classification reveals that Vokkaliga Community is dominant in the study area. Agriculture is the major occupation in the district. Main source of irrigation in the district is Canal. The Paddy and Ragi are important crops and Sugarcane is the main commercial crop and coconut is the major Horticulture crop in Mysore district.

3. Majority of the growers own 1 to 2.5 acres of dry land and highest per cent of Wet land owned by the growers is under 2.5 to 5 acres slab.

4. The average annual income of the majority of sample farmers (65.1 per cent) was Rs. 50,000 in the study area.

5. The average annual household expenditure of selected respondents was more than Rs.20,000. The average annual households income about 46.8 per cent of the selected respondents was earned between Rs.15,000 to 20,000. Majority of the respondents (87.1 per cent) live in pucca houses.
6. Nearly 40.6 per cent of the respondents had their account in State Bank of Mysore. From the State Bank of Mysore (Commercial Banks), 50 per cent of respondents had borrowed loan and 37.14 per cent borrowed from Cooperative Bank. Only 7.14 per cent barrowed from other sources.

7. For purchasing of basic inputs, 86.3 per cent of the respondents had borrowed short-term or crop loan and 13.7 per cent respondents had borrowed Medium-term loans.

8. The 81 per cent of respondents have utilized the finance to productive purposes such as purchase of fertilizers, seeds, land development, purchase of agricultural implements etc. 19 per cent of respondents spent on unproductive purposes such as, celebrate ceremony, marriage etc.

9. It is noticed that, 51.7 per cent of the respondents had paid interest from 6 to 10 per cent charged by the Institutional Agencies.

10. Non-institution sources have charged the high rate of interest. In the field study we observed that 90.9 present of the respondent has the same opinion.

11. It was observed that 93.4 per cent of the respondents status after availing the loan from the institutional finance has increased.

12. Repayment by the beneficiaries is some what better; nearly 40.6 per cent respondents have repaid the loan in installments.

13. Around 48.8 per cent of the respondents they did not have sufficient irrigation facilities. 44.6 per cent respondents demanded to increase their loan amount and infrastructure facilities.
Recommendations

On the basis of the primary survey, the following recommendations are recorded to lend farmers loans under priority sector advances by the financial institutions to be more effective and purposeful. The main objective of the agriculture credit policies over the years has been to make adequate credit available to the farmers at the right time and at affordable rate.

1. The institutional agencies should educate the farmers to borrow only for right purposes and to repay the loans on right time. They must disburse the loans at the right time and in adequate measures.

2. To liberate the rural farmers from the clutches of moneylenders the entire rural credit should be institutionalized. The Cooperatives and Commercial Banks have to play a more effective role in this respect.

3. In order to make the cooperative credit structure more efficient, government control over co-operative societies should be minimized.

4. There are no particular schemes for small farmers, all benefits are utilized to the big farmers. However, there must be specific schemes for small farmers. Though, these schemes extended to the small farmers also.

5. Proper initiation should be taken to release the short-term loans as an essential inputs such as seeds, fertilizers when ever is required to the small farmers.

6. Crop insurance is provided to the Commercial crops only. These facilities are extended to the food crops also and small farmers land holding is very small when compared to the big farmers. However, the facilities are used only by big farmers. Therefore, these facilities also extend to the small farmers also.
7. Bank credit is available to the farmers in the form of short-term credit for financing for crop production programme and in the form of medium and long-term credit for financing capital investment in agriculture and allied activities such as, land development including purchase of land, Minor irrigation, farm mechanization, dairy development, poultry, animal husbandry and horticulture. Loans are also available for storage, Processing and marketing of agricultural produces.

8. Since, Money lenders could not be eliminated once for all, attempts must be made to bring the money lenders under some form of monetary regulations and control on the suggestion given by the Banking Commission (1982):
   (a) There is a need to fix the maximum rate of interest at a level which is unduly low.
   (b) The need to have proper and adequate system of supervision.

9. The recovery of loans may be postponed for a considerable period, of not less than two years, so that the indebted farmers are enabled to earn some additional income to repay the debt.

10. The process of loaning should be more easy and convenient for the farmers, then only farmers attitude towards money lenders can be reduced.

11. There is a need to tighten the supervision and monitoring mechanisms and provide greater autonomy in the operation of credit institutions and to improve their lending policies and procedures.

12. Strict supervision should be maintained by the financial institutions officials on the proper utilization of finance for productive purpose and also to avoid diversion of funds for other purposes.

13. While advancing loans to the farmer at right time, right person and right purpose should be kept in mind.
Conclusion

Agriculture is one of the most important sectors of the Indian economy, it gives livelihood to the two third of the workforce. Agriculture accounts for 18 per cent of India’s GDP and about 43 per cent of India’s geographical area is used for agricultural activities. Agricultural credit is one of the essential requirements for the growth of agricultural production and productivity.

The assessment of agriculture credit situation brings out the fact that the credit delivery to the agriculture sector continues to be inadequate. It appears that the banking system is still hesitant on various grounds to purvey credit to small farmers. The situation calls for concerted efforts to augment the flow of credit to agriculture and exploring new innovations in product design and methods of delivery, through better use of technology and related processes.

The agriculture credit plays a vital role in the overall socio-economic development of small farmers in the study area. As per primary survey, till today, some of the farmers are depended on money lenders for agricultural credit. There is a need to strengthen the institutional credit for agriculture and allied activities and need based Agricultural credit system should be provided to small farmers. However, in the study it is revealed that, the advances lend by various banks and co-operative sector has an impact on the socio-economic conditions of small farmers.

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Research Guide Research Scholar
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