CHAPTER-1

Introduction

1.1 Background

India is the land of villages and agriculture is the main occupation. Due to peculiarities of agriculture especially its uncertain low returns, high rate of rent and limited scope of employment, the large number of cultivators could not manage the required finance without borrowing. Finance is the lifeblood of any economic activity. Agriculture has no exception to it. Infact, finance is the foremost lubricating factor, which turns the wheels of industry towards prosperity. Agriculture finance is one of the most important instruments to provide adequate inputs, which are required for production in India.1

The finance is the essential requirement for all productive activity. Since, agriculture is one of the major productive sector it needs finance. In order to purchase inputs such as seeds, fertilizer, agricultural implements for the improvement of land and digging well etc, finance is essential, that too when agriculture tends to shift from subsistence to commercial cultivation. India has predominantly an agricultural country where large percentages of farmers are poor small and marginal in land holdings. Hence, they could not arrange required finance for themselves. They are heavily depending upon various agencies for borrowing loan right from the beginning.

Agricultural credit refers to credit provided to the rural population. It covers loans to agriculture as well as to non-agriculturists, like artisans

and landless labourers, who are residing in rural areas. The objective of agricultural credit is to provide adequate finance for agriculture, animal husbandry, rural industry, rural trade, rural transport and all other economic activities of the countryside. The necessity of credit in India arose because the majority of farmers and non-agricultural population facing financial problem. The idea of agricultural credit scheme aim at providing and ensuring adequate finance to every person in the country, who has engaged in or willing to engage in any economic activity\(^2\).

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\(^3\).

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

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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\textsuperscript{4}. Modern agriculture requires considerable investment with both of recurring and non-recurring nature\textsuperscript{5}. 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.

Primarily for value addition and employment generation, the extension services in farm sector, adoption of appropriate technology and its up gradation, marketing network for farm produce with price support, development of rural infrastructure, etc., are some of the others supportive measures for improving the rural economy and living


condition of rural poor which needs government initiatives and intervention in a planned and coordination manner.

A farmer has been encouraged to borrow loan from the institutional sources for all productive purposes. A strong institutional credit and banking set-up is necessary to meet the credit requirements, effectively and on reasonable terms. Cooperative is ideally suited for this task supplemented by other institutional agencies in a multi-agency set-up\(^6\).

1.2 Indian Agriculture

Agriculture is the backbone of the Indian economy and has contributed substantially for its growth. Sustained efforts during the last five decades has been resulted in the country not only becoming self sufficient in food grain production but also to become a major player at the global market. Recent international policy changes and establishment of the World Trade Organization (WTO) have opened up immense opportunities for Indian agricultural exports. Though India has been a traditional exporter of some agricultural commodities like spices, cashew nuts, coffee and tea, export of commodities like cereals, pulses, fruits, vegetables and flowers have also to gain the importance. India enjoys unique advantage of soil, water and climatic conditions as also comparatively cheaper agricultural labour. Given the policy direction and infrastructure there is an immense scope for increasing country’s exports by leaps in bounds.

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Indian agriculture is gifted with the fertile land and abundant availability of water resources. It has a long history of the fertile plains of Northern India irrigated by the Indus, the Ganga-Jamuna river systems and the Brahmaputra in the East. Southern India has its own river systems. So the prosperity of India is based mainly on the development of agriculture because, majority of the populations are engaged directly or indirectly on agriculture. Hence, the development of agriculture would mean the development of the rural masses and development of farmers. Further, increase in agricultural productivity depends on the adoption of new farm practices such as high yielding variety seeds, chemical fertilizers. Pesticides, insecticides, farm machinery and assured irrigation facilities.

Agriculture provides direct livelihood to 64 per cent of the labour force in India. 80 percent of India’s population are Below the Poverty Line (BPL) lives in rural areas, and they directly or indirectly depended on agriculture. Agriculture contributes almost 24 per cent of GDP, although the share has come down from 57 per cent in 1950-51. Whereas, in developed countries like UK and USA, the share of agriculture in GDP is only around 2 per cent. It accounts for about 18 per cent of the total value of India’s export. The bulk of agricultural exports consist mainly of 13 key commodities including tea, coffee, tobacco, cashew, spices, raw cotton and sugar. Almost, 30 per cent of tea produced in the country and 50 per cent of coffee and jute are exported. In addition to this, export of processed products accounts for another 15 per cent, which is quite a remarkable achievement.

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The gross irrigated area increased from less than one million hectares per annum before the Green Revolution to about 2.5 million hectares per annum during the 1970’s. But, the scope for further increase has been limited due to the shortage of arable land.

The total food grains production has increased from 48.1 million tones in 1950-51 to 203 million tones in 1998-99 (Economic Survey of India). The nation has achieved remarkable progress and in food self-sufficiency. Indian agriculture has been able to improve the per capita net availability of foodgrain to 539 grams per day (1996-97) from 395 grams in the 1950’s. However, it is acknowledged that the yield per hectare of food grains has shown the remarkable increase in the post – green revolution period. The growth has substantial in the case of wheat where technology could provide an optimum mix of high yielding varieties of seeds, plant protection measures, fertilizers and irrigation. The growth was less impressive in case of rice and minimal in pulses, as the latter still grown in marginal lands under rainfed conditions in vast areas of the country.

India is endowed with vast reservoir of genetic resources, varied agro-climatic conditions and various kinds of soils suitable for growing a wide variety of crops including fruits and vegetables. Its natural resources combined with the human resources offer a great potential to boost the agricultural exports of the country.

1.3 Importance of Agricultural Credit in India

Agriculture occupies the position of fundamental importance in the Indian economy. Being the largest industry in the country, agriculture provides employment to around 65 per cent of the total work force in the
country, it contributes about 30 per cent of the national income. Moreover, it provides raw materials to agro industries such as Cotton textile, Jute, Sugar, Vanaspati industries which are of the basic importance to the national economy. Thus, agriculture is extremely an important part of our economic structure. Agriculture is an occupation, which requires finance like other occupation, there has been estimated that an average, the Indian farmers are poor. Indian farmers have no adequate finance for agricultural development, hence, the farmers have to depend upon credit. Due to irregularities and drought situation in the last few years the farmers’ debt has been increased. Moreover, farmers spent more money on non-productive activities rather than productive activities such as fertilizers, irrigation, and land development etc.

However, marketing of agricultural goods is much more complex than the marketing of other goods and to have the best advantage in marketing of goods, the farmers should have adequate infrastructure facilities like storage, adequate and cheap transport, market information and also agricultural credit. Though the Government has taken various steps to improve the system of agricultural credit through establishment of Credit Cooperative Societies, Land Development Banks, Regional Rural Banks and NABARD etc. Yet it is adequate. Looking to the globalization, Indian agriculture is the most important sector, which could compete with Multinational Companies (MNCs). Therefore, agriculture sector is to be made a powerful in the global environment; it needs global services with regard to credit as well as marketing so that it could actively compete with Multinational Company.

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.

1.4 Agricultural Credit in India – Before Independence

The Pre-independence period witnessed the dominant role played by the Money Lenders and Indigenous Bankers in the supply of credit to agriculture. After recognizing credit as a 'Social Good' for agricultural development, further changes were effected. The appointment of Rural Credit Survey Committee in August 1951 was the first move in this direction. The survey revealed that the existing institutional and non-institutional credit to agriculture was far from satisfactory and recommended integrated scheme for agricultural credit involving Co-operatives as the major institutional sources. But the Co-operatives were unable to fulfill the demand for agricultural credit. Then, the Government of India started 14 nationalized banks in 1969 and further six more banks in 1980, with the objectives of providing credit to agriculture and other neglected sectors of the economy. Thus, the doors of commercial banks were opened for agricultural credit. According to the recommendations of M. Narasimham committee appointed by the Reserve Bank of India, Regional Rural Banks were setup in 1975, by passing Regional Rural Banks Act in 1975. The Reserve Bank of India in consultation with Government of India for Agriculture and Rural Development (NABARD)
was formed in July 1982 as per the recommendations of Mr. Shivaraman committee, which appointed the National Bank. The NABARD undertook the entire agricultural refinancing function of Reserve Bank of India. It finances farmers indirectly. Thus, the increase in the number of credit institutions resulted in a major change in the share of credit to the agriculture and also reduced the importance of non-institutional credit agencies. The Table.1 indicates the relative share of different agencies in the total agricultural credit.

Table.1.1
Changes in the pattern of borrowings of cultivators by credit agencies during 1951 to 2001

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<tbody>
<tr>
<td>A. Institutional Agencies</td>
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<tr>
<td>1. Government</td>
<td>3.3</td>
<td>2.6</td>
<td>6.7</td>
<td>4.0</td>
<td>5.7</td>
<td>1.4</td>
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<tr>
<td>2. Co-operatives</td>
<td>3.1</td>
<td>15.5</td>
<td>20.1</td>
<td>28.6</td>
<td>18.6</td>
<td>29.0</td>
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<td>3. Commercial Banks</td>
<td>0.9</td>
<td>0.6</td>
<td>2.2</td>
<td>28.0</td>
<td>29.0</td>
<td>30.0</td>
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<tr>
<td>4. Others</td>
<td>-</td>
<td>-</td>
<td>0.2</td>
<td>0.6</td>
<td>3.3</td>
<td>12.0</td>
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<td>Sub total</td>
<td>7.3</td>
<td>18.7</td>
<td>29.2</td>
<td>61.2</td>
<td>56.6</td>
<td>72.4</td>
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<td>B. Non-Institutional Agencies</td>
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<td></td>
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<tr>
<td>1. Land-Lord</td>
<td>1.5</td>
<td>0.6</td>
<td>8.6</td>
<td>4.0</td>
<td>4.0</td>
<td>5.0</td>
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<tr>
<td>2. Agricultural Money Lender</td>
<td>24.9</td>
<td>36.0</td>
<td>23.1</td>
<td>8.6</td>
<td>6.3</td>
<td>7.8</td>
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<tr>
<td>3. Professional Money Lender</td>
<td>44.8</td>
<td>13.2</td>
<td>13.8</td>
<td>8.3</td>
<td>9.4</td>
<td>6.2</td>
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<td>4. Traders</td>
<td>5.5</td>
<td>8.8</td>
<td>8.7</td>
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<td>2.6</td>
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<td>5. Friends and Relatives</td>
<td>14.5</td>
<td>8.8</td>
<td>13.8</td>
<td>9.0</td>
<td>6.7</td>
<td>4.0</td>
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<tr>
<td>6. Others</td>
<td>1.8</td>
<td>13.9</td>
<td>2.8</td>
<td>4.9</td>
<td>6.1</td>
<td>2.0</td>
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<tr>
<td>7. Source not specified</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.6</td>
<td>3.8</td>
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</tr>
<tr>
<td>Sub total</td>
<td>92.7</td>
<td>81.3</td>
<td>70.8</td>
<td>38.8</td>
<td>43.4</td>
<td>27.6</td>
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<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
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The table 1 reveals that the share of institutional credit to cultivators. It has increased from 7.3 per cent in 1951 to 61.2 per cent in 1981 and reduced to 56.6 per cent in 1991 and it has increased 72.4 per cent in 2001. Accordingly, the share of non-institutional credit to cultivators decreased from 92.7 per cent in 1951 to 38.8 per cent in 1981 and increased to 43.4 per cent in 1991. The share of Cooperative Banks increased from 3.1 per cent in 1951 to 18.6 per cent in 1991. The share of Commercial Banks credit to total credit of cultivators during 1951, 1961 and 1971 are 0.9, 0.6 and 2.2 per cent respectively. The share of government for the years 1951, 1961, 1971, 1981 and 1991, stood at 3.3 per cent, 2.6 per cent, 6.7 per cent, 4 per cent and 5.7 per cent respectively. The share of Money-Lenders increased from 24.9 per cent in 1951 to 36 per cent in 1961. The share of professional Money-lenders decreased from 44.8 per cent in 1951 to 13.2 per cent in 1961. The reason was the state government passed a legislation making it compulsory for Money lenders to register their activities. With the abolition of Zamindari System during this time, many professional moneylenders assumed the grip of agricultural Money-lenders. In 1991 the share of money -lenders was further reduced to 15.7 per cent, on account of effective lending by Cooperatives and Commercial Banks. The share of landlords increased from 1.5 per cent in 1951 to 8.6 per cent in 1971 and reduced to 4 per cent in 1981 and 1991 respectively. In 2001 commercial and co-operative banks have increases their disbursement of loans to the farming community with 72.4 per cent. The non-institutional source was declined due to the influence of the institutional loan for providing agriculture credit.
1.5 Institutional Credit for Agriculture and Allied Activities

The Government of India has changed the policy of single agency system and is distributing credit through Co-operatives, to Multi-Agency Approach as per the recommendations of the Kamat Working Group. The institutions comprising under Multi-agency system are Co-operatives, State Government, Commercial Banks and Regional Rural Banks. The State Government provides '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. 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. The network of institutional agencies for agricultural credit is depicted in chart-1.
Chart 1 Institutional Structure for Agriculture and Rural Credits System in India

From this channel it is observed that NABARD is an apex bank in the field of agriculture and rural credit. However, the RBI is the sources of NABARD. The NABARD finance directly flows to the Co-operatives, Commercial Banks and Regional Rural Banks with regard to the agriculture and rural credit. This channel also indicates every main institution having its own branches around the country. For example state, district and village levels for operating their functions. From the same channel come to know that the rural branches are main sources of depositors and borrowers for their transactions with regard to agriculture and rural credit.

1.6 Government of India and Agriculture Credit

The Government provided only 3.3 per cent of total credit in 1951 and this rose to 3.6 per cent in 1970. Thus, the role of the Government in agricultural finance is insignificant. Moreover, too many formalities have to be observed by the farmers in obtaining such loans. The farmers found it is very difficult to get the ‘taccavi’ loans because of good deal of delay in getting these loans. Again in many cases, the borrowers would pay some money to the officials by way of bribes in order to get their loans sanctioned. Further, the collection of taccavi loans is also very rigid. The farmers are required to pay back the loans on the due date. Otherwise, distress warrants are likely to be issued against their properties. Therefore, these loans have never become popular with the farmers.

1.7 National Bank for Agriculture and Rural Development (NABARD)

The National Bank for Agriculture and Rural Development is an apex bank of the country for promoting sustainable and equitable agriculture, rural development through effective credit support, related
services, building institutions, and other innovative initiatives. NABARD today is at the center of the development activities in the rural areas and bedrock of prosperous rural India. The most important development in the field of agricultural credit is the setting up of the National Bank for Agriculture and Rural Development (NABARD) in July 1982. NABARD is an apex organization in respect of all matters related to policy, planning operational aspects, concerning the flow of credit for development of agriculture, rural industries and handicrafts and other allied activities in the rural areas. It is a single integrated agency for meeting the credit needs of all types of agricultural and rural development; it has taken over the entire operations of the Agricultural Re-finance and Development Corporation (ARDC) as well as Re-finance functions of RBI. NABARD has been guiding all major agencies operating in the rural credit agencies namely the Commercial Banks, the Regional Rural Banks and the co-operative credit institutions. NABARD has been envisaged as the leader of the entire rural credit system.

NABARD works as an apex body for development policy, planning, operational matters, coordination, monitoring, research, training and consultancy etc, relating to rural credit. It provides Re-finance to the Co-operatives, Regional Rural Banks and Commercial Banks for short, medium and long-term requirements. It undertakes the inspection of Co-operative Banks and Regional Rural Banks and advices the government on related matters. NABARD has thus been playing a pivotal role in channelization of bank credit to the rural sector. It provides refinance and improves the resource base of institutions providing credit to the rural sector. In recent years, NABARD has attempted to enhance the coverage of rural credit institutions by bringing in areas of non-traditional agriculture and new ventures in farm activities under their preview.
NABARD is also taking steps to restructure the institutional credit system in India\(^9\).

### 1.8 Commercial Banks and Agricultural Finance

The Commercial Banks endeavored to increase their direct involvement in rural credit, firstly, by rapid expansion of branches in the rural and semi-urban areas and secondly through a number of operational innovations such as, establishing specialized branches exclusively or mainly oriented to farm lending, intensifying their efforts in specific areas under the village adoption scheme, linking up their lending to schematic programmes under the five year plan with assistance of the ARDC (or NABARD), taking over PACS and organizing FSS. The Indian Banks’ Association promoted the Agricultural Finance Corporation (AFC) with a view to speeding up project lending by Commercial Banks in the agricultural sector. The banks have made serious efforts to move nearer to their clientele in the rural sector and to serve them better. In this, the Lead Bank Scheme and the setting have additionally assisted them up of RRBs in selected areas. The financing agriculture was considered to be the sole responsibility of the co-operative credit institution till 1967. However, with the growing demand for credit for agriculture and allied activities and an account of increasing emphasis laid on agricultural production as also the technological breakthrough achieved by Indian farmers, the resources of co-operative sector was found to be inadequate\(^10\).

Against this, Commercial Banks were called upon for the first time in 1967 to provide finance to the agricultural sector. Their role in this

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direction expanded significantly after the nationalization of the 14 major scheduled Commercial Banks in 1969. Since then, the Commercial Banks have been financing for agricultural activities and development as an increasing scale yearly and their involvement in this sector has been growing.

1.9 Regional Rural Banks (RRBs)

The Regional Rural Banks, have been set up by the ordinance of September 26, 1975 on the recommendation of a working committee appointed by the government under the chairmanship of M.Narasimham. Initially five RRBs were established and presently there are about 196 RRBs in India. These banks were established to provide lending services specially to weaker sections of the society, viz, small and marginal farmers, agricultural labourers, rural artisans, small traders, self-employed persons, etc., those who have little access to Commercial and cooperative banks.

1.10 Cooperative Banks

The cooperative movement in India began in 1904 with the establishment of Primary Co-operative Societies (PCS). Though the cooperatives were conceptually thrift and mutual self-help, self-reliant associations of farmers, those which came up in India owed their origin to government initiative and became lending agencies out of borrowed funds with an aim of freeing the farmers from the grip of Money-lenders and providing them with the production credit (Kurien, 1993). The Co-operative Banks are providing agricultural credit to the farmers through three tier structures.
1.11 Three-Tier Cooperative Credit System

Under this system both short and medium-term credit needs of agriculturists to meet their requirements. The three-tier system is structured as follows; at the apex level it is the State Cooperative Banks (SCBs), while at the district level, the District Central Cooperative Banks (DCCBs) and finally at the lower level, Primary Agricultural Credit Societies (PACS) this forming the base of the three-tier cooperative, credit structure.

Primary Agricultural Cooperative Credit Societies (PACS)

The Primary Cooperative Credit Societies are the basic level institutions of the credit structure. The societies provide short and medium-term credit for farmers. These societies also undertake the supply of seeds fertilizers, insecticides, agricultural equipments and marketing of farm produce. The term of short and medium-term credit to be provided by these societies has one year and three to five years respectively. The credit limits are fixed every year in Farmers Service Societies (FSS). The Reserve Bank of India, the Banking Commission, the National Commission on Agriculture and the Working Group on Cooperatives (chaired by T.A. Pai) recommended that, all farmers should get all types of credit requirements at one contact point. Thus, the Farmers Service Societies (FSS) came into existence. These organizations work at the block level, and in the district, they form a district union, which provide leadership in organizing the agricultural credit societies in the district. They are autonomous bodies with their own bye-laws. In order to get funds, concessional interest and marginal subsidy, FSS are treated as Primary Co-operative Societies. Farmers Service Societies
(FSS) provide short – term and long-term credit, and also inputs and technical guidance relating to improved farm activities\textsuperscript{11}.

**District Central Cooperative Banks (CCBs)**

Credit structure for short-term flow to the small and marginal borrowers. It has provided the short-term credit for small and marginal farmers through District Central Co-operative Banks.

**State Cooperative Banks (SCBs)**

The Co-operative Banks form the apex of the cooperative credit structure in each state. The State Cooperative Banks has control the working of Central District Co-operative Banks in the state. State Co-operative Banks serve as a link between NABARD and Co-operative Central Banks in the state. State Co-operative Banks obtain their working funds from their own share capital and reserves, deposits from the general public and loans and advances from NABARD. State Co-operative Banks give loan to District Co-operative banks for agricultural credit purpose.

**1.12 Committees Estimation on Agricultural Credit**

Estimation of the total credit requirement and all the actual borrowers by the Indian farmers has always been a very challenging task. Infact, realizing the importance of agricultural credit, several committees were constituted to evolve the modality of extending the credit facilities from time to time and attempts are made to estimate the credit requirement of farmers. Some important estimates are as fallows:

All India Rural Credit Survey Committee (1954) has estimated the total agricultural credit requirements of the country of Rs. 2000 crores of which Rs1200 crores are to refinance by the institutions and Rs. 800 crores were to be self financed. The Working Group (1955) was set by the Agricultural Board of the Government of India in 1965 estimated the total credit needs of agriculture in 1970-71 of Rs. 1160 crores. The All India Rural Debt and Investment Survey in 1961-62 estimated the annual borrowings of the farmers to be of Rs.1034 crores\textsuperscript{12}. The All India Rural Credit Review Committee (1969) was estimated the short-term credit requirements at Rs. 2000 crores, Medium-term credit of Rs. 500 crores and Rs. 1500 crores for long-term credit, this brought to the total credit requirements of Rs. 4000 crores in 1973-74\textsuperscript{13}. The estimation made by Reserve Bank of India in the monthly Review of February 1968, expected the total agricultural credit requirement by 1970-71 to be of the order of Rs. 1300 crores for short-term type, Rs. 480 crores of medium-term type and Rs. 555 crores of the long-term type. The 5\textsuperscript{th} Five Year Plan (1954-1979) estimated that by the end of plan period, the requirement of the short-term agricultural credit was Rs. 3000 crores. The National Commission on Agriculture (NCA) observed that by 1985, the credit requirements of the farmers for short-term, medium and long-term credit was of Rs 16,594 crores. The Ministry of Food and Agriculture estimated the short-term credit at Rs. 1,550 crores and medium and long-term requirements of Rs. 1,650 crores at the end of 1973-74. The above committee’s estimation reveals the pace of increase in the total farm credit requirements.

\textsuperscript{12} Reserve Bank of India(1954-1964) Report of the All India Rural Credit Survey Committee, RBI Bombay.
\textsuperscript{13} Reserve Bank of India (1961-62) Report of the All India Debt and Investment Survey, RBI Bombay.
1.13 Agricultural Credit under Five-Year Plan Period

Realizing the importance of agricultural development and agricultural credit, it has been vital area of consideration throughout the planning period. The First Five Year plan recommended the annual Credit of Rs. 100 crores for short-term, Rs.25 crores for medium-term and Rs.5 crores for long-term requirements by the end of Fourth Five year of plan.\textsuperscript{14} The Second plan fixed a target of Rs.225 crores including Rs.15 crores towards short-term, Rs.50 crores for medium-term and Rs.25 crores towards long-term requirements. The Third Plan has envisaged a total allocation of Rs.687.6 crores for this purpose. The first annual plan decided to distribute a total amount of Rs.482.50 crores while the other two annual plans however, fixed a target of Rs.570 crores and Rs.625 crores respectively\textsuperscript{15}. During Fourth five year plan, the supplementary line of credit were arranged in the field of long-term credit, institutional support from Reserve Bank of India, State Bank of India and Life Insurance Corporation were sought for the purchase of debentures of Central Mortgage Banks. By the end of Fifth Five Year plan the sum of Rs.2,250 crores were supplied towards agricultural credit. The Sixth Five Year Plan set a target of Rs.5, 415 crores to be distributed by 1984-85. During the Seventh Five year plan it is increased to Rs.12,750 crores. The Eight Five year plan strategy stressed that the attention should be paid to meet the requirements of short, medium and long-term credit in larger measure\textsuperscript{16}. In Ninth Five Year Plan (1997-98 to 2001-02) the total credit of Rs.22, 97,500 million for both short and long-term was estimated to agricultural sector. This meant the 16 per cent of annual growth rate of credit flow during the plan. Finally, Y.C.Nanda

\textsuperscript{14} Government of India (1951), Draft of First Five Year Plan, Planning Commission, New Delhi.
provides the latest estimation on the magnitude of demand for agricultural for Tenth plan the demand of credit for production was estimated to lie between Rs.8,60,000 million to Rs.12,29,280 million short and long-term agricultural credit\textsuperscript{17}. In Eleventh Five Year Plan Period the growth of agricultural credit was exceed target set for 2007-08. For 2008-09, the target set was Rs.280,000 crore, with short-term crop loans continued to be disbursed at 7 per cent per annum with the initial provision of Rs.1,600 crore made for interest subvention in 2008-09. The Eleventh Five Year Plan has a target of 4 per cent for agricultural sector with the overall GDP growth 9 per cent. In this context, there is a need for affordable, sufficient and timely supply of institutional credit to agriculture is assumed crucial importance\textsuperscript{18}.

The analysis of plan period would reveal the efforts of planners towards agricultural credit. The unfortunate fact is that, these ambitious targets of the plan were not adequately met. Since the institutional and non-institutional support were not upto the exceptions. A look at the institutions engaged in agricultural credit and an evaluation of their performance is expected to throw light on the reality of the situation and also given more attention towards agricultural sector.

1.14 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 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

\textsuperscript{17} Economic Survey(2003-04), 9\textsuperscript{th} and 10\textsuperscript{th} Five Year Plans, Planning Commission, New Delhi.
\textsuperscript{18} Reserve Bank of India (2008), Report of Committee to Review arrangements for Institutional Credit of Agriculture and Rural development, RBI, Bombay.
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.

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1.15 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 borrowers 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) has an impact and the increasing 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.

1.16 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 uplifttments of

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small farmers in general and institutional credit in particular. And none of the study on the “Role of Institutional Credit 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.

1.17 Objectives of the Study

Agriculture is the backbone of the national development. It is necessary to protect the farmers and to provide agricultural credit, for which various financial institutions have been established. The main focus of the study is on “Role of Institutional Credit in the Socio-Economic Development of Small Farmers” is to examine the role of financial institutions and its impact on farming community. The specific objectives of the study are:

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.
1.18 Hypotheses of the Study

The following are the hypotheses formulated based on the review of existing studies:

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.

1.19 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 news dailies has been classified and tabulated.
**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, Nanjangud and T.Narasipura. The primary data was collected by interview method with the farmers in the village selected for the study through personal contacts.

**Analytical Framework**

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

**Data Base:** The reference year for the primary data collection was during 2008-09. The secondary data was collected from 1996-97 to 2008-09 in the study area.
Sampling Design

The Sample size have consisting of all the taluks of the district those who have borrowed loan from the various institutional agencies in the study area.
Map No. 1.1

Talukwise Sampled Villages in Mysore District

Respondents Selected in the Study Area

<table>
<thead>
<tr>
<th>Name of the Taluk</th>
<th>Name of the Selected Villages</th>
</tr>
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</table>
Introduction

|-----------------|------------------------------------------------------------------------------------------|

1.20 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 fiancé 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 bringout 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.
1.21 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 of the study.

CHAPTER-2
Review of Literature

The review of literature not only gives an opportunity to comprehend research problems but also helps the researcher to understand different issues. A review of past research helps in identifying the conceptual and methodological issues related to the study. This will enable the researcher to gather sources and subject them to sound reasoning and meaningful interpretation. The different issues that have emerged in the review made use for the formulation of research objectives of the study. Review of literature has been categorized in two subheadings are as follows:

2.1. Studies related to Cooperative, Commercial Banks and Agricultural Credit.

2.2. Studies related to Agricultural Credit in India.