CHAPTER - 2

Review of Literature
REVIEW OF LITERATURE:

The chapter present observations and findings of the important studies undertaken on various aspects of rural finance. They provide academic background for formulation of objectives for the study and help in deciding tools for analysis and other methodological aspects.

The reviewed researches also serve as the basis for comparison of inferences. They have been presented in chronological order. In view of the concept of social obligation taking for front and priority sector lending becoming crucial in the rural credit system in the Post Bank nationalisation era only studies pertaining to the post nationalisation period are presented in this year.

Agricultural finance has attracted considerable attention of researchers in India. Such studies have been undertaken mostly by the Reserve Bank of India, programme evaluation organisation of the planning commission the national cooperative union of India, the Indian Society of Agricultural Economics Agro Economic Research Centres, Indian Institute of Management, Ahmedabad the Vakunth Mehta National Institute of Cooperative Management Poona, Agricultural Finance Corporation and the various university departments of commerce, economic and agricultural economics of the total of 377 reported research projects during 1957 - 1961 Ph.D./D.Sc. Thesis by the Universities/Government Research Institute etc. 51 Projects that is about 14% were on agricultural credit and cooperation.

Of the reported projects of 283 during 1962 - 63 only 22 i.e. about 8 percent were concerned with Agricultural Finance and cooperations of the total of 142 studies on cooperation in 1963 - 64 about 23% were on primary credit and multipurpose cooperatives as reported by the regional office and education centre of the International Cooperative Alliance.

The all Indian Rural Credit of the Reserve Bank of India during 1951 - 54 was the first comprehensive enquiry on rural credit in India. This enquiry covered 75 districts from the whole country of which 13 were from Uttar Pradesh six of these districts namely Mirzapur, Ballia, Deoria, Jaunpur, Sultanpur and Sitapur were from eastern U.P. and 7 namely Kanpur,
The committee observed "The primary credit society............ Satisfied none of the requisites of either good Cooperation or Sound Credity".

The Committee further observed "Cooperation has failed in India but Cooperation must succeed."

It recommended the Integrated Scheme of rural credit the main features of which were:
1. State Partnership in Cooperative Institutions at all levels
2. Cooperation between credit marketing and processing.
3. Development of warehousing and
4. Training of Cooperative Personnel at all levels.

Chaudhry and Sharma (1970) analysed the crop loan in system Andhra Pradesh and Punjab. They observed that while in Andhra Pradesh as high as 80% to 90% borrowings were used for meeting the labour expenses, in Punjab 63 to 89% for the borrowings were used for buying seeds, fertilizers, manures and Pesticides. Thus according to them the relationship of credit with various inputs varied according to Agroclimate conditions as also according to the level of adoption of technology.

Singh and Jha (1971) revealed that the provision of additional credit under the acceptable technology produced substantial increase in the farm incomes of low income farmers as compared to the increase obtained under the current technology situation in all the sampled villages. The adequacy of capital therefore provided better results in terms of net returns when used with advanced technology.

Sisodia, J. S. (1971) reveal that nearly 47% of the total loan was utilized by the farmers for the purpose for which it was taken and the remaining 53% was utilised for unproductive purpose. The dependence on the institutional credit was more for procuring fertilizers and pesticides as compared to other inputs. This was probably due to the fact that these inputs. This was probably due to the fact that these inputs were supplied in kind.
Agrawal (1971)\(^3\) studied on institutional credit for agriculture in Malwa region of Madhya Pradesh and stated that every class of farmer is entitled for some amount of credit on the size of holding basis.

Singh and Mishra (1971)\(^1\) in their study on institutional credit and Farm Productivity in Block Kalyanpur, District Kalyanpur concluded that the income and investments were on higher or borrower farms. The average input, output, net income and farm business income were Rs. 1260.27, Rs. 2565.89, Rs. 1308.14, Rs. 1517.69 and Rs. 1584.22 on borrower farms. The values on respective items, in case of non borrower farm came to Rs. 848.64, Rs. 1741.76, Rs. 895.62, Rs. 1065.91 and Rs. 1079.74 per hectare.

Raju et al (1971)\(^2\) studied that in induction of bank credit has helped to rise the farm returns. They stated that through the technology and influenced the farm returns the bank borrowing also showed a favourable effect on the total farm returns. They further stated that the bank borrowings have increased the productivity of the other inputs used in farming.

Ramamoorty et. al (1972)\(^1\) found that the cooperatives commercial banks and money lending were the main source of supply of credit to the sampled farmers of the two selected districts of Tamil Nadu. The study further showed that the cooperatives were more important source accounting for 61.73% followed by commercial banks and money lenders constituting 12.6% and 25.66% respectively. They observed that made a significant contribution in field of Agricultural finance.

Pandey, H. K. (1972)\(^2\) concluded that adequate use of credit increased the income even at the prevailing state of technology credit coupled with improved technology increased the income significantly. In quantitative terms the increase in income varied from 32% for small farmers to 10.8% for large farmers.

Chauhan and the Mudle (1973)\(^3\) in their study in Songil District of Maharashtra found that the adoption of new technology in absence of provision of credit reduces income by 21.65 to 68.48% here as with the availability of credit, the income to.
Das and Rout's (1972) found that 79% of the total credit was met by institutional agencies and only 21% of the total came from the non-institutional sources in Cuttack District, Orissa in the year 1972. Institutional agencies concentrated more on rice growers of the area as most of them had assure irrigation and thus where a safe risk.

bansil, P. C. critically examined the basis of estimating farm credit requirements at the end of the fourth plan 1973 - 74 and came to a conclusion that total need for Agricultural and household expenses would then amount of Rs. 1,677 crores. His estimate of short term credit was based on:

1. The ration of total borrowing for all purposes, farm as well as non-farm of national from agriculture, according to rural debt and investment survey, 1961 - 62.

2. Total borrowing for farm expenses per acre, according to the 1961-62 survey.

3. Expenditure on various inputs as well as other household expenses.

Kumars (1974) studied credit expansion in the post nationalisation era and observed that quantitative as well as qualitative changes has taken place since then in quantitative the advance increased from Rs. 2599 to Rs. 5398 in December 1972. Due consideration was given qualitatively to the priority sectors of the economy.

Agrawal and Kumawat (1974) studied the potentialities of increasing farm income through provision of credit and though new technology on different size of farms in 1971 - 72. They found that there was sufficient potentialities for increasing income in all size of farm. The provision of additional funds would increase the farm income even at exciting level of technology by approximately 41% adoption of improved technology with adequate credit facilities increased the income of all the size of farms by 73%.
Behari B. et al (1975) have that the amount of borrowed capital increased with the increase in the farm size which varied from Rs. 273.54 in lowest size group to Rs. 313.34 in the large size group. The production of the borrowed capital to the total inputs per hectare was found to be higher on a large size of farms. The per hectare capital used was found to be positively correlated with the size of holding. The availability of the source of credit indicate that 62.29% of the total credit (short term) was from the cooperatives in the case of small farms, followed by relatives and money lenders. The medium and long term credit needs were met by land development banks to the extent of 97.08%. Only few cultivators were benefited by the commercial banks. This study clearly brought out that rate of commercial banks in long term and medium term farm finalising was negligible.

Singh, J. P. (1975) conducted a branch mark survey in the operation research Project at Cuttack District Orissa. He found that of the total loan supplied by the various agencies, the credit from cooperative societies constituted 37.01% and that from commercial banks and governmental agencies constituted 30.60% respectively. Money lenders still had a substantial, share, constituting 32.05% of the total loan available to the farmers.

Patel, S.C. (1976) found that on an average 85.7% of the credit to the farmers was met by the commercial banks, whereas 14.37% was met by other sources. Thus the study indicated good progress of the Banks Village Adoption Scheme.

Rajput S.S. and Singh J. Y (1977) have analysed the utilization of Agricultural credit in Agra District of U. P. According to this study the highest demand for credit was for irrigation purposes followed by that for improved Agricultural implements. However the number of farmers using credit for fertilizers and dairy development was the lowest. Since fertilizer is complementary for irrigation. It is not quite understandable as to why the demand for Irrigational credit was the highest and that for fertilizer credit was the lowest. They suggested that special efforts were needed for the disbursement of Production loan to the farmers. The loan advanced per hectare in 1969 - 70 was Rs. 2.52 only and it increased to Rs. 11.24 in 1970 - 71 and to Rs. 16.79 in 1971 - 72 i.e. about six times that of
of the progress of agricultural labourers were relatively low probably because of their poor economic status.

Kumar et al (1978)² in their findings on estimation demand for credit on marginal farms according to profit function approach conducted that the existing level of use of variable input area far below the optimum levels in all the seasons. There is scope for observing more credit even at the existing high rates of interest paid by these marginal farmers. The fact that these farmers are paying and can pay high rates of interest on loan if they can be made available. Given favourable input and output prices their demand potential for credit is likely to be very much higher. The result of this study clearly indicates that step to bring down interest rates on loans to the marginal farmers can not be of much help.

Lavania et al (1979)¹ conducted a study which was based on 75 borrower farmers and 75 non-borrower farmers selected randomly from Parvati block of West Godavari district in Andhra Pradesh. The study related to the 1972-73, By using 't' test. They reported there was considerable difference in the extent of adoption of improved technology between borrowers and non-borrowers use of fertilizers, improved seeds, implements and improved Practices was 36.25, 42.38, 12.21 and 13.51 percent respectively in the case of borrowers group for all farms, while it was 34.46, 37.33, 9.25 and 10.21 percent respectively in the case of non-borrowers.

Balishter and Singh (1980)². While conducting a study in Bichpuri block of Agra district (U.P.) studied the 59 borrower farmers at two different points of time (i.e. before and after taking loan) and observed that due to assured irrigation made possible from borrowed capital there was shift on the cropping pattern from low income crops to high income crops.
Intensity of cropping increased from 122.44 percent to 194.18 Percent.
Net income per hectare increased from Rs. 586 to Rs. 156.1. The rate of
increase in gross and net returns over investment was found to be 31.76
and 15.74 Percent, respectively.

Subbarao (1980)\textsuperscript{1} observed the expenses of the functioning of new
institutions such as Regional rural bank and scheduled commercial banks,
suggests that more multiplication of new institutions in no solution for
intractable problem of serving the small farmers. The fact that these new
institutions so far helped only in increasing the inequality in the distribu­
tion of available credit as between small and large farmers.

Nambiar (1980)\textsuperscript{2} observed that growth process in rural economy and
planning for development of credit facilities according to the requirement
of growth would continue to be the major task of commercial banks.

Rao (1980)\textsuperscript{3} highlighted the need for at least one viable agency eas­
ily accessible to Agricultural borrowers so that no body is starred of credit.

Pandey et al (1980)\textsuperscript{1} using farm planning and budgeting technique of
analysis, observed that whin new technology is adopted through extend­
ing credit facilities to marginal farmers, farm incomes increase.

Singh, et al (1980)\textsuperscript{2} pointed out that development of agriculture largely
rests on availability of irrigation facilities particularly that of the minor
irrigation, the utilization of modern inputs and adoption of modern tech­
nology in turn depends on the availability of credit. The development of
Agriculture largely depends on the availability of crop loans for adoption of
modern technology and term loans for creation of minor irrigation facilities
on the farm.

Shah (1981)\textsuperscript{3} found that concurrent evaluation of special programme
for weaker sections would go a long way in providing necessary feed back
to the policy makers and planners for the improvement of the programme
from time to time.

Singh and Ramanna (1981)\textsuperscript{4} studied the role of credit and technology
in increasing income and employment on small and large farmers in West­
ern Region of Hyderabad district, Andhra Pradesh. They indicated to change
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explore the possibilities of increasing income and employment potential under irrigated and unirrigated conditions at existing and improved technology levels.

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Patel (1981)\(^2\) reported that as the result of nationalisation there has been accelerated thirst towards expansion in unbanked area and diverse credit needs of agriculture, but the problem of recovery of advance continued mounting.

Vaish et. al (1981)\(^3\) reported that the banking system has been successful in reducing regional disparities in flow of credit to certain extent in the recent past.

Chhipa et al (1981)\(^1\) reported on the basis of Composite indices of banking development that the state of Kerala, Punjab, Maharashtra and West Bengal were highly developed.

Singh et al (1981)\(^2\) emphasized on the need of increasing credit availability since the cultivators are motivated to apply capital using technology for the crops under investigation.

Jodha (1981)\(^3\) reported that the private lending agencies, in general perform better than the institutional credit agencies during brought year as they possess in built mechanism to adjust their operations to the lending risks in their areas.

Upadhyay et al. (1982)\(^1\) suggested that the consumption needs of the small borrowers should also be taken into account while granting bank loan to them to check misdirection of loans.
Chauhan et al (1982)\textsuperscript{2} observed that though the both commercial banks and cooperatives are financing the farmers vigorously even then all categories of farmers have to depend on non-institutional agencies for meeting their credit requirements.

Kohnikal (1982)\textsuperscript{3} reported that these are definite and strong relationship between borrowing and economic and technological conditions on the farms of selected cultivators and that the borrower groups which were better educated had better welfare conditions for the family than the non-borrower group.

Pai, G. A. (1983)\textsuperscript{1} while studying the progress of United Commercial Bank in financing agriculture in the Dhankal district of Orissa under the lead Bank Scheme, suggested the need for reorganisation of area wise credit structure vertically and horizontally with regard to short medium and long term credit.

Shankariah et al (1983)\textsuperscript{2} reported that the new agricultural technology had increased the demand for inputs and consequently credit in agriculture sector, Institutional agencies have been playing dominating role in the provision of credit to farmers. Commercial banks shared 59\% of the institutional credit during 1975 - 76 and dominated among institutional agencies.

Mohan P. K. et al (183)\textsuperscript{3}, reported that the purpose wise classification as well as distribution of loans point out the bias of the banking institutions towards large farmers.

In order to play major role in achievement of I.R.D.P. objectives the banks should diversify their loaning policy towards subsidiary activities which are helpful to small and marginal farmers. It is necessary that the interests of these targeted groups should be protected by allotting an increasing share of the loans of these sections.

Singh et. al (1984)\textsuperscript{1} reported that they observed of the total overdues about 56 percent and 44 percent were current overdues for less than three year. The category-wise analysis showed that the proportion of old
overdues was higher in the case of large farms (62 percent) as compared to the small (53 percent) and medium farms (48 percent).

Singh et. al. (1984)² reported that the study brought out clearly the fact that the institutional credit can significantly help in stepping up the farm Production and consequently increase income of farm community are most handicapped and faced with the requirements of the modern technology. It is thus clear that there is still greater scope for institutional credit which will help in increasing Production and income of farmer.

Mehta (1984)³ reported that artificially low rate of interest have been faced on cooperatives and other credit institutions for Political and Pseudo-ethical reasons, and have trivial and transient advantages to the borrowers. If a loan does not result in gains to the borrowers, more than enough to repay it plus the growing rate of interest, it should not have been granted.

Rao et.al. (1985)¹ reported that Andhra Pradesh occupies First Place in country not only in respect of direct agricultural loans but also in regard to loans given to small scale industries and retail trade.

Shastry (1985)² reported high positive association between bank deposits and per capita income.

Satheedh et.al. (1985)³ reported that a liberal credit policy as found to be indispensable for the poorest section of the farmers for bushing them up into higher level of income as they do not have sufficient surpluses to invest. In East Godawari district however when capital is limited crop circulate farming system have maximum potential of argumenting income and employment. Besides the results emphasized the need for strengthening a close coordination between credit and other development agencies and streamlining the flow of necessary inputs and services like extension, marketing etc. to peasants below the poverty line.

Singh et al (1987)¹ reported that it may further be seem that return their higher on small farms as compare to marginal farms because of higher range of inputs. Level of employment of a farm family is mainly
determined by the size of farm of business intensity of cropping, type of crops grown, cropping pattern adoption, level of adoption of modern farm technology etc. On one hand and the availability of employment opportunity on the other. The level of employment of human labour of beneficially and non beneficially farm in days per hectare.

Sreenivasan (1987)\(^2\) reported that massive geographical expansion at a rapid pace, explosive growth of business and functional diversion during these years have brought in stress and strain on banking system which are reflected in erosion in quality of customer service, determination of loan assets, house keeping, Internal controls and pressure on profitability.

Vaishnaw (1987)\(^3\) reported that with the phenomenal that credit expansion, realistic and efficient credit planning have become matter of most importance to banks. The concept of lending has itself undergone a sea change in the post nationalisation era with the emergency of important new factors such as development credit for priority and weak sectors, food procurements export credit etc.

Parihar and Singh (1988)\(^1\) have conducted study on Institutional Finance for Agricultural Sector in Punjab. They observed that most of the medium and large farmers has obtained their loan amount for short term as well medium and long term from institutional sources i.e. Cooperative Societies, Commercial Banks & Land Development Banks while a higher percentage of small farmers obtained short terms, medium term and long term loan from non institutional agencies like commission agents etc.

Rao and Murty (1988)\(^2\) conducted that a part from the top side flow of credit among regions within a region also a major portion of credit is being concerned by the relatively bigger cultivators at the cost of smaller once tenants, agricultural labours and others weaker sections of the society.

Chenchaiah (1988)\(^3\) reported that the provision of crop loans had a positive infact of farm income in the post period.

Bondal (1989)\(^4\) observed that service area approach would enable the bank branches to have development orientation and concentration on
productive lending, thus contributing to the development of specific areas assigned to them.

Reddy (1990) argued that credit obstacles are at root India's Rural development problems, cooperatives have been presented as a successful form of organisation suitable for agricultural development such as milk production.

Ojha (1990) observed that all the service areas approach is the answer to improve the quality of lending in rural area. Through dedication and combined efforts of all concerned it will a loan transform the rural scene in the years to come.

Pathak (1990) observed that credit should be provided with package or required services. It has to be supervised with problem solving attitude. Assistant should also be provided to borrowers in respect of social aspects like health, education, training.

Nath (1990) observed that only expansion of rural credit in terms of numerical strength will not save the basic purpose of motion. Particularly for developing country where poverty alleviation is one of the corporate goals, but effort should be made availability of covered the elite type of banking to mass banking.

Vaidya (1991) observed that credit has apparently helped most families in increasing income and employment opportunities. Assets of an agricultural and non-agricultural character have been made available to households. However there is said to be a need for credit to be channelled to productive uses and for purpose supervision of loan repayment, Livestock Farming has been identified as a potentially profitable area for further investment.

Goparia (1991) observed that unless bank loan at concessional interest rate is kept within reasonable proportions by carefully restricting the benefit to the most deserving the burden on the Banking System would not be justified but benefit would be cornered by the not so deserving even if banks were somehow able to bear the burden. Banks may be told that they should give priority to financing to a particular category of bor-
rowers say small and marginal farmers but they should be left free to pick up their borrowers from the category.

Sharma et. al. (1991)\(^3\) observed that milk production and marketing statistics indicate the benefits of institutional lending for landless farmers.

Lokanandhan et. al. (1991)\(^1\) reported that tendency to divert loans to unproductive uses and wilful default on loan repayment urges government to take immediate legal action against such borrowers in addition to developing a more fool proof scheme for evaluating credit worthiness among potential creditors.

Vaikunthe (1991)\(^2\) observed that the efficiency of the bank is assessed on the basis of loans in issue and its recoveries. Most of Bank creditors are higher income land owners who borrow regularly.

Suresh (1991)\(^3\) observed that cooperatives play important role in the rural credit market. There is need to develop a better organisation managerial and technological structure for institution.

Wiggins S. (1991)\(^4\) reported that banking services offered did not always confirm to official standard and there has been a notable of the private banks compared to the nationalised banks.

Budhan (1992)\(^1\) reported that the reason for poor recoveries of Agriculture loan were absence of coordination among financial institutions, misuse of loans, political patronage, lack of continuous contact with borrowers, lack of interest of borrowers in productive activity after adjustment of subsidy, misuse of loans in non productive activities, failure of collection of required information about borrower quick disposal of loans by banks to fulfil target etc.

Sadakkadulla (1992)\(^2\) observed that unless the other non credit inputs specially technology transfer and marketing is ensured to full benefit of credit can not be realized.

Chakrabarty (1992)\(^3\) reported that XV banks economy conference concluded that not with standing the problems, banks have played a key
role in the area of agriculture and rural development. Such lending helped
millions of small borrowers to improve their economic lot. This could be
corroborated by the fact that the recovery percentage of such loans de­
clined over a period from 90% to around 55%.

Mohintamony (1992)\(^1\) reported that welfare orientation of our ban­
nning system has rendered excessive stress on priority sector advance.
These advances constitute lion's share of our rural credit system. This has
thwarted their profitability and to make the matter worse, even the mini­
mum returns from such advances are not forthcoming due to the sub­
standard quality of the credit.

Balishter et. al (1992)\(^2\) examined the performance of Etawah Kshetriya
Gramin Bank in Uttar Pradesh. The study period was 1984 to 1988. They
observed that R.R.B.*, appears to have been relatively successful on de­
posit mobilisation particularly from the weaker section of rural society
through small accounts.

The study suggested that the bank maintaining a 2:1 ratio in financ­
ing agricultural and non agricultural activities in accordance with the Re­
serve Bank of India guide lines, however loans advances to rural cottage
industry must be promoted. Recovery performance was found unsatisfac­
tory due to which R.R.B.* are in losses. They suggested greater efforts are
required to turn the bank into a financially viable and self sustaining initia­
tive.

Rajendran (1993)\(^1\) reported that the methodology adopted for NABARD
refinance based on individual bank branch recovery percentage should be
adopted for individual villages also by making the financing of banks on
the recovery percentage of the villages under the new concept of eligibility
criteria for agriculture lending in village.

Radha Krishan (1993)\(^2\) reported that the State Bank of India is plan­
ning to introduce the Banking Ombudsman called State Bank Lokpal (SBLP).

Pandey (1993)\(^3\) observed that in view of Narisighan Committee if the
commercial bank are to be profitable and show better results in terms of

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\(^{1}\) Mohintamony, 1992

\(^{2}\) Balishter et al., 1992

\(^{3}\) Pandey, 1993

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their performance certain important step have to be taken immediately. The commercial banks should be allowed to reduce their committee to priority sector lending at concessional rate of interest as it adversely affects the profits and profitability of commercial banks.

Anand (1993)\(^4\) observed on the basis of comparison of income, net profit and profitability visa-vis priority sector advances that income and net profit of commercial bank have been continuously increasing despite the growth in private sector lending.

was the highest being 32.05% on the smallest size groups followed by 27.25% on 1 - 2 hectare size groups and 18% on 2 hectares and above size groups. As against this the extent of utilisation for productive purpose was the highest being 82 percent in the largest size groups of farms. At the overall level, 71.04 and 28.96% of total loans was utilised for productive and non productive purposes respectively.

Gandhi (1996)\(^1\) showed that institutional credit has played a major role in determining the level of investment in the agricultural sector. The cooperatives have been highly significant in this activity.

R. P. Singh et al\(^2\) examine institutional and non institutional credit to 96 tribat farmers in Kanke block, Ranchi district. They find that the ratio varies from 15 to 85 percent, institutional credit being agricultural loans and non institutional being mainly non agricultural. Overdues were alarming 85% in agricultural loans but much less at 30% in non institutional loans.

Inder Sain\(^3\) examines the performance in farm-lending of different credit agencies in Punjab through a sample of 101 farmers of different holding size spread across different credit agencies and different regions of the state. The average farm family received credit of Rs. 6497 per hectare (1996-97) but this is against an estimated working capital requirement of Rs. 12,784 per hectare. The cooperatives provided it the major share 68.4% followed by commercial banks, 17.22% and money-lenders, 12.95%.

B. C. Jain and Dinesh Mishra\(^1\) examine policy of different agencies including 3 nationalised banks two cooperatives and one RRB in tubewell
financing in Raipur district, M. P. through a sample of 28 tubewell owners. The nationalised banks charge the lowest interest (12.5 - 14) followed by cooperatives (13-15) and the RRB's the highest (16). The LDB has the highest credit limit (Rs.54000) followed by on above listed banks (Rs.50000) and then the central cooperative bank RRB (Rs.12400). The nationalised banks have longest repayment period (11 to 15 years) followed by cooperative LDB's and RRBs (9 years) and the central cooperative bank the shortest (5 years). The repayment capacity is found to be satisfactory.

P. K. Panda² examine the performance of primary agril credit cooperatives in Orissa. He finds the performance below the national average and the performance in better off areas worse than in backward areas.

V. P. Tyagi³ et al review the progress of institutional lending to agriculture in India. Between 1991 and 1997 the share of cooperatives has increased from 52 to 58% and that of commercial banks in term loans. The recovery performance of all kinds of institutions has improved since 1991.