CHAPTER - I
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INTRODUCTION

Agriculture has witnessed over all development in the world since the beginning of this century. It is the nucleus of all the economic activities.

Ever since time immemorial it has been emphasized that agricultural progress contributes to the support of greater productivity throughout the economy. The limitation of the growth of agricultural output set the upper limit to the growth of the non-agricultural sector and to the capital formation for economic expansion and the issue of the diminishing return in agriculture become very important. The agricultural sector plays a crucial role in the economic development of a country and it assumes an even more decisive role in a predominantly agricultural economy. In such an economy increased agricultural production and productivity makes a significant contribution to the overall economic development in a number of ways.

An important factor necessitating a preference for agricultural development in developing countries has been that of low capital requirement for the purposes of investment since scarcity of capital is a major constraint to industrial expansion. Production is feasible making use of labour intensive and capital saving techniques and relying mainly on technological innovations which characterizes the second phase of agriculture development.
Agricultural progress permits the diversion of required manpower from agricultural sector. In the initial stages, it is necessary as there is no other source of labour supply needed for industrial and other avenues of employment. The diversion of labour from agricultural to non-agricultural sector is important from the point of view of economic development as it eases the burden of surplus labour force over the limited area of cultivable land. A poor country with a high ratio of people to land is under a serious handicap. Not only does it lack the social structure and capital that can be substituted for land, but it can confidently expect with development a further expansion of population and a further decline in the ratio of land to population. Thus, the diversion of surplus man-power from agricultural sector is necessary for the progress of agricultural sector as well as for expanding the non-agricultural sector.

Agriculture has a lot of potential for making a significant contribution to capital formation in the initial stages to prepare the ground for a rapid and self-sustained economic growth in later stages. In the initial stages the amount of capital required for the creation and expansion of secondary sector is generated by the primary sector in a developing economy as agriculture is the only industry of major portion.

The task of providing capital for expanding manufacturing sector is no doubt a formidable one for the agricultural sector but its potentialities may
be utilized to raise its own productivity and then to finance the creation as well as expansion of the capitalistic sector. According to Johnston and Mellor, in underdeveloped countries transition from a level of saving and investment that spells stagnation to one permitting a tolerable rate of economic growth cannot be achieved unless agriculture makes a significant net contribution of capital formation in the expanding sector.

The surplus of under-employed labour may become an important source of capital formation. If this surplus is withdrawn from the agricultural sector and utilized in industrial activity not only will the output be increased but additional savings can also be generated from the resultant additional output.

Agricultural expansion can also make a significant contribution in stimulating industrial growth since rising cash incomes in the agricultural sector may be available for financing the creation or expansion of the industrial sector. In the later stages it is agricultural sector which will sustain the industrial sector with supplies of wage goods inputs, and demand for manufactured goods.

It is now customary to summarize in four ways how greater agricultural productivity and output contribute to an economy’s development. They are:
1. By supplying food stuffs and raw materials to other expanding sectors in the economy.

2. Providing an “investible surplus” of saving and taxes to support investment in another expanding sector.

3. Selling for cash “a marketable Surplus” that will raise the demand of the rural population for products of other expanding sectors and

4. Relaxing the foreign exchange through import substitution.

Simon Kuznets (1965) Summarizes these contributions as the “market contribution and factor contribution. He says:

Thus, agriculture makes a market contribution to economic growth through:

1. Purchasing some production items from other sectors at home or abroad.

2. Selling some of its product not only pay for the purchases listed under(1) but also to purchase consumer goods from other sectors or from abroad or to dispose of the product in any way other than consumption within the sector.

In all these ways, agriculture makes it possible for other sectors to emerge and grow and for international flows to develop, just as these other sectors and international flows make it feasible for the agriculture sector to
operate more efficiently as a producing unit and use its product more effectively as consuming unit.”

The factor contribution occurs when there is a transfer or loan of resources from the given sector to others. Thus if agriculture itself grows it makes a product contribution. If it trades with others, it renders a market contribution, if it transfer resources to other sectors these resources being productive factors it makes a factor contribution.

A marketable surplus from agricultural is needed not only to provide the wage good to industry, but also to widen the home market for the industrial products. The demand for industrial products depends on growth of farm cash income, unless the country can export its growing industrial output. Barring unlimited export possibilities, and with 70% to 90% of the home market in the rural sector the nature of the rural demand will affect the growth of non-form employment and output. Increased agricultural productivity, a growing marketable surplus, and rising real income are necessary to raise the rural sectors demand for industrial sector.

Finally, agriculture can be a major source of foreign exchange, and agricultural exports dominate in a country’s early phase of development. But also import in relaxing foreign exchange constraint is the possibility in several developing countries do save foreign exchange by replacing imports of food and stuffs with home production. Export promotion and import
substitutions are activities not only for the industrial sector but also for agriculture.

**Importance of Agriculture in Indian Economy:**

India is still a pre-dominantly agricultural country as agriculture contributes significantly towards her national income employment & household activities. Although it has not taken a great leap forward, it has remained the many sector of Indian economy. It raised expectation during the first five year plan as it grew at a fast rate to give coverage to the whole economy. But during the second plan, policies which were heavily titled towards creating an industrial base, involved heavy investments and jeopardized the overall growth of the economy.

**The State of Agricultural Resources:**

The approach adopted by T.W. Schultz facilitates the analysis of agricultural sector in a developing economy.

India is rich in agricultural potentials. The country is arable land in vast with a large livestock boosting the rural economy and providing adequate food supplies to the urban population and raw material to industries. Moreover, India has implemented land reforms which have shattered the feudal system, water, has been extended to cover a substantial area and certified or high yielding varieties of seeds, chemical fertilizers, etc., has certainly given a fill up of rural development.
India still lacks rural infrastructure as there are a large number of villages which have no electricity or suffer from erratic power supply or they are situated in remote inaccessible areas where roads are lacking modern means of transportation.

Another obstacle which is to be removed to pave the way for development has been insignificant capital formation in the rural sector of India. The obvious reason for this among others, is the large number of marginal and sub-marginal farmers who are at subsistence level and thus are unable to invest in production augmenting inputs.

Most of the agricultural workers in India are semi-skilled and there is a great shortage of skilled personnel. There has also been a lack of entrepreneurial talent for managing the farms.

The contribution made by agriculture to the national economy of India may be discussed in terms of its share in the national income, employment industrial development and also its share in international trade and its role in Economic Planning and Economic growth.

“India’s future is in her farms. Agriculture has the potential to accelerate economic growth and social development in India”

Agriculture forms the backbone of the Indian economy and despite concerted industrialization in the last five decades, agriculture occupies a
place of agriculture provides employment to around 65 per cent of the total work force in the country.

**Table 1.1**: Share of Agricultural Sector in Total Gross Domestic Product at Factor Cost.

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Total</th>
<th>1 as % of 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>23,741</td>
<td>42,871</td>
<td>55.4</td>
</tr>
<tr>
<td>1960-61</td>
<td>31,985</td>
<td>62,904</td>
<td>52.5</td>
</tr>
<tr>
<td>1970-71</td>
<td>40,214</td>
<td>90,426</td>
<td>44.5</td>
</tr>
<tr>
<td>1980-81</td>
<td>46,649</td>
<td>1,22,427</td>
<td>38.1</td>
</tr>
<tr>
<td>1990-91</td>
<td>65,653</td>
<td>2,1,253</td>
<td>30.9</td>
</tr>
<tr>
<td>1997-98</td>
<td>2,27,418</td>
<td>10,49,191</td>
<td>26.4</td>
</tr>
</tbody>
</table>

**Note**: Agriculture includes agriculture, forestry and fishing.


Figures provided by the Central Statistical Organization (Refer table-1) reveal that between 1950-51 to 1960-61, the share of agriculture in GDP has been in the range of 52 to 55 per cent, though it was declining, but as the process of industrialization and economic growth gathered momentum, the share of agriculture indicated a sharp decline and reached a level of 26 per cent in 1997-98.

Two important facts must be emphasized here. 1) agriculture contributes even now a major share of the national income in India. 2) the share of agriculture in national income, however, has been decreasing
continuously and the shares of the manufacturing and service sectors are increasing. In a rapidly developing country, this is as it should be.

Comparison can be made between the position of agriculture in India with that in the other countries as regards the share of agriculture in national income. In the United Kingdom, agriculture contributes only 2 per cent of the national income; in U.S.A. it is 3 per cent; in Canada it is 4 per cent; in Australia it is 5 per cent; and so on. The more developed a country, the smaller is the share of agriculture in national output. India, having not yet reached the stage of an advanced economy, has an agricultural sector which is still the dominant one in the country.

Agriculture dominates the economy to such an extent that a very high proportion of the working population in India is engaged in agriculture.

Table 1.2: Employment of Main Workers in agriculture

<table>
<thead>
<tr>
<th></th>
<th>1981</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultivators</td>
<td>91.5(41.5)</td>
<td>107.1(38.4)</td>
</tr>
<tr>
<td>Agricultural Labourers</td>
<td>55.4(25.1)</td>
<td>73.8 (26.4)</td>
</tr>
<tr>
<td>Livestock, forestry, fishing, Plantations etc.</td>
<td>5.0(2.2)</td>
<td>5.3(1.9)</td>
</tr>
<tr>
<td>Total for Agriculture</td>
<td>151.9(68.8)</td>
<td>186.2 (67.8)</td>
</tr>
<tr>
<td>Total Main Workers</td>
<td>220.7(100.0)</td>
<td>278.9 (100.0)</td>
</tr>
</tbody>
</table>

Source: Statistical Outline of India (1997-98), Tata Services Ltd.

Data provided by the Census of India reveals that whereas in 1981, about 69 per cent of the total main workers were engaged in agriculture and
allied activities; during 1991, the share of agriculture in total employment slightly declined to 68 per cent. In absolute terms, agriculture provided employment to 256 million persons in 1997, thus bringing percentage of economically active population in agriculture to 61 per cent. It is really disturbing that the proportion of agricultural labourers has increased and that of cultivators has indicated a decline.

But in the United Kingdom and United States, only 2 to 3 per cent of the working population is engaged in agriculture; in France, the proportion is about 7 per cent; and in Australia, this is about 6 per cent. It is only in backward and less developed countries that the working population engaged in agriculture is quite high. For instance, it is 35 per cent in Egypt, 59 per cent in Bangladesh, 50 per cent in Indonesia and 68.5 per cent in China in 1997, according to the FAO Production Yearbook (1997).

Indian agriculture has been the source of supply of raw materials to our leading industries. Cotton and jute textile industries, sugar, vanaspati and plantations—all these depend on agriculture directly. There are many other industries which depend on agriculture in an indirect manner. Many of our small-scale and cottage industries like handloom weaving, oil crushing, rice husking, etc., depend upon agriculture for their raw materials—together they account for 50 per cent of income generated in the manufacturing sector in India.
But then, in recent years, the significance of agriculture to industries is going down as many more industries have come up which are not dependent on agriculture. Under the Five-Year Plans, iron and steel industry, chemicals, machine tools and other engineering industries, aircraft, etc., have been started. However, in recent years, the importance of food processing industries is being increasingly recognized both for generation of income and for generation of employment.

Importance of Indian agriculture also arises from the role it plays in India’s trade. Agricultural products—tea, sugar, oilseeds, tobacco, spices, etc.,--constitute the main items of exports of India. Broadly speaking, the proportion of agricultural goods which are exported may amount to 50 per cent of our exports, and manufactures with agricultural content (such goods as manufactured jute, cloth and sugar) contribute another 20 per cent or so; and the total comes to 70 per cent of India’s exports. This has great significance for economic development. For, increased exports help the country to pay for the increased imports of machinery and raw materials.

Importance of agriculture in the national economy is indicated by many facts. For example, agriculture is the main support for India’s transport system, since railways and roadways secure bulk of their business from the movement of agricultural goods. Internal trade is mostly in agricultural products. Further, good crops implying large purchasing power with the
farmers lead to greater demand for manufactures and, therefore, better prices. In other words, prosperity of the farmers is also the prosperity of industries. Likewise, bad crops lead to a depression in business. Generally, it is the failure in the agricultural front that has led to failure of economic planning in particular periods. Agricultural growth has direct impact on poverty eradication. Agricultural growth is also an important factor in containing inflation, raising agricultural wages and for employment generation.

It is clear, therefore, that agriculture is the backbone of the Indian economy and prosperity of agriculture can also largely stand for the prosperity of the Indian economy. At the same time, it is true that per capita productivity in agriculture is less than in industry. Naturally, most scholars of developing economies observe that this dominance of agriculture in India’s economy is responsible for the low per capita income in the country. In their opinion, so long as the Indian economy is dominated by agricultural activity, per capita income will not rise to an extent which is necessary and desirable.

The significance of agriculture in India arises also from the fact that the development in agriculture is an essential condition for the development of the national economy. Ragnar Nurkse argues that the surplus population in agriculture should be shifted to the newly started industries. Nurkse’s
thesis is that agricultural productivity will be increased on the one hand and on the other new industrial units would be set up with the use of surplus labour.

In other words, general economic development will require rapid agricultural development either to precede or to go hand in hand with it. Indian planners learnt a bitter lesson during the Second and Third Five-Year Plan periods when failure of the agricultural sector spelt disaster to the entire planning process. It may be concluded on the basis of the forgoing discussion, that agricultural development should be given greater emphasis in India;

(a) The capital output ratio is not very high in agriculture. Hence, a small input of capital will bring in a large output of agricultural goods. To achieve a rapid increase in incomes, a greater proportion of investment should be made in agriculture.

(b) The rate of saving and investment can be high for the country only if the rate of saving and investment is high in agriculture too.

(c) Foreign exchange requirements are not so necessary for agricultural development as is the case with industrial development.

(d) Till the Seventh Five Year Plan, the focus regarding the issue of backwardness and regional balance in India has traditionally been on industrialization. The Indian Planning Commission is now of the opinion
that reduction in regional disparities may be better achieved through greater focus on agriculture and rural activities. Thus, there is a strong case for the “emphasis on agricultural development in India.”

It may be concluded on the basis of the foregoing discussion, that agricultural development should be given greater emphasis in India. There are main reasons for this. Firstly, Capital Output ratio is low in agriculture and thus a small input of Capital will bring in a large output of agricultural products. This calls forth a greater proportion of investment in agriculture particularly in the initial stages of development. Secondly, savings in developing countries are generated initially in the agricultural sector. Moreover, the rate of saving and investment cannot be accelerated in the country until the primary sector makes a significant contribution. Lastly agricultural development does not require much foreign exchange while it is needed for industrial expansion. Thus, there is a strong case for the ‘emphasis on agricultural development in India.’

To achieve the above objectives it is essential to modernize Indian agriculture as a speedily as possible for increasing the agricultural productivity which will contribute substantially to an over all economic development of the country. Provision of organized adequate, timely and cheap finance is the basic need for agricultural development, small and marginal farmers cannot expect their needs to come from their savings
because their income from farm operations is basely sufficient to provide minimum necessities of life. It is a well-known fact that 37 per cent of population in India at the end of the Sixth Plan was still living below the poverty line. Finance is essential for any economic activity, but the Indian farmer is not able to make maximum use of his time, labour, and productive capacity of land without adequate financial facilities. Therefore, financial facilities to farmers through institutional agencies are essential for agricultural development of the country.

**ROLE OF FINANCE IN AGRICULTURAL DEVELOPMENT:**

Finance is the life line of an economy. Lack of purchasing power is the main cause of poverty. Poverty and rural indebtedness in India are linked and correlated with each other. Low agricultural productivity, low income, and high propensity to consume compel the farmers to borrow from traditional sources at very high rates of interest which ultimately results in their poverty and indebtedness. Low income, lack of saving, deficit in family budget, need of money for productive purposes. It is an old saying in India that Indian farmer is born in debt, lives in debt, and dies in debt. This saying indicates the poverty of Indian people from the ancient times.

Provision of adequate and timely institutional credit facilities at low rates of interest is only way to save the poor marginal farmers from indebtedness and poverty. The need of credit in a developing economy must
be fulfilled through institutional sources in order to save the people from the clutches of private money lenders who suck the blood of the poor farmers.

Credit plays a pivotal role in agricultural progress. It is indispensable to a farmer as well as to an industrialist. Any economic activity either in a developing or a developed country usually needs credit.

Mellor defines credit as “a devise for facilitating the temporary transfer of purchasing power from one individual or organization to another”. Credit is a boom if it is asked and used for productive purposes but becomes a curse if it is misused.

Capital is essential for increasing the ratio of inputs to increase productivity. The supply of capital is governed by the ability and willingness to save. Ragnar Nurkse says that “on the supply side there is the small capacity to save resulting from low level of real income. The low level is a reflection of low productivity which is the result of small amount of capital used in production.

In recent years, Indian agriculture has undoubtedly witnessed a major technological break through and progressive commercialization which has mainly ushered in what has come to be known as the green revolution with these technological improvements the importance of capital in agricultural production in India has been rising greatly.
Based on the new strategy of agricultural development is the adoption of capital reliant techniques. Demand curves for purchased impulse, (for example) fertilizers, pesticides, agricultural machinery and equipment etc., have shifted upwards leading to increased outlay by farmers on various impulse. The marginal value of the productivity of capital in agriculture having increase, farmer have come to depend more and more on non-owned capital or external finances. This has given a new dimension to the problem of agricultural credit.

Now we can say that like any other industry, agriculture requires proper balance of land, labour, capital, entrepreneurial skill and risk to develop the rural sector which forms the main part of India’s economy, it is imperative to supplement land and labour already existing in villages in plenty with the capital requirements entrepreneurship and risk. Lack of adequate capital has been acknowledged as one of serious inhibiting factors in the modernization of traditional agriculture and as the key element behind the vicious circle of poverty. It follows, the greater stress is on agricultural credit in our development programmes.

Financial requirements in the field of agriculture in India have never been as high as they are today due to the vast technological changes brought about through green and white revolution. The Indian farmers, but for their physical labour have comparatively a very low investment potential.
Therefore resources available with the farmers have been supplemented by credit facilities extended to them through various agencies.

Besides this our government has been extending credit facilities through financial institutions to encourage the current implementation of national plans in their right perspective people keen to see the national economy work in the interest of the rural masses shall inevitably consider the role and performance of these institutions in serving them. The main considerations being “that the credit does not become a dead weight on the farmers because of its effective use and defective nature of the institutions serving them. Instead, it should become dynamic and set in motion as a process of development in agriculture, both qualitative and quantitative, resulting in improvement in outputs, net income, savings and investment.5

According to the 1990-91 census the total workers in the district were 683378 out of that 523958 were in rural areas who work as cultivators or as agricultural labourers, while in urban areas only 150420 workers were employed in other non-agricultural fields. The total number of banks branches in Aligarh district are about 213. There are more than 550 cooperative societies in district which are helping the poor farmers. There are also some agriculturally allied activities like Dairy, poultry farms, fisheries etc. Farmers are generally taking more interest in dairy products and other side business relating to agriculture. Keeping all the facts and
variables in mind I have to test and examine the role of regional rural banks in agricultural development (with special reference to Aligarh District). The main purpose of the study is to analysis the role of regional rural bank in agricultural development.

Various aspects of Rural Finance in India:

The problem of rural finance in India is not one of rural finance alone, but it is a part of a large component in the context of the standard of living itself. It involves the reorganization of the socio-economic structure of the Indian villages themselves. The basic weaknesses of the rural economy are internal (to the rural structure) and external too. The former refers to those conditions which affect the optimum production in rural area and the latter is related to maladjustment between the rural structure and the forces of urban economy. It is to be noted that by and large, neither the banking system nor the trading organization operates in a way which is in the interest of the rural economy, the reason being that “Rural economy is not so organized as to be of a good business proposition for financial institutions”. It has been rightly emphasized that the problem of rural credit becomes inseparable from that of the reorganization of the socio-economic structure of the country.

Another aspect of rural finance in India is related to the coverage of small un-credit worthy farmers. Agricultural production in India depends upon millions of small farmers. For wants of funds, many of them are unable
to use improved farming practices and live from hand to mouth. These small farmers have to depend upon money lenders, traders etc. for their financial requirements, who charge exorbitant rates of interest and impose several restrictions over them. Moreover, such small farmers do not have adequate security to offer. The financing of farm operations of small farmers is of greater urgency in the context to the situation prevailing in the rural areas of the country. For the small farmers, it will be necessary to make special arrangement both for institutional credit and state assistance.

The other aspect of rural finance in India is the predominance of private agencies. There is an urgent need for the substitution of private agencies by institutional agencies as we have been able to do in the sphere of industrial finance in the states. Institutional credit may be private or otherwise but the continuance of professional money lenders as the major source of finance to cultivators cannot solve the problems of rural finance. Where larger production is the aim, the money lender’s credit is obviously unsuitable. The alternative is institutional credit, private or otherwise but this tends more than ever to confine itself to the bigger cultivators if it is not channeled through some form of cooperative association of the borrowers.

Money lenders in India, are exploiting farmers from ancient period. In the system of rural finance provided so far, the All India Rural Credit Survey 1951 rightly concluded, “Today the agricultural credit that is supplied falls
short of the right quantity is not the right type do not serve the right purpose and by the criterion of need (not overlooking the criterion of credit worthiness), often fails to go to the right people”.

The fifth aspect of rural finance relates to the security on the basis of which is available is in the form of land alone. The private money lender provide finance even without security, but if institutional financing agencies have to flourish, the importance of land as a form of security for finance has to decline. Efforts should be made to recognize the anticipated crops as an important from of security; but the technique of crop estimation has to be improved.

The Sixth aspect which must be emphasized in that the Indian agriculture is still a gamble in monsoon. Crop failure either due to floods or famine is not un-common which paralyses the entire rural economy of the country. The standard of farm operation is very low and the average holdings of small farmers who constitute about 30% of the total number of cultivators, is about three acres only. There is no agricultural price stabilization, there is lack of storage facilities and the system of marketing of the agricultural produce is very un-satisfactory. In view of these conditions prevailing in the country, the problem of agricultural finance is very serious and needs greater urgency. It has to be tackled from all the sides.
It is increasingly becoming evident that the entire success of our planning to usher into a self-sustaining economy depends on the country’s ability to feed the ever increasing population and to meet the growing requirements of domestic industries and the export market. The most important lesson which decades of planning offers to us is that the prosperity of the country entirely hangs on the prosperity of the agricultural sector. An efficient and developing agriculture would be a major source in accelerating the pace of economic development. If agriculture stagnates, it will act not only as brake on industrial expansion but also halting real economic growth.

An American economist has also expressed the view that irrespective of whatever success India might achieve on the industrial front and in solving the balance of payment problems, its economic progress would depend largely on the development of agriculture.

Agriculture is an important industry like any other industries, it also required capital due to the peculiarities of agriculture, specially its uncertainties, its small unit production scattered operation, low returns, high rates of rent and limited scope of employment, a large section of cultivators can not manage from one harvest to another without recourse of borrowings.

For stimulating the tempo of agricultural production it is imperative that the farmers must be provided with essential pre-requisites like fertilizers, improved seeds, irrigation facilities, modern implements
marketing facilities etc. It is obvious that without adequate and timely credit, they would not be able to make use of these essential inputs. The use of greater and better quality of inputs would mean greater demand for rural credit. Mr. John D. Black, Professor of Economics, Harvard University has very rightly stated—“If we are all concerned about increasing total agriculture output in the shorter time, we must provide credit first and foremost. They will enable to put more labour, equipment, more seeds and fertilizers”.

**Needs of Credit:**

Inspite of the fact that agriculture is the backbone of the Indian economy it had been completely ignored by the commercial banks. There was no provision of providing credit to farmers for agricultural operations and land improvements. They had been providing credit to traders and big business houses but not to the vital priority sector of the economy viz. Agriculture and small scale industry. Poor farmers were always exploited by private money lenders due to the domination of non-institutional sources since ancient period.

After independence, it was realized that the Indian commercial banking system had not fulfilled its main role of attaining the balanced regional development in the country. It was completely controlled and organized by the few hands who used public funds for their personal
interests. Priority sector was completely ignored. Agricultural development was never seriously considered, while providing credit facilities the economically weaker sections of the society had always been exploited by the economically stronger class. Thus, lending process was not economically justified. As a result the banking system in India emerged as urban-based, privately owned, profit oriented and top sided. Therefore to achieve the goal of balanced regional development by providing banking facilities to the weaker sections of the society through vigorous branch expansion programme, public control over banks was considered to be essential. Hence to dynamic the country, the Imperial Bank of India was abolished and State Bank of India was established in 1955. The need for Government to take over the 14 major commercial banks was the need for their nationalization and at last, on July 19, 1969, 14 major commercial banks of the country with Rs. 50 crs or more were nationalized by the government with the objective that it would accelerate the growth of the economy. It also emphasized on expanding the bank credit to the priority sectors. Lead Bank Scheme was also started to promote this sector. In 1976 Regional Rural Banks were established for agricultural development and in 1980 six other commercial banks were nationalized NABARD was also established in 1982 to promote agricultural development. It is clear that the primary objective of bank nationalization was to abolish the domination of private money lenders and
to provide banking facilities to the backward and deprived sections of the society so that existing rural poverty could be minimized and finance could no more be the bottleneck in their agricultural development. Basically the objective of bank nationalization was to convert the banking of classes into the banking of masses.

Since 1951 development planning required a new and sophisticated method of capital formation in order to accelerate the tempo of economic growth. It is the institutional structure which takes the bold measures of self-sustaining economic growth by mobilizing savings and investing them into the productive pursuits for the rapid development (when the private agencies fail) to be sponsored by the government to attain the maximum agricultural growth within the shortest possible time.

Therefore, the following is a theoretical attempt to justify the very rationale of financial institutions (specially Regional Rural Banks) encourage savings for investment and maintain their easy flow from banks to farmers for raising the production and income.

**Meaning of Research:**

Research is a process and a means to acquire knowledge about any natural or human phenomena.

Research plays two roles:

(a) In contributes to the general fund of knowledge, and
(b) It helps to solve many complex problems of the society.

Redman and Mory define Research as a “systematic effort to gain new knowledge”.6 The search for knowledge through objective and systematic method of finding solution to a problem is research.

The Webster’s International Dictionary defined research as “a careful critical inquiry or examination in seeking facts for private diligent investigation in order to ascertain something”.

OBJECTIVES OF RESEARCH:

The purpose of research is to discover answers to questions through the application of scientific procedures. The main aim of research is to find out the truth which is hidden and which has not been discovered as yet. Though each research study has its own specific purpose, we may think of research objectives as falling into a number of following broad groupings.

a) To gain familiarity with a phenomenon or to achieve new insights into it.

b) To portray accurately the characteristics of a particular individual, situation or a group.

c) To determine the frequency with which something occurs or with which it is associated with something else.

d) To test a hypothesis of a causal relationship between variables.
REVIEW OF LITERATURE

Agriculture plays an important role in the economic development of India. It is the most vital occupation of the population of India and dates back to the time of Indus Valley civilization.

Nearly 70% of the Indian population lives in 5.75 lakh big and small villages scattered all over the country. Agriculture provides food, raw material and employment to a very large section of the rural population. There is hardly any economic activity which is not affected by change in agriculture development. Agriculture being the backbone of the economy of the country, particularly in the rural areas, plays a key role in every plan and strategy for rural development. Also, it has been realized by now that without proper improvement in this sector nothing substantial can be done towards distribution of social justice. In Aligarh district, where agriculture is the base of economy, the economic condition would completely stagnate and will not be able to fulfill the demand of its population, if agricultural development fails or falls.

The major aim of the development of agriculture is to improve the quality of life and living conditions of the people who depend on agriculture areas.

Agricultural development begins about social and cultural development due to increase in per capita income. There is an overall
improvement in the quality of life which gets expression in the level of education, health, care, better housing and so on. More over, an increase in food grain production results in an increase in income. The cultivator are able to make use of technology and go for the improved method of farming.

Over the years, there had been carried out a number of researches on the agricultural credit. The aspect covered in these studies include credit requirement supply of credit, utilization and repayment of loans. The present review takes note of the works on the role of Regional Rural Bank in agricultural development done independently but which have relevance to the proposed work.

The first important work on problems and prospects of agricultural development in India, is the report of the Royal Commission on agriculture which provides an exhaustive report on many problems which were responsible for the agriculture backwardness in India, suggestions for the improvement of agricultural situation have also been given.\(^7\)

Schultz (1953) suggested that an increase in agriculture produce is mainly possible by making use of technology. (For e.g.), wherever such a development has taken place the cultivation have not only made use of machines but also quality seeds and assured supply of water for irrigation.\(^8\)
Kuznets Simon (1963), analyzed three types of contributions from agriculture to economic growth. These are product contribution, market contribution and factor contributions.

The factor contribution occurs when there is a transfer or loan of resources from the given sector to others. Thus if agriculture itself grows it makes a product contribution. If it trades with others, it renders a market contribution, if it transfer resources to other sectors these resources being productive factors it makes a factor contribution.

Nicholas (1964), studied economic development through agriculture and pointed out that the basic measure to remove poverty from the countryside is to increase agricultural production and purchasing capacity of the cultivators. In a study made in 1964, Rostow has discussed the role of agriculture in economy development. He points out that a rise in agricultural income stimulates other aspects of development. It provides the capital accumulation needed for further growth and the savings required for investment.

Mellor (1966), suggested that the pace of economic transformation has important implications to both the role and the strategy of agricultural development.

Subramaniam (1977), in his study of strategy for rural development conducted comprehensive survey of natural resource, their exploitation
based on technology appropriate to the local environment. The study shows village plans and considers activities in which the people of the village can themselves cooperate, for getting supplied, credit and technical help which they need from outside. 

Prof. Dantwala Committee Report on Regional Rural Bank has pointed out the superiority of these banks in the rural areas and has played fears about its competitive role with Commercial banks branches or primary agricultural cooperative societies.

The All India Rural Debt and Investment Survey, in the early sixties, revealed that institutional agencies were financing only 18.7% of the total credit while non-institutional agencies 81.3%.

Bhargava V.K. & Shah S.C. in the late Sixties, concluded that need of small farmers consisted of credit for fertilizers, hired labour and large farmers required credit for labour expenses, fertilizers, tube-wells tractors, implements and building.

Srivastava S.C. (1970) reported that more than 50% of the national income is contributed by agricultural sector, but by the end of March 1967 only 2% bank credit was advanced to agriculture, whereas industry which contributed less than 20% of the National income appropriated nearly 66% of it.

Singh H. & Kahlon A.S.(1971) observed that of total production loan 65.58 per cent was utilized for purchase of fertilizers, 17.94% for causal labour,
13.28% for H.Y.V. seeds 3.20% for insecticides. They also found that short
term credit requirements increased with the increase in the size of holdings
and higher lend of technology.

Singh R.A. (1972) reported that farmers borrowed for fertilizers and also for
hiring labour, but not for seeds, implements and irrigation. Credit has a
positive influence on farm return of the sampled farmers.

Das P.K. & Srivastava D.N. (1974) in their study credit needs of small
farmers concluded that requirement of crop loan would be very large for the
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Singh C.N. (1977) observed that small farmers were neglected by the
commercial banks in the provision of finance only small proportion i.e. 8%
of (2-4 ha) group farmers could get loan from them. Large farmers were the
actual beneficiaries of banks because they offered better security for getting
loan.

Sharma J.S. & Prasad B. (1978) in their study on “An Assessment of Credit
needs in changing agriculture” have concluded that the credit needs of
farmers vary according to farm size. They would be the highest on medium
size farmers followed by small farmers and lowest for the large farmers. The
credit absorption capacity as indicated by per acre needs was greater on non-
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Singh Roshan, Singh R.K., & Babster (1978) studies the flow of institutional credit in agriculture and observed availability of credit in relation to the requirement of investment credit was 85% while the gap in the production credit was the 59%.  

Chahel T.S. & Chawala J.S. (1978) observed that the amount of loans varied positively with the level of technology cooperatives provided maximum loans to the mechanized farms and partially mechanized farms, while commercial banks advanced maximum loans to mechanized farms.

Srinivasan M.R. analyzed the problem of knowledge about and of ability to contract an existing source of credit on the part of the farmers leading to the difficulties for institutional source of credit to reach them.

Tandon & Dhondiyal found that wise use of every short term capital gave high yield and quick returns out of proportions to the cost of credit. They reported that the progressive farmers spend 95% of their short term credit on the purchasing of improved seeds.

Shah A.C. remarked that the borrowing of small farmers were small but what was more important was the fact that the major portion of the borrowings was utilized in meeting the family expenses.

Chhotelal, Chaplot & Vahist have studied the credit policy and pattern of the institutional credit to agricultural. Vashist recommended that there must be scale of finance which must be decided by the agricultural experts and
crop loan should also rid itself be beneficial and political influences. While Sen has suggested that every farmer should be given a passbook by the block authorities which should contain details of his land holdings, irrigation cropping pattern, assets and liabilities credit requirements etc. 15

Muzumdar P.C. studied the role of farms loans advanced by commercial banks and observed that if crop insurance scheme was not introduced banks can never achieve break through. Cash credit loans be given to the farmers for three years and the repayment schedules to tackle the problems of crop failure due to natural calamities. Once the farmers are protected recovery of loans will improve and farmers will not be thrown out of productive activities.

Mishra J.P. observed that short term credit had created a favourable impact on the output of major crops. The marginal value productivity for short term credit was Rs. 2.57 crore for Paddy, Rs. 2.89 crore for wheat and Rs. 3.42 crore for sugar cane. He advocated that the main criterion for the sound credit policy should be higher production in agriculture.

According to Chawdhari, the farmers, in order to produce more, need to spend more on improved inputs which must be financed either out of savings or borrowing. 16

Jain concludes that agriculture is now paying well on account of the availability of a wide array of high-yielding varieties of seeds and hybrid
seeds. If institutional finances are made available to the farmers, he can purchase all these costly inputs and agricultural productivity can be increased.\textsuperscript{17}

Agricultural credit, according to Thirumalai is the pivotal problem in the scheme of agricultural development in India. Credit is the motive power for setting on its wheels the productive machinery in agriculture conceived and planned on a scientific basis.\textsuperscript{18}

R.V. Dandibhavi has conducted a micro-level study of the problems of agricultural development of backward regions and calls for urgency in re-channelising the institutional finance flows to micro generating activities in the low per capita income regions.\textsuperscript{19}

The strategy of agricultural development in the opinion of Goud Calls for extending proper financial assistance to the farmers as to remove them from Clutches of money lenders and for rapid agricultural development. He is of the view that there should be a separate agency to finance the farmers at village level.\textsuperscript{20}

In India, the first comprehensive analysis of the whole problem of agricultural credit was made by the Committee of Direction of the All India Rural Credit Survey appointed by the Reserve Bank of India in August, 1951, its report, suggesting three important ingredients;
a) the Gouts concern must assure major responsibility for provision of funds,

b) the realization of the intimate relationship between agricultural credit and marketing of agricultural produce, and

c) the agricultural credit based on the productive capacity of the borrower is feasible and ought to replace credit based on the security of immovable property.21

d) According to A.N. Sharma all agricultural productive activities require for their sustenance some degree of credit. A farmer who can raise only one crop a year, has to maintain himself and his family throughout the year, therefore, needing loan. The agricultural credit is largely responsible for the agricultural development.22

e) Agricultural development throughout the world is strongly motivated by the incentive of the farmers, which may take the form of pride of ownership, security of occupancy and expectation of a just division of farm income between land lords and tenants. These factors everywhere have the impact in improving the condition of land.23

In concluding the review of literature, it may be observed that with the shift from existing technology to the modern technology for higher returns in agriculture, there has been an increased demand for credit to meet the higher
expenses for investment of modern farm inputs. This in turn has widened credit gap in the recent years.

The financial institutions were simply unable to meet the overwhelming demand of the farmers. In spite of the fact that the government has been giving special attention to this sector of the national economy. There has been also a change in the attitude of the agriculturist. They were now more inclined towards productive loans, rather than consumption or debt redemption loans. The medium sized and large sized farmers could procure more credit from financial institutions due to their ability to provide more security against loans. Thus, the small farmers willy-nilly get neglected by the banks.

The economists further reported that the credit needs of the farmers varied according to farm sizes and credit absorption capacity was greater on irrigated farms. Rational use of farm credit generated more savings and the repaying capacity of the farmers increased substantially. They also found that average farmers needed credit mainly for fertilizers irrigation purposes and pet animals where as large farmers needed credit mainly for the purchase of tractors and irrigation equipments.

In pointing out the weakness of financial institutions, the economists were unanimous about the mis-utilization of credit by borrowers by diverting loans to unproductive or consumption purposes. They were also
critical of the over dues in repayment of loans. It was due to lack of supervision on the part of the bank officials of willful negligence on the part of the borrowers having political links or social standing.

Frame work of the Study:

Before the nationalization, banks were privately owned, urban biased and purely profit oriented. Such set of banking industry was actually responsible for the concentration of wealth and economic prosperity in the hands of a few. During the prenationalisation period key sector of the economy including agriculture remained thoroughly neglected, in terms of availability of institutional credit. Lending to major priority sector emerged after the nationalization of banks.

Objective of the Study:

The one and only objective of bank nationalization was stated to include the utilization of resources for economic growth the development of agricultural and industry in neglected regions as well as making institutional finance available to major sector which were neglected.

The present study entitled “Role of Regional Rural Banks in Agricultural Development with reference to Aligarh District is generally based on secondary data which has been collected from various resources, primarily data by meeting of the farmers in Aligarh District and we interview various farmers who gave us reliable primary data for this research
work. We have examined and analyzed this research work mainly on the basis of secondary data and partly on the primary data.

Main objectives of this study are given below:

1. To find out the role played by the agriculture in the economy.
2. To find out the role played by the regional rural bank in the agricultural development (with special reference to Aligarh Districts.)
3. We have also to critically examine the role of the Regional Rural Bank in this regard.
4. Finally to find out changes in the policy of financing by the Regional Rural Bank for agricultural development and give suitable suggestions in this regards.

The objectivity of the findings to the methods of collection of data and securing the response. Any research design should permit use of measuring instruments that are fairly objective in which every observer or judge seeing a performance arrives at precisely. This ensures the objectivity of collected data that will be used for the analysis, inference and generalizations.

Scope of Study:

The study covers the working of the Regional Rural Banks as the sources of loan/credit to the agriculture sector in the Aligarh district.

The study does not include the functioning of non-institutional agencies such as money lenders, traders etc. It also does not include such
financing help which has been given by the Government as an agency like tacavi loans.

**Limitation of the Study:**

We focused our attention only on the agricultural sector of the Aligarh District and initial attention has been made only on the role of the Regional Rural Banks and Aligarh Gramin Bank with respect to Aligarh District. The limitation of our research work are:

1) The main purpose of the study is to find out the impact and role of Regional Rural Banks on development of agriculture and Aligarh Gramin Bank in Aligarh District.

2) That we have excluded our attention from all other commercial banks except Regional Rural Banks and Aligarh Gramin Bank in respect of Aligarh District.

3) The field survey has been done only in Kasimpur and Amrouli under three villages of 100 borrowers.

4) We have collected the information only from two branches of Aligarh Gramin Bank namely Kasimpur and Amrouli.

**Research Methodology:**

The methodology of research in simple and based upon primary as well as secondary data to collect primary data we had to prepare detailed questionnaire and had to send it to concerning Regional Rural Bank and
their branches. Since questionnaire could not serve the whole purpose, an intensive study of concerning Regional Rural Bank was also conducted through direct personal investigations. Besides, the published material on the object was another source of information.

The secondary data has been collected from statistical bulletin published by various organization books, journals, periodicals, newspapers, annual reports of the respective banks, annual credit plans from the lead banks in the respective district, annual report of NABACD, R.B.I. Bulletin and all the publications and reports published by Regional Rural Bank, annually. The use of the Maulana Azad Library, A.M.U., Aligarh and the use of Seminar Library, Department of Economics, A.M.U., Aligarh has also been made.
References: