CHAPTER - I
INTRODUCTION

The need for credit in agriculture is increasing day by day due to advanced agricultural technology in our country; as it is predominantly an agricultural country where agriculture contributes nearly 40% of its National Income. This need of timely credit for the development of agriculture will go a long way in India.

The All India Rural Credit Survey Committee (1954) reported the total agricultural credit requirements at Rs. 2000 crores and of this amount Rs. 800 crores were to be self financed; while the remaining Rs. 1200 crores were to be supplied by the agencies extending credit to the farmers. In 1973-74 the All India Rural Credit Review Committee (1969) estimated the total credit requirement of agriculturist, as Rs. 2000 crores short-term, Rs. 500 crores for medium-term and Rs. 1200 crores for long-term respectively. In the report of the committee on agricultural productivity in Eastern India, R.B.I. (1984) assumed that the production credit requirements are at Rs. 1200 per hectare for irrigated areas and Rs. 800 per hectare for unirrigated areas (both at 1983-84 prices). R.B.I. feels that a reasonable estimate of short term credit requirements would be Rs. 790 crore during the terminal year of the 8th plan. However, bearing in mind various constraints, it has also made a lower estimate of short-term credit requirements at Rs. 450 crores and Rs. 620 crores
respectively for two reference periods. Reserve Bank of India estimate of medium and long-term loans during 7th and 8th plan is Rs. 500 Crores and Rs. 370 crores respectively.

The National Commission on Agriculture has placed the total long, short and medium-term requirements to extent of Rs. 9400 crores by 1985. The working Group of 7th Five year plan (1985-90) estimated Rs. 30495 crores for agricultural credit.

Presently there are two main sources of financing agricultural sector in our country. These sources are:

(1) Institutional and (2) Non-Institutional.

Institutional sources comprising of cooperatives, commercial banks including the Stat Bank of India (SBI), Regional Rural Banks (RRBs), and Land Development Banks (LDBs). The amount of money borrowed from these agencies is called institutional finance. Non-Institutional finance comprising of agricultural money lenders, professional money lenders or mahajans, landlords, traders, commission agents, relatives and others. The amount borrowed from these agencies is known as Non-Institutional finance. As per statistics of the year 1988-89 the percentage share of Institutional finance was 57.40 and that of Non-Institutional finance 42.60.

The need for Institutional credit arises because of the weakness or inadequacy of Non-Institutional agencies to supply credit to farmers. The main objective behind
the supply of Institutional credit for agriculture was to protect the poor cultivators from the crushing weight of "debt burdens" of the Non-Institutional agencies. Institutional credit is never exploitative and the basic motive is always to help the farmer to raise his productivity and maximise his income. Institutions make a clear distinction between short term and long term credit requirements and give loans accordingly. The farmers require not only credit but also guidance in the planning of their agricultural operations like the use of seeds, fertilizers etc; assistance in raising crops and, in general, help for maximising their income. The Institutional credit if well organised can play a dynamic role in the development of agriculture.

Among the different agencies of Institutional finance cooperative is the cheapest and the best source of rural credit, especially for small and marginal farmers. Cooperative credit is available to the farmers, since the enactment of first Cooperative Society Act in 1904. The short and medium credit is provided by the primary cooperative credit societies. During 1986-87 there were about 92000 primary agricultural credit societies (PACS) providing short-term and medium-term loans of Rs. 3660 crores to the farmers. The active primary credit societies cover over 86 percent of the villages, and account for 36 percent of the rural population.
The need for long-term finance is being satisfied by Land Development Bank, because cooperative societies can not provide this type of loans to the farmers. The objective of such banks is to provide long-term credit to the cultivators against the mortgage of their lands. LDBs provide credit for a variety of purposes such as redemption of old debts, improvement of land, purchase of costly agricultural equipments, construction of wells and installing pumpingsets etc. In recent years, farmers have been borrowing from LDBs mainly for the purpose of land improvement and development including sinking of wells (56 %) and purchase of agricultural machinery (30 %). This type of loans are comparatively large and may run for a duration of 10 to 15 years or even more. Though land development banking has made considerable progress in recent years, it has not really contributed much to the improvement of the financial position of the farmers through the provision of long-term credit. Total loans advanced by these banks came to Rs. 610 crores in 1986-87 and the loans outstanding stood at Rs. 2930 crores in 1986-87.

Other agencies of financing agriculture is commercial banks. Financing of agriculture, which had hitherto remained neglected by the commercial banking system in the country, has now become an accepted field of financing activity with the nationalisation of major commercial banks in the country. The Government of India
first nationalised the 14 major commercial banks in 1969 (Central Bank of India, Punjab National Bank, Bank of Baroda, United Commercial Bank, Canara Bank, United Bank of India, Dena Bank, Syndicate Bank, Union Bank of India, Allahabad Bank, Indian Bank, Bank of India, Bank of Maharashtra and the Indian Overseas Bank) and 6 others in 1980 (Andhra Bank, Punjab and Sindh Bank, New Bank of India, Vijaya Bank, Corporation Bank and Oriental Bank of Commerce). Commercial banks are extending financial support to agriculture, both directly and indirectly. Direct finance is extended for agricultural operations for short and medium periods. Indirect finance to farmers is made through providing advances for the distribution of fertilizers and other inputs. Financing of investment in agriculture is a major aspect of the farm credit activities of banks. The commercial banks are facing difficulties in extending loans to farmers particularly to small farmers. They are also facing difficulties, in the initial stages, with regard to lending techniques, security, recovery etc. But with experience, they should be able to overcome these difficulties and become an important source of Institutional finance to agriculture.

The Govt. has also been a source of rural finance, for short as well as for long periods. Government loans to farmers are known as "Taccavi loans". These loans are generally given at the time of emergency or distress,
such as famine, flood etc. These loans though popular, but have not assumed any significance.

Initially, SRRBs were set up on Oct. 2, 1975 at Moradabad and Gorakhpur in U.P., Bhiwani in Haryana, Jaipur in Rajasthan and Malda in West Bengal. These banks were sponsored by the Syndicate Bank, State Bank of India, the Punjab National Bank, United Commercial Bank and the United Bank of India, respectively. In June 1987, there were 196 RRBs in 23 states with 12840 branches. As on January 1987, the RRBs had advanced Rs.1750 crores by way of short-term crop loans for agricultural and added activities for rural artisans, village and cottage industries etc. Nearly 90% of the loans of RRB's were provided to the weaker sections. Statewise, the large number of offices in a single state is to be found in U.P. The areas, where these type of banks are set up, are comparatively backward or tribal area or where coverage by the commercial banks and cooperative is relatively poor.

With the establishment of National Bank for Agriculture and Rural Development (NABARD), in July 1982, the refinance facilities earlier available to RRBs from the Reserve Bank of India, became available from NABARD.

The establishment of the State Bank of India has marked a significant step in the field of integrated credit. Since its inception in 1955, the State Bank of
India has endeavoured to be responsive to the needs of cooperative institution and through them to the development of rural credit generally. It may be observed that with the progressive implementation of its branch expansion programme, the State Bank group has nearly 10540 branches and sub offices in rural and semi-urban areas (June, 1987). The State Banks have been granting short-term credit facilities to the state and Central cooperative Banks against government securities at a concessional rate of interest, viz., half a percent below its usual advance rate.

The State Bank of India group has introduced the village Adoption Scheme under which whole villages are adopted and total credit needs of all the farmers and the artisans are made by the group. The SBI group has adopted over 49,500 villages serving about 22 lakh farmers under the scheme. The outstanding volume of credit advanced has been Rs. 757 crores.

The SBI group launched in 1977, on a pilot survey basis, an integrated rural development programme with a view to meeting out not only the economic needs but also the social uplift of the farmers. Initially, the SBI group selected 250 villages throughout the country. Comprehensive development plans were prepared for these villages and during the first stage economic needs were to be attended to and during the second stage, social and cultural needs could be looked after.
Agricultural Advances by S.B.I.[INDIA]
first year of its operation, the SBI group had granted Rs. 14 crores to over 61,700 accounts in 435 villages.

Apart from village adoption scheme, the SBI group has been extending assistance for agricultural development through its special agricultural development branches. The aim is to finance agricultural development of the area rather than merely undertaking the financing of agriculture. By the beginning of January 1984, there were 431 Agricultural Development Branches (ADBs). These branches had granted agricultural advances to more than 16 lakh farmers and the amount outstanding was Rs. 576 crores.

The SBI has been responsive to the needs of the rural sector in keeping with the spirit of the time. Over the last few years the SBI has considerably expanded its operations in the field of direct financing of farmers. The total agricultural advances of the State Bank group increased from Rs. 17 crores in June 1968 to Rs. 4050 crores in January 1986 of which direct loans to farmers amounted to Rs. 3340 crores and indirect loans to Rs. 710 crores. The number of direct farmers accounts were over 6 million in January 1986. More than three fourth of these farmers are small farmers with holdings of less than 4 hectares.

During the last three and half decades several voluntary programmes or schemes like Small Farmers Development Agency (SFDA-1969), Drought Prone Area
Programme (DPAP-1970), Marginal Farmers and Agricultural Labourers Development Agency (MFALDA-1971), Crash Programme for Rural Employment (CPRE-1974), Community Area Development Programme (CADP-1974), Integrated Rural Development Programme (IRDP-1978), Training of Rural Youth for Self Employment (TRYSEM-1979) National Rural Employment Programme (NREP-1980), Rural Landless Employment Guarantee Programme (RLEGP-1983), and Jawahar Rozgar Yojana (JRY-1984) etc. have been initiated for the uplift of the weaker sections of the community. New Institution like RRBs and NABARD was, therefore, setup to take over the agricultural credit function. Much is expected from NABRAD to give a tremendous push to agricultural credit and thus promote agriculture and rural development. The aim of all the above facilities was to provide employment opportunities and to reduce unemployment, and inequality in income.

In view of the change in the attitude of the different credit Institutions in a favour of the agricultural sector and changes in agricultural technology there is a need to explore the possibilities of increasing income and employment potential, cropping pattern and such other intensive activities. The basic ideas behind new irrigation projects have been to expand the country's overall agricultural production potential and gainful employment. Technological change is said to be one of the important determinants of both, the income
and the employment.

Thus the credit serves as a catalytic agent for increasing production and thereby income and employment of the farmers. Credit plays an important role in development of agriculture of small and marginal farms. To usher into 21st century and to make out country a strong one, development of agriculture is a must. The "Approach" document of 7th Five Year Plan (1985-90) calls for nothing less than a "Restructuring of Growth" in the interest of generating employment and income for the poor in general and rural poor in particular.

The present study is an effort to study the "Institutional Finance and Role of State Bank of India in Financing Agriculture in District MIRZAPUR."

The Objectives:

The following are the specific objectives of the present study:

(1) To analyse the existing pattern of income and employment of the sample households.

(2) To examine and compare the farm structure of beneficiary and non-beneficiary sample households.

(3) To compare the resource utilization of beneficiary and non-beneficiary sample households.

(4) To find out the additional income and employment potential on beneficiary households as compared to non-beneficiary households at the same
point of time.

The above set objectives are to be met with, under following hypotheses:

**Hypotheses**

1. The beneficiary households have higher income as compared to non-beneficiaries, in case of agriculture and dairy enterprises, respectively.

2. The beneficiaries have higher human labour employment as compared to non-beneficiaries, in case of agriculture and dairy enterprises, respectively.

3. In the dairy sector beneficiaries have animal of higher values as compared to non-beneficiaries.

**The Limitations:**

1. The study is based on the data collected from the farm holdings only for a single year, viz 1989-90. So the generalization, made on 1989-90. So the generalizations, made not the basis of such limited data, may not give a comprehensive representation, to the extent as desired.

2. The data were collected by personal investigation method and were based on upon the information given by the farmers. As such, the cent-percent objectivity could not be claimed.

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