CHAPTER II

REVIEW OF LITERATURE

The present chapter provides a detailed account of review of work reported by researchers and authorities on the subjects related to the inquiry. The review has been dealt under 2 heads for the purpose of convenience.

1. Credit estimates, supply and utilisation.
2. Imbalanced finance and remedies.

1. Credit estimates, supply and utilisation

The All India Rural Debt and Investment Survey\(^1\) (1961-62) revealed that institutional agencies were financing only 18.70 per cent of the total credit while non-institutional agencies 81.30 per cent.

Bhargava, V.K. and Shah, S.C. (1968)\(^2\) concluded that needs of small farmers consisted of credit for fertilisers, hired labour, pumping sets, land improvements and buildings; medium sized farmers needed credit for fertilisers, hired labour, tube wells, tractors, implements and buildings; large farmers required credit for labour expenses, fertilisers, tube wells, tractors and buildings.

---


Gorewala, A.D. (1968)\(^3\), estimated that out of ₹2000.00 crores of total capital requirement of agriculture in India, self finance by agriculture sector amounted to only ₹800.00 crores, or merely 40 per cent, the remaining ₹1200.00 crores had to come from external sources.

Srivastava, D.H. (1968)\(^4\) reported that the degree of rationalisation in the behaviour of farmers in productive use of credit varied from one size group to another and also from year to year.

Singh, K and Sharma, V.K. (1969)\(^5\) concluded that only large farmers were able to make savings over family consumption. The very small and small farmers required short term credit for consumption purposes, while medium and large farmers required short term credit for productive purposes.

Kahlon, A.S. and Kapoor, T.R. (1969)\(^6\) observed that the institutional set up be geared to the stupendous task of meeting the additional requirements of farm credit because a big gap would be created between credit requirements and credit supply.

---

Srivastava, S.C. (1970)\textsuperscript{7} reported that more than 50 per cent of national income is contributed by agricultural sector, but by the end of March, 1967, only 2 per cent bank credit was advanced to agriculture, whereas industry which contributed less than 20 per cent of the national income appropriated nearly 66 per cent of it.

Varadachari, T.R. (1970)\textsuperscript{8} reported that over 76 per cent of farms assisted by State Bank of India group, had holdings between 5 - 10 acres and 24 per cent less than 5 acres holding.

Singh, H. and Kahlon, A.S. (1971)\textsuperscript{9} observed that of the total production loan, 65.58 per cent was utilised for purchase of fertilisers, 17.94 per cent for casual labour, 13.28 per cent for H.Y.V. seeds and 3.20 per cent for insecticides. They also found short term credit requirements increased with the increase in the size of holdings and higher level of technology.

Mehta, R.C. and Sidhu, D.S. (1971)\textsuperscript{10} in their study on institutional credit for long term investment in Ludhiana block revealed that the farmer's short term credit need increased significantly with long term investment.

Bhanja, P.K. (1971)\textsuperscript{11} on the requirement of credit for H.Y.V. paddy cultivation in West Bengal, observed that an additional cash expenditure of Rs. 339.00 per acre was required in the present state of technology.

Singh, R.I. and Mishra, J.P. (1971)\textsuperscript{12} compared the average input, output, net income, family labour income and farm business income in case of borrowers and non-borrowers in Kangur district and found that the above indicators were higher in case of borrowers. Further their per hectare investment of fixed capital was also higher.

Das, P.K. and Rout, J.N. (1972)\textsuperscript{13} in their study that 79 per cent of the total credit was met by institutional agencies and only 21 per cent of the total came from the non-institutional sources in Cuttack district of Orissa.

Singh, R.A. (1972)\textsuperscript{14} reported that farmers borrowed for fertilisers and also for hiring labour, but not for seed, implements and irrigation. Credit had a positive influence on farm returns of the sampled farmers.

Das, P.K. (1972)\textsuperscript{15} reported that in the absence of

\begin{itemize}
\end{itemize}
additional capital availability, a shift from existing to recommended level of technology did not offer much scope for increasing farm business returns. However, if the capital constraint was relaxed, 2 - 4 times increase in returns was indicated for the irrigated farms.

Das, P.K. and Srivastava, D.H. (1974)\(^{16}\) in their study "Credit needs of small farmers" concluded that the requirement of crop loan would be very large for shifting the level of technology from existing to higher forms since the new technology is capital intensive in nature.

Broadway, A.C. (1974)\(^ {17}\) reported that net returns increased by about 49 per cent, farm business income by 31 per cent and family labour income by about 43 per cent for the short term borrowers. While the increase recorded by medium term borrower for farm business income was about 28 per cent, family labour income by 70 per cent and net returns by 46.1 per cent. Returns under all the three measures were markedly low in case of defaulters which was the main cause of their default.

Mishra, J.P., Singh, R.I. and Singh, G.N. (1976)\(^ {18}\) suggested that to raise the level of income and productivity

---

on the farm, the flow of investible funds for the purchase of modern inputs is to be increased by the adequate and timely supply of farm credit through cooperatives and other financing institutions to the cultivators.

Singh, G.N. and Pandey, K.N. (1977) observed that small farmers were neglected by the commercial banks in the provision of finance. Only a small proportion i.e., 8 per cent of 2-4 hectare group farmers could get loan from them. Larger farmers were the actual beneficiaries of commercial banks, because they offered better security for getting loan.

Singh, R.V. and Amrik, K.S. (1978) observed that the adoption of integrated crop and milk production plans for higher income demanded a substantial amount of short term and medium term credit.

Sharma, J.S. and Prasad, B. (1978) in their study on "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 farms, followed by small farms and the lowest on large farms. The credit absorption capacity as indicated by per acre needs was greater on irrigated farms than on non-irrigated farms, in all size groups.

Singh, Roshan; Singh, R.K. and Balistar (1978)\textsuperscript{22} studied the flow of institutional credit in agriculture and observed, availability of credit in relation to the requirement of investment credit, was 85 per cent, while the gap in production credit was 59 per cent.

Chahal, T.S. and Chawla, J.S. (1978)\textsuperscript{23} observed that the amount of loans varied positively with the level of technology. Co-operatives provided maximum loan to the non-mechanised farms and partially mechanised farms, while commercial banks advanced maximum loans to mechanised farms.

Pandey, R.N. et al. (1978)\textsuperscript{24} while analysing the changes in credit use with advancement in agriculture observed that the value of farm assets substantially increased with technological advancement and the farmer's dependence on institutional credit increased considerably. The repaying capacity of the farmer also increased.

Chawla, J.S. et al. (1978)\textsuperscript{25} observed that in the pre-green revolution period loans for redemption of mortgaged land claimed the top position, while loans for construction of cattle shed occupied the bottom position. In the post-green revolution period, loans for farm machinery like

\begin{itemize}
\end{itemize}
tube-wells, tractors, became most popular while loans for redemption of mortgaged land dwindled into insignificance.

Ray, A.K. and Maji, C.C. (1978)\textsuperscript{26} worked out that the credit demand was to be more than double under modern technology as compared to traditional technology. The average net return per rupee of working capital was found to be significantly higher in the modern technology than in the traditional one.

Singh, A.J. and Dhawan, K.C. (1978)\textsuperscript{27} analysed the sources, utilisation and productivity of agricultural credit and concluded that the medium and large farmers appropriated a major portion of the institutional credit, whereas the small farmers continued to avail non-institutional credit, which is far more costlier, but easier to obtain. The analysis also indicated that the small and medium farmers borrowed mainly for installation of irrigation structure or purchase of milch animal, whereas the large farmers borrowed mainly for purchase of tractor, tractor-drawn implements and irrigation equipment.

Jayraman, T.K. (1978)\textsuperscript{28} in his analysis of overdues of primary agricultural cooperative societies concluded that irrigation facility enables the cultivator to augment his gross

earnings from his land and consequently increases his capacity to repay his debt instalment and interest charges to his credit institutions.

Haque, T. and Maji, C.C. (1978) reported that the new agricultural production technology has changed the structure and composition of the short term as well as medium and long term co-operative credit in almost all the states.

Dhawan, K.C. and Kahlon, A.S. (1978) remarked that the marginal value productivity (MVP) of capital in agriculture having increased with inception of new technology, the farmers are likely to depend more and more on borrowed capital, to be able to adopt the new farm technology. Again, the problem of agricultural finance in India is not merely one of the inadequate supply of funds rather it is aggravated by its ineffective utilisation.

Kumar, P., Joshi, P.K. and Muralidharan, M.A. (1978) estimated demand for credit on marginal farms in Moradabad (U.P.) and concluded that steps to bring down the interest rates on loans to the marginal farmers can not be of much help- what is more important is increasing the available supply of credit.

Thingalaya, N.K. (1978)\textsuperscript{32} observed that there has been a shift from the demand for unproductive consumption credit to the demand for investment credit. The demand for productive credit and long term credit had a direct relationship with size of holding, but in the case of small holdings, the demand for investment on land development was very much restricted.

Reserve Bank of India (1979)\textsuperscript{33} announced the branch expansion policy for commercial banks on September 11, 1979. The policy provided that all community development projects will be served by banks by the end of June 1979. A minimum 4,000 new branches will be set up over 1979-81 period in the rural and semi urban deficit areas.

The Union Finance Minister, Mr. R. Venkatraman (1981)\textsuperscript{34} appreciated the progress made by banks in the post nationalisation period. He said that the number of total bank branches increased from 8,000 to 34,000 - the number of rural branches from 1860 to 16,744; deposits from Rs. 4,700.00 crores to Rs. 36,149.00 crores and priority sector advances from Rs. 509.00 crores to Rs. 8,000.00 crores. The population ratio came down from 65,000 per bank to 19,000 per bank.

\textsuperscript{33} Reserve Bank of India Bulletin, Nov. 1979.
\textsuperscript{34} 'Hindusthan Times daily' dated October 29, 1981.
2. **Imbalanced Finances and Remedies**

The All India Rural Credit Survey Committee Report (1954)\(^1\) while pointing out the weaknesses of co-operative societies said that the weakest link of all, in a chain, which is weak at almost all points, is the primary credit society. It satisfies none of the requisites of either good co-operation or sound credit. Its failure to promote thrift and savings is followed at not too great distance by its failure to provide in a village a system of credit which is at once adequate, prompt and productive.

Shah, A.C. (1961)\(^2\) remarked that borrowings of small farmers were small, but what was more important, was the fact that the major portion of the borrowings was utilised in meeting the family expenses.

Sinha, S.P. and Verma, S.P. (1965)\(^3\) concluded that in the absence of the necessary conditions, easy or liberal credit did not necessarily lead to farm investment.

Kesbekar, P.D. (1966)\(^4\) concluded that the credit needs of farmers ought to be considered as a whole and a realistic policy must not be confined to requirements of productive

---

1. All India Rural Credit Survey Committee Report 1951-54.
purpose loan. He further remarked that the institutional credit dealt only with those whose main source of livelihood was farming and particularly with cultivators who were self reliant.

The All India Rural Credit Review Committee Report (1969) has emphasised that while reorganisation of cooperative credit should be pursued and the integrated scheme implemented vigorously, efforts should not be concentrated solely in the co-operative sector and that considering the magnitude of the problem of the agricultural credit, the commercial banks, specially the nationalised banks, should embark on wide and intensive efforts for provision of agricultural credit.

Singh, Gurbachan (1971) in his study on the role of commercial banks in farm finance in Punjab, highlighted, the delay in advancing loan, large gap between credit demand and credit received, great difficulty in getting through the procedures and registration charges and inadequate visit by the field staff for ensuring proper utilisation of loan and guidance to the farmers.

The working Group on Rural Banks (1975) observed that in a country of the size and regional diversity such as ours,

5. The All India Rural Credit Review Committee Report, 1969.


no single pattern, be it commercial banks or co-operative credit, can be expected to meet all the emerging requirement in all areas.

Pandey, U.K. (1976)\textsuperscript{8} in his study on causes of accumulation of overdues in co-operative credit institutions reported, that overdues were mainly wilful. Social standing of the borrowers, political backgrounds, high literacy were responsible for increasing overdues. Lack of proper supervision was the major reason for overdues, as indicated by the diversion of loan for consumption purposes.

Singh, A.J. and Dhawan, K.C. (1978)\textsuperscript{9} observed in their study in Ludhiana district of Punjab, that there was greater diversion of short term credit to consumption purpose as compared to medium term and long term credit.

The Expert Group on Agricultural Credit Schemes of Commercial Banks (1978)\textsuperscript{10} highlighted many short-comings of agricultural credit schemes of commercial banks, specially regarding that of revenue records, certificates, documents and malpractices in extracting money from the land owners. It also pointed out the inadequate marketing facilities which came in


the way of developing tie up arrangements for loan recovery. It recommended that the lead banks have a special responsibility in balancing the credit schemes for direct and indirect finance.

Prof. Dantwala Committee Report (1978)\textsuperscript{11} on Regional Rural Banks, has pointed out the superiority of these banks in the rural areas and has also allayed fears about its competitive role with commercial bank branches or primary agricultural co-operative societies.

Mazumdar, P.C. (1979)\textsuperscript{12} studied the role of farm loans advanced by commercial banks and observed that if crop insurance scheme was not introduced, banks can never achieve breakthrough. Cash credit loans be given to the farmers for three years and the repayment schedules respaced to tackle the problem of crop failures due to natural calamities. Once the farmers are protected, recovery of loans will improve and farmers will not be thrown out of productive activities.

The Reserve Bank of India (1980)\textsuperscript{13} urged the banks to endeavour to attain the targets for lending to agriculture and weaker section.

The Reserve Bank of India (1981)\textsuperscript{14} issued a circular to all commercial banks requiring them to take special measures to step up advances to scheduled caste/scheduled tribes.

\textsuperscript{11} The Report on Regional Rural Banks by a review committee headed by Prof. Dantwala, 1978.
\textsuperscript{12} Mazumdar, P.S. (1979), Rural India, Jan. 1979:13.
\textsuperscript{13} Reserve Bank of India Bulletin, April 1981.
\textsuperscript{14} Reserve Bank of India circular letter, April 14, 1981.
The Union Finance Minister, Mr. R. Venkataraman (1981) pointed out about the performance of nationalised banks in post nationalisation period. He said that though the banks have made significant strides towards widening their coverage and increased flow of credit to weaker sections, the improvement in quality of service had not matched with the creditable qualitative progress in extending credit.

Venkataraman also expressed concern over the level of recovery of direct advances to farmers, which was stagnant at 50 per cent of the total demand. But he admitted that this has to be accepted as a risk, inherent in banking business in some cases.

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 of credit to meet the higher expenses for investment of modern farm inputs. This in turn has widened the credit gap in 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 national economy. There has also been a change in the attitude of the

15. 'Hindusthan Times', Daily Newspaper, October 29, 1981.
agriculturists. 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 the farm financing 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 size 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 fertilisers, irrigation structure and milch animals, whereas large farmers needed credit mainly for the purchase of tractor, tractor drawn implements and irrigation equipment.

In pointing out the weaknesses of the financing institutions, the economists were unanimous about the mis-utilisation of credit by the borrowers by diverting loans to unproductive or consumption purposes. They were also of the opinion that no single credit institution can meet the magnitude of credit demand of agricultural sector. They were also critical of the overdues in repayment of loans. It was either due to lack of supervision on the part of bank officials or wilful negligence on the part of borrowers having political links or social standing. A mention was also made about the malpractices in extracting money from farmer borrowers in the process of getting copies of revenue records, certificates and documentation. A large proportion of the
bank credit was cornered by the well-to-do and influential farmers. The weaker section got neglected.

The remedies suggested by these authorities emphasised development of all financing institutions specially co-operative banks, commercial banks and regional rural banks. They stressed the need of providing unproductive and consumption loans, as well, to the borrowers, specially to small farmers. Simplicity in procedure and promptness in the payment of loans could reduce the malpractices to a great extent. They stressed that insurance of agriculture could buffer the losses of farmers and improve recovery of loans. Tie up arrangements of marketing and credit was an essential step towards this end. Proper supervision of credit and promotion of thrift and saving was as important as any other remedy.

Hypotheses

On the basis of the studies mentioned above the following hypotheses were formulated:

1. The institutional finance has helped in raising the intensity of cropping, investment in farming, yields per hectare of the major crops and consequently the net farm business returns.

2. The availability of bank finance has increased the level of income, consumption and savings on borrower farms as compared to that of non-borrowers.

3. The credit supplied by various financial agencies to the farmers under study is inadequate.