CHAPTER I

GENERAL INTRODUCTION
India is a land of villages in which the bulk of the country’s population lives. More than 70 percent of India’s population earns its livelihood from agriculture. This oldest profession is so intermixed with social customs and cultural practices of the people that it has become a way of life of them.

As an economic occupation, agriculture has several contributions to Indian economy. It provides raw material to several important industries, such as cotton and jute textiles, sugar and oil. It also provides food for the people and fodder to cattle. It is for this reason that it is recorded as a basic industry since it meets the basic needs of human existence. Nearly half of the national income of India is contributed by the agricultural sector. Through land revenue and other taxes and levies, agriculture makes substantial contribution to Government budgets. India also earns foreign exchange through the export of agricultural products to the Soviet block of the countries, Gulf States, East African Countries and Sri Lanka etc. And finally agriculture provides employment to a large section of our population. Industries also recruit their
labour source from the agricultural sector. Therefore, the important place of agriculture in the national economy of India is universally recognised.

Indian agriculture, however, has certain peculiarities with which one should be familiar. Almost total dependence of Indian agriculture is on the vagaries of the monsoons. It is the first peculiarity. The failure of the monsoons or excessive rains, both cause extensive damage to the crops. In the event of crop failures the economic distress of the people becomes more acute because the people depend upon the agriculture for their livelihood, have no alternative employment. Another important peculiarity of Indian agriculture is the preponderance of the small sized agricultural holdings. This is mainly due to a defective law of inheritance which provides for equal division of property among the male children of a father. Faulty distribution of agricultural land is also responsible for the phenomenon of small holdings. Cooperative farming could help small and marginal farmers in adopting modern methods of cultivation but the Indian farmers have shown preference for present proprietorship. The result is that most of the small and marginal farms often do not produce enough even for the subsistence of the families owning them. Yet another peculiarity of Indian agriculture is seasonal idleness of those engaged in agricultural activity except for the periods of ploughing, sowing and harvesting which last for four to five months, there is no work for them.
If the seasonally idle people could engaged in such subsidiary activities as rope-making, horticulture, dairy, poultry farming, bee-keeping etc., they could add to their family incomes.

A point which needs emphasis is that a modernised and commercial farm sector is an asset and a prop to the national economy. As a whole, excessive dependence on traditional, subsistence agriculture for national income and employment is not a symptom of good economic health. In all high-income and progressive countries in the world, secondary and tertiary sectors make the largest contribution to the national income and they also provide the largest amount of employment to the working populace. The share of agriculture in these countries either in the national income or in the matter of employment is comparatively small and it goes on diminishing further as these countries advance economically.

Judged from this point of view, the large agricultural sector in India contributing substantially towards the national income and employing the very large proportion of the working population, is a drag on the national economy and the greatest obstacle to the country's economic progress. Our farm sector has to be reorganised and made more productive by adopting modern methods and practices.

Various causes have been given for the backward
state of Indian agriculture, and different measures have been suggested to remove these causes. Much has been done under the Five Year Plans to raise agricultural productivity. Intensive agricultural district programme (1960), Intensive agricultural area programme (1961-62), NIP (1963-64), Farmers training and education programme (1966), Multiple cropping programme (1967-68), Intensive cattle development programme (1964-65), Drought prone area programme (1970), Area development programmes, Whole village development programme (1974-75), Integrated rural development programme (1977) etc. aimed at raising farm productivity and uplift the rural economy generally.

But the root cause of the slow progress of Indian agriculture has been the lack of adequate credit facility. The traditional source of agricultural credit in India has been the village moneylender. This agency has certain advantages. The farmer finds it convenient and expedient to approach the moneylenders because of their simple procedure of financing but the cost of financing is very high, not only in terms of the usurious rate of interest but also because of malpractices like land grab policy. Although the crucial role of village moneylender is duly recognised, attempts have been made by the Government from time to time to remove the abuses associated with this indigenous agency.

Nevertheless, it became increasingly clear that the traditional village moneylenders, even in its reformed and
improved shape, could not meet to the full the short term and long term credit needs of the farmer. It was felt that the Government should come forward in the aid of the needy agriculturists.

The first attempt was made by the Government to help the agriculturists in the form of taccavi loans by introducing the Land Improvement Loans Act 1893 and the Agriculturists' Loan Act 1904. The taccavi loans were to be granted either in the period of famine or distress or for developmental purposes. The farmers require the loan for their current farm and consumption expenditures which are not considered under taccavi loans. The All India Credit Survey Committee concluded that the records of taccavi loans is the record of deficiency.

The slow tempo of agricultural production was causing concern to the Government and after much discussions and deliberations, a new agency for providing credit to farmers, came into existence in 1904, in the form of cooperatives when the Cooperative Societies Act 1904 was passed. The Famine Commission of 1901 threw the light on the problems of agricultural finance. Several enquiries and studies viz. Sir A.L. Darling's report (1935), Preliminary and Statutory Report of Reserve Bank of India (1936 and 1937), All India Rural Credit Survey Committee Report (1954) and All India Rural Credit Review Committee Report (1963) of
R.B.I. concluded that almost entire farm finance was supplied by the non-institutional agencies. The Rural Banking Enquiry Committee headed by Purushottam Das Thakur Das¹ in its report took the note about the machinery for rural credit and recommended that attention should more properly be concentrated on building up the institutional machinery for rural credit. The establishment of single agency to cover the entire field of rural credit would not be feasible in existing conditions. The committee also emphasised for setting up the structure for long term and short term agricultural credit separately.

A major step, in 1951, was taken to appoint the All India Rural Credit Survey Committee by R.B.I. which recommended some important steps to be taken to strengthen the institutional credit: (i) state partnership in the cooperatives in apex level, (ii) to develop an integrated scheme for provision of cooperative credit, (iii) R.B.I. should occupy the most strategic position in the cooperative credit and (iv) to establish the central and state warehousing corporations for adequate storage of agricultural produces.

In 1958, National Development Council recommended that responsibility and initiative for social and economic development at the village level should be placed fully on the village cooperatives and village panchayats which were considered as the primary agencies.

¹. Rural Banking Enquiry Committee Report, 1953, p. 147.
In accordance with the A.I.R.C.S. Committee recommendation, the State Bank of India introduced the scheme of financing the cooperatives in 1957 as to supplement the resources of cooperative banks and land development banks. On the recommendations of the Committee on Fuccavi Loans and Cooperative Credit (chairman B.P. Patel) 1961, Government of India declared that the cooperatives were the sole institutional agency for providing agricultural credit.

The informal group on institutional arrangement in agricultural credit in 1964, recommended for setting up the Agricultural Credit Corporations in each of the states of Assam, Bihar, West Bengal, Orissa and Rajasthan and separate corporation for Union Territories of Tripura and Manipur. Accordingly the state Agricultural Credit Corporations Act 1968 was enacted. These corporations are to be mainly concerned with the programme of stabilising and revitalising all the primaries in their areas.

The All India Rural Credit Review Committee headed by B. Venkatappiah submitted its report in 1969 and recommended to avoid too many and too abrupt changes in policies relating to agricultural credit and credit should be dispensed on a decentralised and diversified basis in laks of villages.

The Agricultural Credit Department of R.S.I. provides the strongest organisational infrastructural support to the
cooperative system by way of supervision and guidance besides providing the financial resources. The Agricultural Refinance and Development Corporation of India plays a vital role in helping cooperatives and commercial banks to expand their term lending by way of assistance in project formulation, appraisal and refinancing. In addition, National Cooperative Development Corporation provides the basic infrastructure and stimulus for promotion of marketing, processing and storage activities related to agricultural inputs and produce.

Until the introduction of Social Control (1963) and Nationalisation of 14 major commercial banks in 1969, the cooperatives were the sole agency in the area of Institutional agricultural credit as a matter of the Government policy. The Seminar on Financing Agriculture by Commercial Banks in December, 1968, envisaged the new role of Commercial Banks in the form of a challenge for adopting the new task of agricultural financing. Since the nationalisation, the banks entered into the field of agricultural finance alongwith the cooperatives. These include the building up of a base of technically qualified field officers, developing expertise at head offices, group financing, village adoption, organising Agricultural Development Branches and Gram Vikas Kendras, financing through cooperative societies and farmers' service societies on the lines of National Commission on Agriculture (1976). The Agricultural Finance Corporation was also set up in 1968, for formulation of projects and consultancy services
on a consortium basis. The Small Farmers Development Agency, Marginal Farmers and Agricultural Labourers and Integrated Rural Development Programme were also started by the Government of India for providing agricultural credit and subsidies in their respective areas. During the Fifth Plan, J.F.O.A. and M.F.A.L. were combined for the same purposes.

The recent development in the field of institutional agricultural finance is the establishment of Regional Rural Banks during 1975 specially meant for the small farmers and other weaker sections of the society. The role of R.R.Bs is to supplement and not supplant the other institutional agencies operating in the field. Thus the mutly agency approach to agricultural credit has been accepted by the Government of India.

It may be relevant here to attempt a discussion on the general characteristics of a sound farm credit system so that a theoretical background could be built for examining and assessing the actual performance of the different credit agencies presently engaged in financing agriculture in Rae Bareli district.

Agricultural credit may be defined as the amount of investible funds made available for the purpose of development of farm productivity. The Agricultural Finance

Corporation has defined the agricultural credit as "The amount of the money needed by a farmer to achieve a proper combination of productive factors like land labour inputs, machinery, live stock and managerial ability so that the planned level of income is generated by his farm". Credit does not in itself create new resources but it is an important element in an integrated approach which also covers advisory services for improving production and productivity, marketing, land tenures farmers' organisations and other aspects which are inter-related. Agricultural credit is not merely a banking business. There is more to it than providing loans to farmers or fisherfolk; specially the amount required by each borrower may be small and yet in aggregate represent considerable risks.

Since credit is essential to agricultural development, it should necessarily be cheap and safe. It is the duty of the state to take precautions that rural credit shall be both accessible, cheap, safe and productive. It is not necessary that direct provisions should be made for this but certainly by creating conditions in which a proper institutional system of agricultural finance will have

3. F.A.O., Agricultural Credit Through Cooperatives & Other Institutions, forwarding page.
reasonable chances of success.

The conditions of agricultural credit may be summed up as, absolute proximity of lender and borrower, complete security to the lender, its freedom from prior incumbrances, the recovery of capital and interest on due date, in convenient amounts with facilities for enforcing such recoveries in case of arrears through safety and facility to the borrower in his ability to obtain cheap loans at any time to an amount proportionate to the security he offers and upon terms which will be so equitable in themselves so convenient as regards repayment, so free from all risks of deliberate entanglement, so based upon published rules, so devoid of any tendency to discount necessity or urgency otherwise than by an equitable insurance, that he can calculate on reaping the full fruits of his produce and find in credit, a powerful auxiliary to his productive powers and stability. 1

In this connection it has been realised that any agency ordinarily finds it difficult to provide the credit on the above mentioned conditions of the credit because the cost of credit becomes higher than that of money lenders who are nearer to the borrowers and well-known to him. Thus, the

enquiry about the borrower, knowledge, mutual confidence and faith etc. is the general postulate of agricultural credit. But the expanding credit needs of agriculturists can no longer be adequately met by the traditional moneylenders and the merchants of the villages. Therefore, there is the urgent need to prop and sustain the institutional credit available.

A sound agricultural credit system must be such as to persuade the lender to assume the responsibility of facilitating the repayment by providing an adequate credit services as well help which would create a stable environment for the borrower and enable him to honour his commitments on the due date, at the same time promote his social, political and economic well being. In this connection, F.A.O. desired that the broad test of an efficient system of agricultural credit will be the extent to which, it promotes agricultural development by increasing the amount of capital available and efficient utilisation of agricultural labour, by providing qualitative improvements and innovations through changing attitudes, encouraging the use of better farming techniques and promoting better farmers' organisations and more effective leadership. Thus, the criteria to be setdown for a sound

1. Laud, G.M., Cooperative Banking in India, 1966, pp. 103-10.
agricultural credit system, suggested by Tardy 4. Louis in 1933, is fit in the present context also and is given as under:

"1. It should be granted for sufficiently long period commensurate with the length of the operation which it is designed to facilitate.

2. It should be granted at low rate of interest.

3. It should be adequately secured, in order, more particularly to avoid any abuse of credit facilities, but security should not necessarily be material, it should if necessary, be in the form of personal credit secured mainly by the borrower's moral standing and farming ability.

4. It should be adopted to the average yield and capacity for repayment of the farms, particularly during periods of economic depression.

5. It should be placed in the hands of institutions, the directors of which have received special training and had actual banking experience."

In addition to these, there should be optimum measure of supervision and assistance in the utilisation of credit by the farmers. It must integrate credit with services.

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so as to ensure the provision of inputs and services along with credit. The system should be capable of expending horizontally as well as vertically. The loans for production and consumption purposes should be considered.