ROLE OF COMMERCIAL BANKS FOR AGRICULTURE CREDIT-WITH SPECIAL REFERENCE TO ETAWAH DISTRICT OF U.P.

ABSTRACT

SUBMITTED FOR THE AWARD OF THE DEGREE OF

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By

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ROLE OF COMMERCIAL BANKS FOR AGRICULTURE CREDIT—WITH
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ABSTRACT

Agriculture is an important factor for any economy to grow and credit plays an important role in increasing the agriculture production. Small and marginal farmers should get appropriate, timely and low cost credit from various sources of finance. Like other factors credit delivery is also important to get sustainable development in the priority sector. A number of farmers who are small producers, need agriculture credit to earn their livings by doing farming in the villages. It is very clear from the past experience that if credit is delivered timely and properly then it has positive impact on the productivity, asset formation, income food security of rural poor. Government feels responsibility to bring financial institutions to help the agriculture sector as a whole.

It is now a well known fact the flow of institutional credit to farmers has not been in sufficient quantity. This leads the farmers, especially small farmers to go to the money lenders and beg for the loans and the money lenders take advantage of the condition of the farmers by charging a high amount of rate of interest. In spite of the availability of the loans in banks in the rural areas, farmers prefer taking loan from the money lenders. Because there is more demand for rural credit, but supply of credit is adequate to meet the demand of farmers (Sunita and Sarala, 2013). Therefore the role of money lenders cannot be denied as they actually provide some kind of help to the rural poor even though they charge very high interest rate. But this kind of credit actually makes the farmers to loose their land into the hands of money lenders because they are unable to return the taken credit. The guidelines of the RBI for providing loan to the agriculturists need to be implemented as they are written off.

The Government of India has introduced a number of policies to improve the accessibility of farmers to the institutional sources of credit. The main motto of these policies has been on progressive institutionalization for providing timely and proper
credit support to all farmers with particular focus on small and marginal farmers and weaker sections of society to enable them to adopt modern technology and improved agricultural practices for increasing agricultural production and productivity. The working of the credit policy of the government mainly focuses on a fluent credit flow at the ground level through credit planning, adoption of region-specific strategies and rationalization of lending Policies and Procedures.

As far as banking system in India is concerned, here banking system is very much systemized as compared to other established economies of the world. We have many kinds of banks with their numerous branches across small towns and even villages. And with the support of banking institutions and their adequate mode of operations we try to reach every hook or corner of the country to get faster growth and sustainable development. To provide the loans to the needy poor farmers India has a vast institutional credit network since independence. Four major sources of institutional finance can be classified as commercial banks. Co-operative banks short term regional rural banks and long term regional rural banks. Besides this, major player government has also approved a variety of financial agencies under private and public sector to get the desired results. In 1968 the need of financing agriculture sector was felt that commercial banks should come forward to do the work which was not previously performed by these institutions as they were not feeling much responsibility to help this sector. In 1972 Reserve Bank of India formalized the system on the basis of a report submitted by the private institution in 1971. According to the policy, for every branch opened in metropolitan area, the banks were required to open four branches in rural areas where no banks was there. And according to the agriculture credit policy 40 per cent of the total credit distributed was required to provide to those who were not able to get timely and appropriate credit in the absence of binding targets. And 18 per cent loans was to be distributed to the agriculture and allied activities. In early 1990s Narsaimham Committee raised a point that banks should work on the basis of profitability and should be given free hand to decide the interest rates charged to me their expense. As a result a number rural branches were about to close. In the 1990s, there was (a) large scale closure of commercial bank branches in rural areas; (b) a widening of inter-State inequalities in credit provision, and a fall in the proportion
of bank credit directed towards regions where banking was historically underdeveloped; (c) a sharp fall in the growth of credit flow to agriculture; (d) increased sidelined of small and marginal farmers in the supply of agricultural credit; (e) increased exclusion of the disadvantaged and dispossessed sections of the population from the formal financial system and (f) strengthening of the hold of moneylenders on rural debt portfolios (Ramachandran and Swaminathan, 2005; Shetty, 2006; Chavan, 2005, 2007). In 2004 the UPA government intended to raise the credit flow to agriculture up to 100 per cent more. In early days direct finance to agriculture was more in practice as loans used to provide to the cultivators without any middle person involved. In this type of finance short-term loan and loans for seasonal agricultural loans used to be given. Usually crop loans were considered as short term loan as they were for cultivation for some specific crops.

Review of literature plays an important role in finding out information on the work done in the past by different researchers and provides valuable guidelines in formulating the theoretical framework of research at the time of investigation. Keeping this aspect in view, an attempt has been made in the thesis to evaluate various concepts and views related to the research.

Rajesh et al. (2011): In their study they had analyzed the role of Co-operative Banks in agriculture credit in India from 2002-2007. Discussed the main sources of finance of Co-operative banks: Central and state government, The RBI and NABARD, other cooperative institutions, Ownership fund and Deposits. Told about primary cooperative agricultural credit societies that can be started with 10 people who belong to the same village or community. It gives loan to the members who are very needy. There are now over 92,000 primary agricultural credit-societies, 367 central cooperative banks and 29 state cooperative banks operating in India (RBI, 2009). Total agricultural credit by the cooperative has also been increased during the period studied. They concluded that average compound growth rate of agriculture credit by cooperatives has always been less that of average compound growth rate of all India Institutional finance.

Uppal, (2009): highlighted the need to channelize the flow of credit to priority sectors for the larger interest of the country. Uppal studied the advances of public, private and
strongly opposing these social evils. The women SHGs have also emerged as a social pressure groups for bringing about social change and transformation. The social benefits are more than the economic betterment, the women have experienced a greater betterment in the non-economic spheres of their lives. What makes one feel optimistic about most of SHGs which were visited is that, in spite of their problems, they are hopeful of turning the corner and doing constructive work in the future. Thus, overall socioeconomic empowerment of rural poor women has been ensured by the micro finance based women empowerment programmes. Now women are slowly emerging out of a system that had oppressed and exploited them for centuries with the help of successful SHGs.

The objectives of the study are as follows:

- To assess the agricultural credit requirements of cultivators in the state with special reference to Etawah district.
- To study the disbursement of loans in the region for agricultural development.
- To examine whether credit are properly used or misused.
- To investigate the pattern of utilization and repayment of such credit and problems of farmers.
- To study a relationship between the flow of institutional credit and agricultural growth in Etawah district.
- To examine the deficiencies of the pattern of institutional credit and suggest remedial measures to strengthen the institutional credit structure in the district.
- To evaluate the role of institutional finance for agricultural development of Etawah district.
- To assess the group financing for agricultural development.
Abstract

- To suggest suitable remedial measures for recovery of overdue.

- To review the history of agriculture credit delivery through commercial banks in Uttar Pradesh.

Besides the above objective, the following other objectives were also taken into consideration according to the availability of data. They are; (a) To review the growth and development of agriculture credit delivery in Etawah and its relevance to Uttar Pradesh and India. (b) To examine the socio-economic status of the people indulged in agriculture related and various non-farm activities. (c) To find out the economic viability of agriculture credit investment in agriculture sector through commercial Banks in Etawah district. (d) To find out impact of agriculture credit through commercial banks on the socio-economic status of rural poor. (e) To suggest measures that how, the agriculture credit in priority sector by commercial banks, can be made more effective and viable on the basis of case study of Etawah district.

The findings of the study are as follows:

The data gathered from the office of the planning commission, Uttar Pradesh covers 8 blocks of Etawah District. The data including other blocks have sometime been eliminated for the purpose getting accurate results. The impact of agriculture credit on the social condition of rural poor about the various non-farm activities in which they are involved is based on the assessment of the detailed information obtained from secondary data. The people living in blocks of the district for the study are indulged in the number of activities other than farming like dairy works, small kirana shops, tailoring, pickle manufacturing, candle manufacturing, carpet weaving, vegetable selling and leaf plates manufacturing.

The study revealed that commercial banks provided loans to members for initiating various IGAs (Income Generating Activities), consumption purposes, settlement of old debt taken from money lenders and contingency purposes such as health related expenditure and other social functions like, marriage ceremonies and funeral, etc.
• As far as performance of Agricultural implements due to the credit delivered in Etawah district is concerned, it has been declined from the year 1982 to 2003.

• Wooden implements continuously declined during every five year of time span. From 1982 to 1988 the iron implements saw an improvable increase and after that it continuously declined and same is the case with advance harrow and cultivator.

• Only in case of tractors, it can be said that it registered a remarkable increase during last 10 years.

• As it can be seen that the impact of credit delivery is more or less negligible on rice production as total area and area under irrigation remains almost same.

• Same is the case with wheat except 93 to 98 as area decrease due to the separation of Auraiya district from Etawah.

• But the case of pulses differ from the case of rice and wheat, this is due to the culture and geographical condition of the Etawah district.

• Agriculture credit could not do much in case of sugarcane even though it is the main crop of Uttar Pradesh. Some very fertile area of sugarcane has been transferred to Auraiya district which used to be the part of Etawah before 1998.

• As wheat is the main food Etawah district, it can be observed that the role of commercial banks in wheat production have shown a significant result in comparison of the other main crops.

• Farmers utilized the credit given by the commercial banks in using fertilizers, as a result the production has gone up and this is the good sign for future.

• As far as the use of land for agricultural purpose is concerned, it is lacking behind as most of the farmers are small and marginal and they are not aware of the schemes provided by the banks.

• Increment in the number of banks its branches in UP and Etawah has been shown by the compounded annual growth rate. And shows significant improvement as far as the Uttar Pradesh state as a whole is concerned; in case of Etawah it shows a marginal improvement from the period 1995-2005 to 2005-2013.
Abstract

- Bank deposits do not show any noticeable improvement but still it has been maintained by the commercial banks very well.
- The farmers and agriculturists in Etawah district have been very enthusiastic and keen to go for the agriculture related activities which is shown by the CAGR.
- Credit delivery ratio has also been calculated.
- Number of banks in Etawah district has shown rapid increase in the year 2006-07 and after 2012.
- After the UPA government got second tenure, loans towards the agricultural related activities gone very high.
- Correlation analysis of agriculture credit shows that it is positively correlated with all the main crops (irrigated area) except pulses. And sugarcane shows highly negative trend.
- Government related institutions need to recognize the potential of agricultural financial services to maintain investment and expansion in key economic sectors and hence to add significantly to national economic growth.
- As a matter of fact poor do intensely use the limited knowledge and experience at their command without a sufficient return. If we want to bring about the significant change in the lives of the poor than we have to bring in significant inputs of a kind that the poor want but they don’t have. For this it is important to find out what they do know and have. It is only then, that schemes can be devised that can give right inputs in right quantities.
- A good regulatory framework for agricultural services is necessary to reduce the transaction costs and also to bring in much needed transparency and accountability. This will also helps in bringing long-term sustainability. The safety of small savers, ensuring proper terms of credit, instilling financial discipline and having a proper reporting and supervision system should be put in place.
- Through proper guideline and supervision it must be ensured that financial institutions are run prudently and must help the poor people in increasing their income through the proper livelihood activities.
Institutions which are involved in managing the functioning of commercial banks in the country like RBI, SIDBI (Small Industries Development Bank of India), NABARD and others must evolve proper means for monitoring, managing, directing and controlling of credit. State Government and Central Government agencies must also ensure proper monitoring of these fund providing agencies.

- Mass media must be used widely for the spread of functioning of commercial banks in rural areas. Through the mass media potential and benefits of banks can reach to a large section of people and subsequently it will help in further increase in the number of branches of these banks in the villages.

- In particular, the success and sustainability of commercial banks in the studies area depends significantly upon greater clarity about who is to play the key role of maintaining quality, and how the costs of doing so are to be met.

- The awareness of the Bank staff with the local issues and the local people will help in the success of commercial banks in a long way. For the success of commercial banks close association of Bank staff with the agriculturists is necessary, right from identification of the viable non-farm economic activity to planning for all the elements of this non-farm economic activity. Post credit monitoring and loan recovery is also very much important for the success of commercial banks.

- The procedure for applying, seeking and releasing of credit from the banks must be simplified further. During the study it is observed that the procedural difficulties are one of the major stumbling blocks, which has denied rural people from taking the financial benefits of the banks.

- Efforts should be made to motivate banks to take active interest in the farming and the activities related to agriculture and rural people to spread the information of various schemes and financial needs of poor.

- The bank functionaries who deal with agriculture credit branch managers should be exposed to the local people’s language and culture. Motivational training programmes should be organized for bank functionaries to generate in them a sense of cooperation and positive orientation towards rural people.
• Beside the agricultural related activities institutional credit must also be made available for consumption needs arising out of emergencies, crisis, as also for housing, sanitation and for provision of other basic amenities.

• Efforts must also be put in for the quick release of funds and its channelization to the related departments and agencies so that it can reach the targeted small farmers.

• Encouragement must be provided to commercial banks to work in an organized manner, as this will help in reaping economies of large scale production.

• Some random surveys can be done in the area of agriculture finance to the clearer picture of the rural poor of Etawah District

• This type of study can be done on primary data in Etawah as well as other districts of UP state.

• Comparative studies can be done on the performance of commercial banks of different districts as well as different states.

• Studies regarding other aspects of commercial banks like loan to other industries can also be highlighted.

• Similar studies can be done on the agriculturists to highlight the purpose of getting institutional credit.

• Studies can be undertaken on the factors which motivate the farmers to get the benefits of different commercial banks.

• Studies can be done to analyze the role of government in promoting the agriculture credit through financial institutions.

The above mentioned interventions will help the commercial banks towards their evolution and growth and long term sustainability. Implementing the above recommendations will help the commercial banks in rising into sustainable financial institutions.
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ALIGARH MUSLIM UNIVERSITY
ALIGARH (INDIA)

2014
Fed in Computer
Dedicated
To
My Beloved Parents and respected Teachers
DECLARATION

I, Afaq Husain, Department of Agricultural Economics and Business Management, certify that the work embodied in this Ph.D. thesis is my own work carried out by me under the supervision of Dr. Rais Ahmad, Professor, Department of Agricultural Economics and Business Management, Aligarh Muslim University, Aligarh. The matter embodied in this Ph.D. thesis has not been submitted for the award of any other degree.

I declare that I have faithfully acknowledged, given credit to and referred to the researchers wherever their works have been cited in the text and the body of the thesis. I further certify that I have not willfully lifted up some other’s work, Para, text, data, result, etc. reported in the journals, books, magazines, reports, dissertations, theses, etc., or available at websites and included them in this Ph.D. thesis and cited as my own work.

August 27, 2014

(Afaq Husain)
CERTIFICATE

This is to certify that the thesis entitled "Role of Commercial Banks for Agriculture Credit-With Special Reference to Etawah District of U.P.", submitted to the Department of Agricultural Economics & Business Management, Faculty of Agricultural Sciences, Aligarh Muslim University in partial fulfillment of the requirements for the award of Ph. D. degree in AEBM is a record of original work done by Mr. Afaq Husain (En No. CC-3049) during the period of his study in the Department under my supervision and guidance.

To the best of my knowledge and belief, this thesis has not been used anywhere else for a similar purpose.

(Rais Ahmad)
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This is to certify that Mr. Afaq Husain (En No. CC-3049) has completed the following formalities successfully which are required for the submission of a Ph.D. thesis as per the university ordinances.

- Completion of the course work
- Presentation of pre-submission seminar
- Publication of at least one paper from the thesis

(Saghir A. Ansari)
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August 27, 2014

(Afaq Husain)
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I am solely responsible of any errors or omissions in the thesis.

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Chapter 1

Introduction
Introduction

Agriculture is an important factor for any economy to grow and credit plays an important role in increasing the agriculture production. Small and marginal farmers should get appropriate, timely and low cost credit from various sources of finance. Like other factors credit delivery is also important to get sustainable development in the priority sector. A number of farmers who are small producers, need agriculture credit to earn their livings by doing farming in the villages. It is very clear from the past experience that if credit is delivered timely and properly then it has positive impact on the productivity, asset formation, income food security of rural poor. Government feels responsibility to bring financial institutions to help the agriculture sector as a whole.

It is now a well known fact the flow of institutional credit to farmers has not been in sufficient quantity. This leads the farmers, especially small farmers to go to the money lenders and beg for the loans and the money lenders take advantage of the condition of the farmers by charging a high amount of rate of interest. In spite of the availability of the loans in banks in the rural areas, farmers prefer taking loan from the money lenders. Because there is more demand for rural credit, but supply of credit is adequate to meet the demand of farmers (Sunita and Sarala, 2013). Therefore the role of money lenders cannot be denied as they actually provide some kind of help to the rural poor even though they charge very high interest rate. But this kind of credit actually makes the farmers to loose their land into the hands of money lenders because they are unable to return the taken credit. The guidelines of the RBI for providing loan to the agriculturists need to be implemented as they are written of.

The Government of India has introduced a number of policies to improve the accessibility of farmers to the institutional sources of credit. The main motto of these policies has been on progressive institutionalization for providing timely and proper credit support to all farmers with particular focus on small and marginal farmers and weaker sections of society to enable them to adopt modern technology and improved agricultural practices for increasing agricultural production and productivity. The working of the credit policy of the government mainly focuses on a fluent credit flow
at the ground level through credit planning, adoption of region-specific strategies and rationalization of lending Policies and Procedures.

As far as banking system in India is concerned, here banking system is very much systemised as compared to other established economies of the world. We have many kinds of banks with their numerous branches across small towns and even villages. And with the support of banking institutions and their adequate mode of operations we try to reach every hook or corners of the country to get faster growth and sustainable development. To provide the loans to the needy poor farmers India has a vast institutional credit network since independence. Four major sources of institutional finance can be classified as commercial banks, co-operative banks short term regional rural banks and long term regional rural banks. Besides these major player government has also approved a variety of financial agencies under private and public sector to get the desired results. In 1968 the need of financing agriculture sector was felt that commercial banks should come forward to do the work which was not previously performed by these institutions as they were not feeling much responsibility to help this sector. In 1972 Reserve Bank of India formalised the system on the basis of a report submitted by the private institution in 1971. According to the policy, for every branch opened in metropolitan area, the banks were required to open four branches in rural areas where no banks was there. And according to the agriculture credit policy 40 per cent of the total credit distributed was required to provide to those who were not able to get timely and appropriate credit in the absence of binding targets. And 18 per cent loans was to be distributed to the agriculture and allied activities. In early 1990s Narsâimham Committee raised a point that banks should work on the basis of profitability and should be given free hand to decide the interest rates charged to me their expense. As a result a number rural branches were about to close. In the 1990s, there was (a) large scale closure of commercial bank branches in rural areas; (b) a widening of inter-State inequalities in credit provision, and a fall in the proportion of bank credit directed towards regions where banking was historically underdeveloped; (c) a sharp fall in the growth of credit flow to agriculture; (d) increased sidelining of small and marginal farmers in the supply of agricultural credit; (e) increased exclusion of the disadvantaged and dispossessed sections of the population from the formal financial system and (f) strengthening of the hold of moneylenders on rural debt portfolios (Ramachandran and Swaminathan, 2005; Shetty, 2006; Chavan, 2005, 2007). In 2004 the UPA government intended to
raise the credit flow to agriculture up to 100 per cent more. In early days direct finance to agriculture was more in practise as loans used to provide to the cultivators without any middle person involved. In this type of finance short-term loan and loans for seasonal agricultural loans used to be given. Usually crop loans were considered as short term loan as they were for cultivation for some specific crops.

Table 1.1

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<th>Year</th>
<th>Direct finance</th>
<th>Indirect finance</th>
<th>Total</th>
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<tr>
<td>1985</td>
<td>83.2</td>
<td>16.8</td>
<td>100.0</td>
</tr>
<tr>
<td>1990</td>
<td>86.8</td>
<td>13.2</td>
<td>100.0</td>
</tr>
<tr>
<td>2000</td>
<td>84.5</td>
<td>15.5</td>
<td>100.0</td>
</tr>
<tr>
<td>2005</td>
<td>76.1</td>
<td>23.9</td>
<td>100.0</td>
</tr>
<tr>
<td>2006</td>
<td>72.1</td>
<td>27.9</td>
<td>100.0</td>
</tr>
<tr>
<td>2007</td>
<td>74.5</td>
<td>25.5</td>
<td>100.0</td>
</tr>
<tr>
<td>2008</td>
<td>77.5</td>
<td>22.5</td>
<td>100.0</td>
</tr>
<tr>
<td>2009</td>
<td>77.1</td>
<td>22.9</td>
<td>100.0</td>
</tr>
<tr>
<td>2010</td>
<td>76.1</td>
<td>23.9</td>
<td>100.0</td>
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Source: Basic Statistical Returns, Reserve Bank of India, Various issue

Up to 1993, The agriculture sector was for direct finance to meet the target of 18 per cent agriculture credit. In the month of October of the same year both direct and indirect finance was considered to meet the agriculture credit target. And indirect finance was only meeting one fourth of the target credit of 18 per cent. In 1994, loan up to Rs 5 lakh was considered as indirect finance for the use of cattle feed and poultry feed etc. From June 1996 onwards, loans to dealers in drip irrigation systems, sprinkler irrigation systems and agricultural machinery were considered as indirect finances to agriculture. From October 2002 onwards, the credit limit to these dealers was raised from Rs 10 lakh to Rs 20 lakh; it was further raised to Rs 30 lakh in October 2004. Till April 2003, only loans to those dealers located in rural or semi-urban areas were under the ambit of indirect finances. However, from April 2003 onwards, all dealers, irrespective of their location, were treated as eligible for such advances. (Ramakumar, 2013). From August 2001, loans under the scheme for
financing agriclinics was also known as indirect finance. From April 2007 onwards, loans to food- and agro-based processing units with investments in plant and machinery up to Rs 10 crore (other than the units run by individuals, Self Help Groups and cooperatives in rural areas) were considered as indirect finance to agriculture.

1.1 Definition

Murray (1953) defined agricultural finance as “an economic study of borrowing funds by farmers, the organization and operation of farm lending agencies and of society’s interest in credit for agriculture.”

Tandon and Dhondyal (1962) defined agricultural finance “as a branch of agricultural economics, which deals with and financial resources related to individual farm units.”

1.2 Scope

Agricultural credit can be classified at both micro level and macro level. Macro-finance deals with different sources of raising funds for agriculture as a whole in the economy. It is also concerned with the lending procedure, rules, regulations, monitoring and controlling of different agricultural credit institutions. Hence macro-finance is related to financing of agriculture at aggregate level. Micro-finance refers to financial management of the individual farm business units. And it is concerned with the study as to how the individual farmer considers various sources of credit, quantum of credit to be borrowed from each source and how he allocates the same among the alternative uses within the farm. It is also concerned with the future use of funds. Therefore, macro-finance deals with the aspects relating to total credit needs of the agricultural sector, the terms and conditions under which the credit is available and the method of use of total credit for the development of agriculture, while micro-finance refers to the financial management of individual farm business. India is an agricultural based country and its 70% population stay in rural area. The cooperatives which are the life blood of the Indian economy and the mechanism for any developmental programs. Especially in an agriculture dominated rural sector, cooperative banks play a pivotal role in bolstering the common individual and
financing his business and personal needs. The cooperative credit structure is serving the Indian society since 1904 and since then it has seen several ups and downs. Despite of several limitations such as restriction of area of operations, limited clients, small volume of business, political interference, this movement is standing since last 108 years and serving the societies. Economy of the Chhattisgarh is mainly dependent on agriculture as more than 80% of the total population is engaged in this sector. The Chhattisgarh Government has implemented from 2008-2009 the scheme of providing agricultural loans at the rate of 3%. Chhattisgarh is basically known as “Rice Bowl” The State has witnessed tremendous growth in the cooperative sector. Empirical analysis results show that the increase in the level of agricultural loans granted by the cooperative banks positively influence development of agriculture in India.

The importance of role of commercial banks in the process of economic development of the country has been realized after the evolution of NABARD in various sectors of the country’s economy. Finance constitutes a very important part in every aspect of life and now most of sectors realize the importance of the finance and commercial banks. Today, agriculture finance though commercial banks has become an essential movement in many parts of the country specially in rural areas because now it has been realised that these commercial banks will help in the overall development of an economy and has been accepted in all areas of working. The NABARD’S report has also affirmed that economic development is associated with the advancement and empowerment of the people living in rural areas. In countries, where villagers have advanced status, economic growth has usually been optimum. Whilst, where agriculture is not advanced, the economy seems to be stagnant.

After 1991, when economic reforms were introduced in India with new policies liberalization, globalization and privatization, economy of India has been witnessing a drastic change. India is an emerging economy filled with great potential of agriculture. Simultaneously, involvement of commercial banks in economic activities gained momentum by low work participation rate and excessive involvement in the unorganized sector and employment in informal sector. This vital increment in the number of commercial banks and their participation in the tremendous economic growth, in the last three decades proved that agriculture credit is not only the cup of only money lenders as it used to be in the past.
In this dynamic global era, commercial banks have an important role to play to meet the global quest for sustained economic development and social progress of all mankind. Agriculture constitutes over 70 per cent of the production area, apparently its contribution is highly needed for the overall growth and development of entire economy of the country. In India, RBI has played a very important part in the development of country’s economy from an individual to the nation as a whole; its enthusiastic capability has been recognised by the government officials due to the powers assigned to it. The government consistently stepping forward for the improving the status agriculture in the country. The development of agriculture and related activities became a very part of the plan and policies.

A number of policies and programmes have been launched by the government of India for the development of agriculture in India. It’s in the fitness of things to work for persuading rural poor in respect of their social isolated condition as to give equal opportunity which is assumed to be given only to the large farmers. Giving most of the opportunities to the small farmers does not mean that the medium and small farmers will be sidelined but improvement of their economical condition and their social status will lead to the development of a good family, good society and ultimate good nation. And this is true, if a villager is empowered through various means then he will surely influence the whole society.

Agriculture is very essential for the development of both developed nations and developing nations. It is instrumental in balancing the circular flow of economic development. Every country wants to attain economic development for prosperity and better standard of living of people. This signifies that participation of other sectors and mainly the agriculture is important in economic activities for the overall development of a nation. But, people related to the priority sector in India generally faces many difficulties against the equality and acceptance in carrying out their day to day activities or undertaking any other work.

Small and marginal farmers have to face a number of problems on social-political-economic grounds because they are not capable of meeting all the daily requirements, due to the orthodox system of society the prestige and self esteem crisis needs to eradicate. In recent years, the marked increment in the social and economical condition of small farmers, result of the changing scenario established the milestone
for future development. At present it has been estimated that about 50 per cent of the total small farmers have been able to lift their social level due to the utilization of credit provided by the commercial banks. And in Uttar Pradesh, position is almost the same as national average.

The reasons are many for rural poor for obtaining the credit from the money lenders and financial institution. Some of them opt to get credit to sustain livelihood for their family, to search employment, basically from uneducated class. On the other hand, agriculturists who belong to some upper level than small farmers try to pursue agriculture as a fulltime work for self satisfaction, enthusiasm to do something positive and challenging, a strong desire to culminate the patriarchal trauma of society and enter into main stream etc. With the enthusiastic increase in the practise by commercial banks, the people associated with the priority sector are aware of their rights and now information regarding traits, skills, abilities, avenues and also the work situation. Introduction of the technology in the banking sector is proven as a milestone for the drastic growth in the credit availed by the rural people all over the country, although they constitutes only some selected villages of the states.

1.3 Land Mortgage Banks

As it is a well known fact that agriculturists require two types of loans- short term loans and long term loans for their different kind of needs like purchase of seed before sowing season, fertilizers, pesticides, and for some permanent improvement like construction of tube well or tank etc. The government set up its own machinery for giving long-term loans to agriculturists from its funds under the Land Improvement Loans Act (1983) and Agriculturists Loans Act (1984). (SSM Desai, 1990, p. 294)

During the years of great depression(1929-33) when there was general depression in the country and agricultural prices had declined steeply and so also income of the majority of farmers, there was need to save farmers from falling into the clutches of money lenders and losing their lands to them for non-payment of loans. The Land Mortgage Banks provided long term loans to many farmers and saved many of them from clutches of money lenders.

1.4 Report of all India Rural Credit Survey Committee (1954)

This committee was initiated by the Reserve bank of India in 1951 to enquire into the
agricultural credit situation in India. A detailed and extensive survey was conducted under the chairmanship of Mr. A. D. Goriala and the committee submitted its report in 1954. This report is monumental in the sense that it has brought out, clearly, the significance and magnitude of the agricultural credit problems and is bound to stand for many years to come as the basis for further study. This committee clearly stated that though anything comparable in scale to the present All India survey need not be repeated in the near future, there is a need for constant review of all the main features of the situation in the rural sector.

The findings of the committee confirmed the dominant position occupied by moneylenders in the system of rural credit. The credit provided by all the agencies Viz, the Government, Co-operative and Commercial Banks was significant. Summing up the position of agricultural credit, this committee observed “the credit fell short of the right quantity, was not of the right type and did not serve the right people”. The committee also felt that the performance of the co-operative in the sphere of agricultural credit was deficient in more than one way.

Another important recommendation of the committee was with regard to assigning a significant role to the RBI in the scheme of credit concerning three main items.

I. Development of co-operative credit.

II. Expansion of economic activity (Especially processing and marketing) and training the co-operative personnel.

III. Establishment of two funds Viz,

a) The national agricultural credit (Long term Operation) fund and

b) The national agricultural credit (stabilization) fund.

This fund shall be created by the RBI by contributing Rs.10 crores initially and by adding Rs.5 crores every year. The first fund is to be used for making loans and advances to the state Government, not exceeding 20 years, for subscribing to the share capital of co-operative credit institutions for advancing medium term loans for periods, not exceeding 5 years for agricultural and to allied purposes to the state cooperative banks, making loans to state land development banks for periods not
Chapter I: Introduction

exceeding 20 years and for the purchase of debentures of state land development banks. The second fund is to be used for extending medium term loan and advances to state co-operative banks when they are unable to pay their dues in time, due to drought, famine, or other natural calamities. Under this arrangement short term agricultural loans are converted into medium term loans for periods not exceeding five years. It also noted that over dues were not only heavy but they were also rising from year to year. Another significant point highlighted by the committee was that small cultivators were still unable to get their share of credit from co-operatives.

The committee studied the viability of the primary societies and has made several specific recommendations for the promotion of the viable units and rehabilitation of weak central co-operative banks. The committee found, that co-operatives by themselves may not be able to meet the challenge and consequently, it was the commercial banks, especially the nationalized banks which should provide agricultural credit.

The findings of this committee and recommendations which here accepted by the government are significant as they throw light on certain important matters relating to agricultural credit in India

The All-India Rural Credit Survey committee (1954) made certain recommendations of far reaching significance which have influenced to a great extent the organization and functioning of Land Mortgage Banks.

Some of the major recommendations made by the Survey Committee were as follows:

1. There should be a Central Land Mortgage Bank in each State.

2. The Central Land Mortgage Banks should raise funds by issuing debentures with varying maturity periods consistent with the purpose of loans to be granted.

3. The state governments should contribute to the share capital of Central Land Mortgage Banks.

4. The Reserve Bank of India and the State Bank of India take such steps as would make debentures issued by the Central Land Mortgage Banks popular among the public.
5. Loans by the Land Mortgage Banks should be production-oriented and for the improvement in the agriculture sector.

6. The State Governments should provide substantial assistance to Land Mortgage Banks in the form of trained personnel, exemption from stamp duty and registration fee, provision of overdraft etc. (Desai, 1990)

1.5 Land Development Banks

Land Mortgage Banks are renamed as Land Development Banks and their structure is not uniform as it varies from state to state. But it is not the three-tier system like Cooperative Credit Societies rather it is two-tier. There is one Central Land Development Bank in each state, And Primary Land Development Bank generally at the district or block level.

Sources of Finance of LDBs

Following can be considered the sources of finance of LDBs

(a) Share Capital from members;
(b) Reserve funds created out of profit;
(c) Development Debentures, both ordinary and rural;
(d) Deposits from the public (generally term loans of not less than one year); and
(e) Interim accommodation, which is generally obtained in case of need, from the State Bank of India, commercial banks and the state cooperative Banks.

There are ordinary debentures available for subscription to only by individual farmers; there are special debentures issued in connection with schemes financed by Agricultural Refinance and Development Corporation (now merged in the NABARD)

1.5.1 How LDBs Works

Agriculturists borrow funds on long term basis for the purpose of effecting some permanent improvements on lands such as construction of a well or a tank, purchase of heavy agricultural machinery, purchase of additional land and so on. The numbers of Primary Land Development Banks was 286 in 1950-51; their number rose to 1830 by June 1985. The number of central or state land
development banks which was 5 in 1950-51 rose to 19 by 1985. The total membership of the LD Banks is over 30 lakhs.

With all this the LDBs cannot be said to have taken deep roots in the soil or made their due contribution in bringing about permanent improvements on agricultural lands or diversification of rural economy considering the vast potential that exits in the agricultural and rural sector (Desai, 1990)

1.5.2 LDBs' Problems

The main problem faced by LDBs is that of mounting over dues which during the five year period of 78 to 83 gone up more than 1200 crores.

1.6 Report of the All India Rural Credit Survey Committee (1969)

The All India Rural Credit Survey Committee was appointed by the RBI in July 1966 in order to assess the credit needs and volume of institutional credit available in aggregate for agriculture and to make suitable recommendations. The committee was headed by Sri. B. Venkatappiah. The object of the committee was to review the situation of agricultural credit in India, since the implementation of the All India Rural Credit Survey Committee, 1954. The government wanted to know whether there was any conspicuous improvement since 1954 and hence one of the committee members of 1954 report viz., Dr. B. Venkattapiah was asked to head this committee. The committee observed that by and large the performance of co-operatives was far better and their share in rural credit had increased to about 30 to 35 percent of rural credit. However, it stated that there were certain black spots indicating short comings in the co-operative credit and added by and large big farmers alone were benefited by co-operatives and small farmers were completely left out of the purview of the co-operatives.

The major findings of this survey were:

1. The committee reported that the proportion of the small cultivators who had access to co-operative credit was relatively very low in all states and that the big cultivators received a much larger share of co-operative credit.

2. The committee reported that effective steps had not been taken for re-
organization and amalgamation of weak societies by the state governments.

3. Little was done for the implementation of crop loan system in most states.

4. The committee reported that the most disappointing feature of the co-operatives had been the failure to recover the loan promptly and fully.

5. The committee observed that though the commercial banks had overcome their reluctance to carry banking facilities to rural areas they had not made any significant progress in fulfilling the responsibility of meeting the credit needs of the rural community.

The committee found that a small proportion of total loans advanced by land development banks alone had gone to small cultivators.

The committee's main recommendations were that there was wide gap between demand and supply of rural credit and that the co-operatives alone cannot deliver the entire agricultural credit as the gap was likely to be widened in the years to come. Hence, this committee called for a multiagency approach on agricultural credit. That is more than one institutional agency should provide agricultural credit. This committee recommended that other than co-operatives the major commercial banks which were nationalised in India in 1969 should come in a big way for providing agricultural credit. The committee itself recommended some more agencies.

(a) Small farmers development agency (SFDA) to route the co-operative credit to small farmers and for providing subsidy to them when needed.

(b) Marginal farmers and agricultural labourer's agency (MFAL) for routing co-operative loan to marginal farmers and Rural Electric Corporation for providing power connection and pump sets for tapping underground water.
1.7 Lead Bank Scheme

The National Credit Council appointed a study group on “Organizational Framework for the Implementation of Social Objectives” under the Chairmanship of D.D. Gadgil.

The study group recommended the adoption of “Area Approach” to banking development in the country. The study group suggested that the public sector Banks should be given specific districts wherein they should be asked to bring about integrated development of banking facilities with a view to meet all the essential credit needs of the specified area.

On the basis of the study group’s recommendation, the RBI prepared the Lead Bank scheme in 1969 allotting 338 districts in the country to public sector banks (to some private sector commercial banks also).

A bank in a district was to be named the “Lead Bank” in the district. The Lead Bank which is allocated a specific district is supposed to ply the role of the ‘Consortium Leader’ of all the banking and financial institutions functioning in the district is supposed to get the cooperation of all the other banks in the area as also of the other banking financial institutions.

The first task of a Lead Bank in its allotted district is to prepare an impressionistic study identifying the growth centre in the district for opening branches of commercial banks so as to meet the legitimate credit needs of the district. It is supposed to be continual study or survey-work aiming at potential deposit mobilization and locating avenues where credit would be needed lending to economic growth of the district.

Some of the district credit plans prepare by the Lead Banks were criticised on various grounds- such as (a) agriculture and allied sector did not receive due emphasis or place which they deserve as the backbone of the rural economy; (b) the district credit plans are not properly aligned with the various developments schemes prepared for the district; and (c) the district credit plans have failed to take due note of cooperative societies which are an important source of credit in the district. The RBI issued new guidelines to the Lead Banks for preparing district credit plans for the year 1980-82.
The District Consultative Committee (DCC) constitutes the main coordinating agency and it assigns different banks and financial institutions in the district their share overall district credit plans.

1.7.1 Achievements of Lead Banks Scheme

In quite a few cases, district credit plans prepared by the Lead Banks were very ambitious which means they were not realistic. Generally allocation of shares of credit to be provided by various banks in the district were on the higher side.

The different banks did not properly allocate their quotas among their branches; this meant that their shares of district plan were not duly incorporated in the annual business plans of the various branches of the banks in the district.

There was observed lack of coordination among various credit planning agencies i.e. banking institutions and various developmental institutions working at the district or block level and in charge of implementation of various projects in the district.

On the whole, the local entrepreneurship and popular leadership necessary for implementation of the district plan were lacking. This naturally impeded the implementation part of various schemes.

The key characteristics of priority sector of India that the rural people who are associated with agriculture have not proper vision and are hardly motivated, and not self directed way of management and working. Many researchers contend that agriculturists not have their own unique way of working and generating new ways to earn their living. Most of the times they are indulge in completing their day to day activities except earning their living by agriculture. And highly influenced by the situation and circumstance due to which gives life to their mis-direction. And Government policies stimulate them to keep them focussed and motivate them to develop their own way of learning and doing.

As far as India is concerned its bit debatable, India has the second largest population of world, rural population constituting more than 60 per cent of the population and farmers lay burden for fulfilling their needs. This evidently showing the marked up increase in demand of credit in terms of loans and participation of commercial banks
in the economic activities to lessened the burden of fulfilling the demand because their participation or rate of inclusion in the priority sector is very low, hence growth rate of agriculture production participation is much lower than the expected rate. And this negligible rate has been showing the uniform trend because of the radical social and cultural restrictions on rural households and the bounded patriarchal norms, hindering agriculturists to be viewed in mainstream. Hence, commercial banks participation is less than the requirement of the fast growth of India.

Now-a-days agriculture finance has gained wide popularity all over India due to efforts made by the Indian government. Rate of commercial banks entering into business of providing financial assistance has been increased. In Uttar Pradesh also, the rate of taking credit through various institutional institutions has been rapidly increased according to the report of the planning commission, Uttar Pradesh. Somehow the societal backlash and patriarchal dominating norms of our country are responsible for unsatisfactory results of agriculture credit. Although small and marginal farmers do have potential of becoming successful cultivators as their inherit qualities proven by some researchers. Many surveys have been done and a number of reports have been published regarding this. And it has been pointed out that in India, a majority of rural poor and artisans fall within the age group 25-40 years. The skills, traits and capabilities required for becoming able agriculturists is already exist in the Indian rural people due to the environment and the work they assigned to do in their family work life. The ability to perform several functions of management of their families to regulate their household chores strengthening their power to handling number of things at a time and sharpening their psyche to develop their own vision and style of carrying more than one task at a time. No doubt recently we have various examples as a role model in this sector but they were considered as an exception. Indian farmers specially small and marginal are influenced by both Push and Pull factors. Which involves self satisfaction, desire of achievement, aspirations for autonomy and independence etc. acts like pull factors, whereas Unemployment, earning for livelihood, desire for a better life standards, dissatisfaction with the labor market etc. are some pull factors responsible for their entry into business of taking loan. By and forth the low rate of participation mainly to go in the farming activities is also the matter of concern. Many problems faced by the rural people in the village area: to earn income for their family, to sustain livelihood, to associate their self
esteem & prestige, to become self independent being, to prove themselves that they can be part of mainstream of our society, to develop the acumen to face challenges, to set a paradigm for equal rights in a society, employment generation, freedom to take own decision and be independent, government policies and procedures, bright future of their wards, success stories of friends and relatives, role model to other support of family members, to undertake changes to control the balance between their families responsibility and business obligations, government introduction regarding attractive incentives, Subsidies & various schemes, increasing socio-economic awareness.

All these elucidation giving an idea, era is changing following the status of Indian farmers and rural people and role of commercial banks for them to achieve what they want to. But still agriculturists have to undergo a lot of constraints and hurdles. The scenario since 1950s till now witnessing that area of urbanization has been increased, people have migrated from villages to cities but still those who are staying in village with their village are still in waiting of their condition to be improved. After 1990s, the trend to start small enterprises at home begun. These activities were mainly due to the motive of self occupation rather than for achieving financial autonomy. Now agriculturists more or less became self reliant and started getting financial assistance through financial institution alone and came up with more liberal and independent picture of agriculture sector in a society. And contemparily in the 21st century the numerous opportunities, ways and means have been developed for agriculturists and they increasingly venture to build modern India.

1.8 Importance of Agriculture Finance

At macro level agriculture credit plays an important and significant role in the agro-socioeconomic development of the nation.

(a) Agriculture credit helps in strengthening the farm business and increase the productivity of scarce resources.

(b) When newly developed potential seeds are combined with purchased inputs like fertilizers & plant protection chemicals in appropriate / requisite proportions will result in higher productivity.

(c) Due to the availability of loans farmers can make use of new technological inputs purchased through farm finance helps to increase the agricultural productivity.
(d) Accretion to in farm assets and farm supporting infrastructure provided by large scale financial investment activities results in increased farm income levels leading to increased standard of living of rural masses.

(e) Farm finance can also reduce the regional economic imbalances and is equally good at reducing the inter-farm asset and wealth variations.

(f) Farm finance is like a lever with both forward and backward linkages to the economic development at micro and macro level.

(g) As agriculture is still traditional and subsistence in nature, agricultural finance is needed to create the supporting infrastructure for adoption of new technology.

(h) Massive investment is needed to carry out major and minor irrigation projects, rural electrification, installation of fertilizer and pesticide plants, execution of agricultural promotional programmes and poverty alleviation programmes in the country.

Financing agriculture has been well-recognized world over as an effective tool for rural poor and improving socio-economic conditions of the same. In India too, agriculture credit system is making a strong headway in its efforts to reduce poverty and empower the rural poor. Moreover, agriculture credit system have come to be regarded as a supplementary development paradigm, which widens the financial service delivery system by linking the large rural population with formal financial institutions through commercial banks. The rural poor, with the intermediation of voluntary organizations join together for self help to secure better economic growth. This has resulted in the formation of a large number of self help groups in the country, which mobilize savings and recycle the resources generated among the members. These self help groups enable them to come together for a common objective and gain strength from each other.

Agriculture Credit, in simple worlds, refers to the entire range of financial services provided to the poor including skill upgradation, entrepreneurial development that would enable them to overcome their present miserable conditions. Various financial institutions with the help of NABARD have been recognized as an entity in the agriculture credit especially in providing credit plus services. Institutional finance in India has helped in poverty eradication, economic empowerment and inclusive
growth. Several studies conducted in India and abroad after comparing the situation of farmers who take loans to those who do not come to take loans for their earning through agriculture activities.

The existing literature on role of commercial banks for agriculture credit (discussed widely in the next chapter) reveals an overall picture of great promise on the socioeconomic well being of the farmers’ households. Much has happened in this sector during the past decade and a number of studies have already evaluated the outreach and the coverage of agriculture finance. But there appears to be lack of study on the effect of commercial banks in the farming and non-farming sector. The present study has tried to fill that gap.

1.8.1 Why Agriculture Finance

Poverty is a crucial problem in all developing countries in the present day world. It is felt that the problem of poverty can be solved through a concerted effort by the State. Poverty alleviation has always been one of the primary objectives of different governments in India and is always one of the main goals of any planning in national economy. Therefore it is of prime importance to formulate situation specific poverty alleviation policies and programmes for generation of a minimum level of income for rural poor, which form a substantial part of national population in our country. One initiative can be through the development of priority sector. Since the early national plans, successive governments in independent India have emphasized the link between improving access to finance and reducing poverty. In the of post nationalization period in India for the development of the rural areas thrust was always there on the banks to increase credit in rural areas for the socio-economic development of the rural poor. Since independence no significant impact has been made on the agriculture sector prevailing in rural India despite the presence of a vast network of commercial, cooperative and rural banks and other financial institutions present in the rural areas.

The failure of these institutions gives rise to the role of the governmental and other institutional players to provide favourable environment to the poor to develop their own organizations. The decade of 1990’s witnessed growth of various people’s organizations. Most importantly the failure of the state led and formal financial system in reaching to the rural poor give rise to the emergence of microfinance movement in the country.
India has nearly 400 million people, living below or just above an austerely defined poverty line. Of these, nearly 60 million households are in rural India and remaining 15 million are urban slum-dwellers. The current annual credit usage by these households was estimated in 1998 to be Rs. 465,000 million or US $10 billion. It is estimated that the number of small loans accounts from banks covered some 40 million households in 2000. The remaining 35 million households are perhaps meeting their credit needs from the informal sector. In such a scenario agriculture credit through commercial banks is like a life to the rural poor which will eventually help in poverty eradication and economic empowerment.

Most people living in the rural areas of the country draw their livelihood from agriculture and allied sectors. Accordingly, the strategy of the Government has been to improve the economic and social conditions of the underprivileged sections of the rural population with emphasis on agricultural production and also the non-farm sector to promote productive employment opportunities, by integrating traditional production infrastructure, skills and locally available raw material. Though the agricultural sector occupies a pivotal place in the national economy both in terms of its contribution to the gross domestic product and employment generation. However the data available from the National Sample Survey Organization (NSSO) clearly shows that the non-farm employment growth had been significantly higher than farm sector employment growth during the last thirty to forty years. The rural non-farm sector generally refers to all non-agricultural activities: mining and quarrying, household and non-household manufacturing, processing, repair, construction, trade and commerce, transport and other services in villages and rural towns undertaken by enterprises varying in size from household own-account enterprises to factories.

Though the growth of employment in the rural non-farming sector is significant in the last few decades but still the rural non-farm sector in India is facing large number of problems. But the most significant problem which the rural non farm sector is facing since independence is the timely availability of funds. According to the Census of India (2001), 70% of the total rural population does not have access to banking services (savings or credit through the formal banking system). An effort has been made by the government to overcome this problem through the NABARD. The government is encouraging people to come together, to make groups and to work
together in the viable non-farm activities so as to address their common problems. The agriculture finance project intervention in terms of formation and stabilization of commercial banks comprising of people by extending credit support and promotion of thrift to promote viable economic activities in the backward areas has resulted in empowerment of people involved in these activities. However, there is scarcity of resource literature regarding the impact farm credit of on their socio-economic empowerment and also on whether these activities are viable in the long run or not. Against this background, present study farm been carried out to assess the impact of agriculture-finance on non-farming sector and to find out what are the problems and constraints associated with these non-farm activities.

1.9 Statement of the Problem

India like most of the developing countries is facing the problem of extreme poverty particularly in the rural areas within which almost a quarter of our population lives. A large section of Indian population is still in existence which is surviving well below the standard of living at which they could become active participants in the larger economy. According to the data of planning commission, over the time, while the percentage of people below poverty line in India fell, the number of the poor barely changed over the last three decades (321.3 millions in 1973, 322.9 millions in 1983, 320.3 millions in 1993–94 to 301.7 millions in 2003–04). Thus, even after 67 years of independence, over a quarter of our population still remains poor. India still accommodates a vast majority of population which is economically deprived in terms of income, access to resources, control over resources and political power, gender biases, child labour, different forms of human abuse, etc. One of the prime reason for this, which the researchers has often pointed out is the unavailability of timely credit.

Agriculture finance has emerged as one of the way for fighting against poverty in rural areas, improving the condition of Indian agriculture upon which most of the India's people depend. It puts credit, savings, and other basic financial services within the reach of poor people. Accessing small amounts of credit at reasonable interest rates gives people with the willingness and know-how an opportunity to set up a small business based on agriculture activities. Prime objective of providing agriculture credit through commercial banks is to bridge the gap between demand and supply of funds in the lower rungs of the rural economy. Financial inclusion and social
exclusive schemes can be implemented and maintained only with the help of active branches opened by different commercial banks in the rural areas.

In India growth in agriculture has slowed down in the post green revolution period. The share of agriculture and allied activities in GDP has been declining steadily. As a large segment of the workforce in rural area earn their livelihood from agriculture, deceleration in agricultural growth rate could lead to rising poverty and an acceleration of migration to urban areas. In order to maintain and raise the rural living standards, the rural non-farm sector has to play a crucial role in terms of income and employment generation in the rural areas and in overall economic development of the country. Non-farm sector activities are not only labour-intensive but also give rise to a shift from wage employment to self-employment in rural areas and act as a poverty reduction measure. But most of the people engaged in non-farm sector in rural areas are facing number of problems like lack of institutions for necessary training, lack of technical knowledge, non-availability of cheap raw-materials, shortage of power, lack of road connectivity, lack of market to sell finished products, lack of road connectivity etc.

However the major problem which the rural non farm sector is currently facing is the timely availability of funds, an effort has been made by the government to overcome this problem by providing loan to people engaged in non-farm sector through the bank linkage. Against this background, the present study is an attempt to examine the role of agriculture credit investment in non farming sector through various commercial banks Etawah district of Uttar Pradesh under the topic “Role of Commercial Banks for Agriculture Credit-with special reference to Etawah District of UP State”.

**Table No. 1.2**
Name of the Blocks and Number of Villages under each block of Etawah District

<table>
<thead>
<tr>
<th>District</th>
<th>Blocks Name</th>
<th>No. of Villages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Etawah</td>
<td>Jaswantnagar</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td>Basrehar</td>
<td>97</td>
</tr>
<tr>
<td></td>
<td>Barhpura</td>
<td>95</td>
</tr>
<tr>
<td></td>
<td>Takha</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td>Bharthana</td>
<td>92</td>
</tr>
<tr>
<td></td>
<td>Mahewa</td>
<td>117</td>
</tr>
<tr>
<td></td>
<td>Chakarnagar</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td>Saifai</td>
<td>68</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>686</strong></td>
</tr>
</tbody>
</table>

Source: Planning Commission Uttar Pradesh
The main aim of agriculture finance is to provide self dependence or wage employment opportunities to the poor people. The intention of most of the polices implemented by the banks is to provide the poor the access to the financial resources in terms of credit to acquire productive assets in order to secure income and employment and this will ultimately result in a better standard of living for them. Generally the assumption is that with these interventions, the economically marginalized could be mainstreamed. While all these noble interventions were targeted and intended to lessen the burden of the poor something else was happening in reality.

The formal financial system rarely provides access to financial services for poor households in developing economies. As Mohammad Yunus (2007) has pointed out that a huge gap is there between the high-fault in words of the governments and the realities on the ground. The Universal Declaration of the Human Rights states that:

Everyone has the right to a standard of living adequate for the health and well-being of himself and his family, including food, clothing, housing and medical care, and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age, or other lack of livelihood in circumstances beyond his control.

The Declaration also demands that member nation secure the recognition and observance of these rights. According to Yunus poverty has created a social condition which negates all human rights, not just a select few. A poor person has no rights at all, no matter what his or her government signs on paper or what officials put in their big books.

The Banking system of most of the developing and underdeveloped countries which were supposed to be a major supplier to poverty eradication programmes by way of credit, were distancing themselves from these programmes over the years. Because generally the perception about the poor is that they are not “bankable” nor they were credit worthy as they cannot offer adequate security in respect of the money lent. Because of this the bonding between the resource holders and the poor could not take place and as a result, most of the government initiated development interventions
were failed to provide the desired results. People are not poor because they are stupid or lazy. They worked all the day doing complex physical tasks. They were poor because the financial structures which could help them widen their economic base simply did not exist in their country. It was a structural problem not a personal problem. Unfortunately, no formal financial institution was available to cater for the credit needs of the poor. This credit market, by default of the formal institutions, had been taken over by local money lenders.

1.10 Microfinance is also an option

Like most of the developing countries, India since its liberation in the year 1947 was predated with many problems like low literacy rate, malnutrition, low life expectancy, unemployment etc. Poverty was visible but the poor were unable to access the financial services from the formal credit system. The task is so vast that the government alone cannot handle the situation. This led to the emergence of microfinance movement in Bangladesh, the basic philosophy behind this movement is that the poor people had investment opportunities and necessary management capacity but could not avail these due to the lack of capital, which could be met by micro loans, and the funds can be generated from the poor themselves as their savings.

The importance of microfinance lies in the fact that the formal/institutional banking sector has not lives up to its social responsibility of meeting the financial needs of the poor due to various reasons such as (a) lack of adequate branch network in the rural areas, (b) the inability of the poor to offer satisfactory collaterals for the loans and (c) lack of education and awareness among the poor. Whenever we recall the microfinance movement, naturally the name of Professor Mohammad Yunus comes to our mind who triggered the then micro credit movement through the establishment of Grameen Bank in the late 1970s. The microfinance movement has worked well in Bangladesh, with a good management set-up and dedicated staff support. The micro credit program in Bangladesh began its journey in the late 1970s and assumed maturity by the mid-1990s. The following decade has seen replications of the program in different parts of the country so numerous that any village without such interventions can hardly be found. The awarding of the Nobel Prize to Dr. Muhammad Yunus and Grameen Bank has rekindled interest in this form of banking.
services to the extent that the UN and even the multi-lateral funding institutions are considering it as an effective tool for poverty reduction. Microfinance is now accepted worldwide as one of the potent tools of poverty alleviation. Microfinance movement continued growing rapidly worldwide towards the objective of financial inclusion extending outreach to a growing share of poor households. According to the, "State of the Microcredit Summit Campaign Report 2009" as of December 31, 2007, 3,552 microcredit institutions reported reaching 154,825,825 clients, 106,584,679 of whom were among the poorest when they took their first loan. Of these poorest clients, 83.4 percent, or 88,726,893, are women. Institutional Action Plans (IAPs) were submitted by 861 microfinance institutions (MFIs) in 2008. Together these 861 institutions account for 86 percent of the poorest clients reported. Assuming five persons per family, the 106.6 million poorest clients reached by the end of 2007 affected some 533 million family members.

1.10.1 Growth of Microfinance in India

Modern microfinance movement was born in Bangladesh as a response to the prevailing poverty conditions among its vast rural population. Astonishing growth rates in Bangladesh particularly during the 1990's, created a new dimensions for microfinance worldwide as microfinance institutions grew to include million of clients. For the first time, a substantial proportion of the low income families of major developing country were served by the activity. The start of the twenty first century reinforced this trend as the Bangladesh numbers continued to grow rapidly. Bangladesh is a developing (poor) country having a very poor financial market. In such type of market the introduction of the micro credit was a financial innovation. Micro credit, or microfinance, is banking with the unbankables, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral.

Microfinance is the rare antipoverty approach based on the poor’s strength rather than their deficiencies. In third world countries, there is barely a fraction of the jobs required to employ those who want to work, and there is little, if any, social safety net. Many of them are forced to turn to loan sharks for their capital, and pay rates anywhere from 10 percent per month to 20 percent per day. These enterprises, which
range from raising livestock and running a grocery shop to processing food and weaving bamboo mats (and other crafts), are rarely enough to allow the owner to get ahead, or put three meals on the table per day, but they can keep slow starvation at bay most of the time.

Back during late 1970s, when the Jobra experiment was underway under Professor M. Yunus, the Dheki Rin Prokolpa was initiated by the Bangladesh Bank in collaboration with the Swanirvar Bangladesh, and several other pilot schemes were initiated by a handful of the NGOs who were active then. At that time, it was difficult then to conceive that these initiatives would lead to a major micro-credit movement, which would make Bangladesh known to the rest of the world. Even during the 1980s, in spite of Grameen Bank’s success, the main discourse amongst development practitioners in Bangladesh centred around the desirability of micro-credit program as opposed to conscientization. By 1990, unhindered experimentation in the fields led to a quiet resolution of the debate and the country experienced a massive expansion of micro-finance activities during the 1990s.

In 2002, about 13 million poor households had access to credit and other financial services through the 1,200 MFIs. This figure excludes over three million Grameen Bank borrowers, but also is likely to overestimate the total number of poor households with access to microcredit due to the practice of individuals and households borrowing from more than one source. On its website, PKSF notes that there is debate on the extent of overlap. But the general consensus is that a national average would be that 15% of all borrowers are borrowing from more than one MFI. In this case, the effective coverage is about 11 million households. Out of 11 million households covered by microcredit programmes, about 80% are below poverty line and so about 8.8 million poor households are covered by microcredit programmes. With an estimated number of households of 26 million, out of which about 46% are poor households, the total number of poor households is approximately 11.96 million. From this estimate, it seems that at least 80% of poor households are covered by microfinance services. While the figure is certainly substantial, the assumptions around the proportion of MFI clients who are among the poorest are questionable and up for redefinition and debate. According to data gathered by the Microcredit Summit Campaign, by the end of 2004, 330 verified. Bangladeshi MFIs (which include the Grameen Bank, NGOs, MFI networks, government bodies, and commercial banks
offering some form of microfinance) had 24.4 million active clients, three-quarters of whom were poor and two-thirds of whom were poor women. The majority of borrowers are clients of the handful of very large organizations: the Grameen Bank, BRAC and Proshika. Of the remaining organisations, only twelve have over 100,000 borrowers, but many of the smaller MFIs join ASA, BURO Tangail and TMSS (Thengamara Mohila Sabuj Sangha) as the most profitable MFIs in South Asia.

The report published by the Microcredit Regulatory Authority (MRA) of Bangladesh, titled "NGO-MFIs in Bangladesh, Volume 3, June 2006, pointed out that microfinance sector of Bangladesh is growing very fast in respect of branch expansion, employment generation, number of members and borrowers, loan disbursement, savings mobilization etc. The data is based on the information provided by the MFIs cover under the Microcredit Regulatory Authority (MRA). It is expected that the information of these institutions will cover almost whole of the market. 641 NGO-MFIs of Bangladesh have been considered in volume-3 but they comprise most of the major players of this sector. It can be observed from table 3.1 given below that 57.20% growth of branch expansion and 116.41% growth of number of employees do not match with the growth rate of number of members and borrowers of the sector. Unusual growth rate of branch network overnight just before the enactment of the law could be the result of some MFI's inclination to avoid any probable regulatory restrictions regarding branch expansion. On the other hand, inclusion of total staff of the organization without segregating credit-staff and non credit-staff has inflated the number of employees of the sector.

1.10.2 Microfinance for women

A very new development paradigms has now been called micro-finance and has really been accepted as one of the new phenomenon for alleviating poverty through social and economic empowerment of the poor, with special emphasis on empowering women. The empowerment of women and the promotion of gender equality is one of the Millennium Development Goals (MDGs) that all 192 United Nations member States have agreed to achieve by the year 2015. There is a growing and compelling body of evidence which shows that women not only bear the brunt of poverty but that women’s empowerment is a central precondition for its elimination. The undoubted links between the elimination of poverty and the promotion of gender equality opens
up considerable space for attention to gender issues in all aspects of mainstream policy-making and planning.

1.10.3 Women Empowerment

Department for International Development has defined women empowerment as “a process of transforming gender relations through groups or individuals by developing awareness of women’s subordination and building the capacity to challenge it”.

The United Nations Development Fund for Women (UNIFEM) includes the following factors in its definition of women’s empowerment:

- Acquiring understanding of gender relations and the ways in which these relations can be changed.
- Developing a sense of self-worth, a belief in one’s ability to secure desired changes and the right to control one’s own life.
- Gaining the ability to generate choices and exercise bargaining power.
- Developing the ability to organise and influence the direction of social change to create a more just social and economic order, nationally and internationally.

In nutshell, empowerment can be defined as the ability to direct and control one’s own life. It is a process of enhancing human capabilities to expand choices and opportunities so that each person can lead a life of respect and value. It lends moral legitimacy and the principle of social justice to the objectives of human development. It means that women gain autonomy, are able to set their own agenda and are fully involved in the economic, political and social decision-making process. The current international policy focus on poverty elimination provides a relevant and conducive context for gender mainstreaming.

Women who constitute nearly half of India’s total population received only a small share of development opportunities. They are often excluded from education, from better jobs, from participation in political systems and from adequate health care. Large number of women is poor, deprived of basic needs, and socially as well as educationally backward. Many do not have access to sufficient amount of food, health care, housing or clothing. As women do not have any land, property or assets in their name, they are not able to produce the required papers for access to formal credit. Often they are also considered as poor credit risks by the financial institutions.
Because of structured constraints women are often forced to take up low income and low productive occupations. Besides they have to face constraints in their work. Most of the time women tend to engage in small scale activities, which often do not qualify for formal credit. These activities suffer from poor productivity, poor market performance and poor business management. Women’s illiteracy, their lack of experience in public life and low mobility, make it difficult for them to access credit. One of the objectives of the credit for empowerment approach entails building capabilities of the group to increase the credit absorption and the sustainable livelihood. This approach assumes that women would be empowered by addressing their economic problems in the society. However, developing entrepreneurship, especially among rural women poses great challenges for the Indian society. Beside there are number of other obstacles which restricts women entrepreneurship, especially in the rural areas. Women with their low levels of education, little bit of training and entrepreneurship almost non-existence of exposure to business and a strong fear of failure, find it very difficult to start a viable non-farm activity. Women’s business is different from those of men. Women tend to pursue business strategies that weigh household maintenance and risk reduction heavier than men. Women are less interested in enterprise growth, they are more interested in investing profits in their family’s welfare than in expanding their enterprises. However, SHG’s approach has enabled rural women to avail the credit and its effective utilization for promoting sustainable livelihood and earnings.

1.10.4 Women Empowerment through SHGs

The “empowerment” of a women SHG member can also be defined in terms of her influence over the family’s economic resources and her participation in its economic decision-making. In addition, the influence made by her on her own development as an individual, power over local polity and participation in socio-political decision-making and influence over other decisions pertaining to general welfare of the family can be considered. In order to assess the above aspects of empowerment A study was conduct by Dr Arshad for selected women SHG members related with changes in their socio-economic status after joining SHGs. Also questions were asked about the impact of SHG regarding the changes in decision making process of the women respondents.
Out of the response from the respondent women members reporting significant improvement in access to information & awareness was reflected mostly in the aspect of literacy/education and awareness about right/legal rights. In both the cases majority of the women respondents reported about improvement. While comparatively lesser percentage of women respondents reported about improvement in access to the information.

Over the years political barriers have effectively prevent the poor women from having any real stake in development activities. As we all know very well, women in India has remained socially outcaste, economically dependent, politically powerless and culturally backward. To know how much improvement is there in the women status in politics after linkage with the SHG, questions were asked about impact of SHGs on the role of women in politics. As far as impact of SHGs on the role of women respondents in politics is concerned, large number of women respondents reported about improvement/significant improvement in issues like active participation in development programmes, active participation in meetings, autonomy to vote and in voicing their concern as can be seen from the past records But somewhat less number of selected women SHG members reported about improvement in participation on Panchayat Raj Institution (PRI) and improvement in leadership skills.

Women who have barely completed their schooling, who could earlier barely step out of their houses are today stepping out and caring for themselves and their communities with the help of SHGs. Most women felt that after their participation in SHGs they are more respected in their own families and society in general. Their contribution to the family is valued and the family in turn supports them to undertake these activities. Women’s participation in decision-making in family is important indicator for measuring their empowerment. The decision-making capacity of women members is expected to improve through participation in various SHG activities.

Thus it can be said that significant improvements has been observed from pre-SHG to post-SHG situation on various aspects which have been studied by many researchers. The overall scenario of the rural women depicts the picture that women SHGs have bring about social change and opportunities for economic empowerment
for poor women in rural areas. Prior to joining of SHGs most of the women
respondents were only house-wives and part-time agriculture labour. Now they are
intend to empower themselves through entrepreneurial activities such as dairy works,
pickle manufacturing, candles manufacturing, leaf plates manufacturing, handloom
works and various others domestic use products. Women's contribution and share in
decision-making both at the family level and society level has improved. The
analysis shows that the women who were earlier completely excluded from societal
economic activities have now become influential factor in domestic and social
activities, by saving, doing business and multiplying the revenues to her family and
the group. After joining the SHGs women experience the difference between pre and
post SHG economic freedom. They are also taking active role in development
process and decentralized governance. In certain cases, SHG members are found
vibrant and sensitized towards the social problems and they are strongly opposing
these social evils. The women SHGs have also emerged as a social pressure groups
for bringing about social change and transformation. The social benefits are more
than the economic betterment, the women have experienced a greater betterment in
the non-economic spheres of their lives. What makes one feel optimistic about most
of SHGs which were visited is that, in spite of their problems, they are hopeful of
turning the corner and doing constructive work in the future. Thus, overall
socioeconomic empowerment of rural poor women has been ensured by the micro
finance based women empowerment programmes. Now women are slowly emerging
out of a system that had oppressed and exploited them for centuries with the help of
successful SHGs.

1.11 Banking Commission Report 1972

The banking commission was set up by the government of India in February 1969
under the chairmanship of Sri.R.G.Saraiya, and the terms of reference of the
commission were;

a) to review the working of the co-operative banks and to make
recommendations for ensuring a coordinated development of
commercial and co-operative banks.

b) to review the working of the various classes of indigenous banking
agencies such as multanics and shroffs and to evaluate their utility in
the money market complex and make recommendations in the light of
the findings and

c) to review the existing legislative enactments relating to commercial
and cooperative banking.

1.12 Agricultural Credit Review committee-1986
A senior expert group was constituted in 1986 which was later known as Agricultural
Credit Review Committee to make a comprehensive review of the agricultural credit
system in the country. The committee made crucial review of the credit-institutions
viz; Commercial banks, Regional Rural Banks, and the Co-operative banking system,
including the Land Development Banks. Increased over dues resulting in restricted
eligibility for lending, and reduced minor irrigation financing have been identified as
some of the reasons for the poor performance of the banks.
Regarding the NABARD refinance policy, the committee has observed that the
eligibility criteria governing refinance from National Bank has done more harm than
good to the borrowers and to the credit system. The most undesirable feature of this is
that new and potential borrowers are denied fresh finance from branches in the
restricted eligibility. The committee has further observed that the rehabilitation
programme for the co-operatives as drawn by NABARD could not yield desired
result, on account of the absence of expansion component and lack of support from
apex institutions and the government.
Chapter 2

Literature Review
Chapter 2: Literature Review

Literature Review

Review of literature plays an important role in finding out information on the work done in the past by different researchers and provides valuable guidelines in formulating the theoretical framework of research at the time of investigation. Keeping this aspect in view, an attempt has been made in this chapter to evaluate various concepts and views related to the present research.

2.1 Role of commercial Banks in the Development of the Country through Agriculture Credit

Hrishikesh and Reddy, (2014) examined the prospects of agricultural finance by commercial banks in Kurnool district of Karnataka. They reported that though many commercial banks have been lending both direct and indirect finance to agriculture but this financing has remained inadequate in promoting infrastructure facilities and services in the rural areas for the benefit of poor farmers. Due to loosely integrated agricultural credit delivery system, credit facilities are not reaching the target beneficiaries.

Rao, (2014) conducted the appraisal of priority sector lending by commercial banks in India during the period 1995-2011. His paper analysed the emerging trends in priority sector lending, the burden of NPAs on commercial banks due to such lending, and the extent to which priority sector targets are met by individual banks. The study found that the composition of the priority sector advances in the non-food credit of scheduled commercial banks account for more than 90 per cent of the gross bank credit while food advances account for less than 10 per cent. This composition shows that the importance of agriculture and small scale industries in priority sector lending by commercial banks is coming down over the years. The priority sector advances for SBI and its associates accounted for an average of 32% while that for other nationalized banks accounted for 35%, private sector banks accounted for 28% and foreign banks 21%.

Saini and Sindhu, (2014) studied in the paper title “Role of Commercial Banks in Economic Development of India” importance of agricultural credit and its main
sources i.e. commercial Banks. A commercial Bank provides many services like deposits, giving business loans and offers many investment products. The share of commercial banks in total institutional credit to agriculture is almost 48 per cent followed by co-operative banks with a share of 46 per cent and RRBs about 6 per cent. But most of surveys show that most of the agriculture credit does not reach the true beneficiaries. As a result India has still 22 per cent of the poor population of the world. Through empirical research it is found that RBI and the Government take necessary steps to improve present condition of the agriculture sector. NABARD is playing a vital role in refinancing. Study shows that 66% people are still not getting the banking facilities. Commercial banks are providing credit to the poor farmers but this is not free from the other problems. Commercial Banks are providing 43.1% of total Agriculture credit (Economic Survey 2011). These are the still privileged problems in India faced by the farmer to get agriculture credit: 1. High rate of interest on loan 2. Lack of financial knowledge 3. Cumbersome process of getting loan 4. Bank staff is not cooperative 5. Lack of security of collateral 6. Fear factor about recovery process. By the study it is clear that economic development in India is only possible when agriculture sector grows and this can be possible only when commercial banks play their role by providing low credit to the farmers.

Gowhar et al. (2013) used the secondary data from 2000 to 2012 to assess amount of loan issued and the overdue by commercial banks and determine the progress of scheduled commercial banks in providing credit to agricultural activities. expressed the need of credit to farmers for purchasing agriculture equipment's like tractor, tillers and IP sets for irrigation, analysed the secondary data by calculating compound growth rate of area, production and productivity. Agriculture Finance is very important for the agriculturists to run their business. In case of direct loan compounded growth rate of scheduled commercial banks was fabulous while it was lesser in case of cooperatives while providing short term credit. As far as long term loans are concerned, the results were same. The rate of proving In-Direct loans was higher in case of the cooperatives. The study revealed that the institutional credit in India to agriculture sector has been increased in its quantum. The credit provided by the various institutional sources has increased its advances. But an effort has to be
taken by the banks to reduce its outstanding, so that the recovered institutional credit should be pumped into agricultural sector further for its growth.

Jasmindeep and Silony, (2011): studied the contribution of public and private sector banks in financing agriculture sector. Also evaluated the performance of commercial banks in credit delivery. The secondary data from 1991-2008 had been taken into consideration for the study. They found from the study that priority sector advances and agricultural advances of both the types of banks had improved manifold over the study period. But, they were still lacking behind to achieve the targets set for them by RBI in agriculture sector. It was observed that the performance of private sector banks in respect of all the parameters was better than that of public sector banks. It is suggested to increase the attention of both the public and private sector banks on the priority sector of the economy.

It was suggested that public sector should improve its performance in lending loans to priority sector. Public and private sector banks should work with proper coordination to get desired results. Banks should also be appreciated for their work in agriculture credit delivery. RBI should take initiatives to make farmers aware regarding the facilities provided by the Banks.

Kittur and Aounti, (2012) Analysed the performance and progress of commercial banks in Karnataka and determined the lending pattern and disbursement of agricultural finance by commercial banks in Karnataka. Discussed the problems faced by commercial banks in lending credit. Studied the relative share of borrowing of cultivator household from different sources. Some problems regarding commercial banks were also pointed out like banks are not in position of covering more villages. Farmers are not aware of schemes available for them. As a result less credit is reaching to them. The distribution of loans is not being done significantly. Due to increasing staff of the banks, expenses are also going high. Based on the problems faced by commercial banks in Karnataka They suggested emphasis should be laid on deposit mobilization. Steps should be taken to increase the credit to lessen the gap between domestic credit and GDP. The banks should encourage the villagers to deposit their money to the bank and ask others to avail loan through banks.

Rajesh et al. (2011) In their study they had analysed the role of Co-operative Banks in agriculture credit in India from 2002-2007. Discussed the main sources of finance
of Co-operative banks: Central and state government, The RBI and NABARD. Other Cooperative institutions, Ownership fund and Deposits. Told about primary cooperative agricultural credit societies which can be started with 10 people who belong to the same village or community. It gives loan to the members who are very needy. There are now over 92,000 primary agricultural credit societies, 367 central cooperative banks and 29 state cooperative banks operating in India (RBI, 2009). Total agricultural credit by the cooperative has also been increased during the period studied. They concluded that average compound growth rate of agriculture credit by cooperatives has always been less that of average compound growth rate of all India Institutional finance.

Anjani et al. (2010) studied the status, performance and determinants of institutional credit to educational sector in India. While acknowledging the pivotal role played by institutional credit in the agricultural development in India, they also raised the persistent influence of money lenders in rural credit market. The study revealed that institutional credit to agriculture in real terms has increased in the last four decades. Over these many years commercial banks have emerged as a major source of institutional credit. But the problem lies in the declining share of investment credit in the total credit taken. This new trend is constraining the sustainable growth of agriculture in the country. A number of socio-demographic factors such as education, farm size, family size, caste, gender, occupation of household, etc. are affecting the quantum of institutional credit availed by farmers. The study suggested that training should be imparted to borrowers regarding procedural formalities of financial institutions. Such training would indeed be helpful in increasing their access to institutional credit. Moreover, procedures for loan disbursement be simplified so that it may not be difficult for the less-educated and illiterate people to access institutional financing agencies for credit.

Ahmed, (2010) emphasized the importance of lending to priority sectors by banking industry. He argued that the attainment of socio-economic equality goals of government like the growth in agriculture, promotion of small entrepreneurs and development of backward areas, etc. are the shared responsibilities of commercial banks. Reserve Bank of India at regular intervals has also stipulated policies for commercial banks for priority sector lending. Ahmed (2010) informed that in the
revised policy of 2007, RBI fixed the priority sector lending target at 40 per cent for domestic banks and 32 per cent for foreign banks. He reported that banks are facing problems in meeting these targets as small farmers and entrepreneurs despite facing problems of credit and demand constraints are still preferring local money lenders. There are various lacunas that exist in commercial banking priority sector lending which have not been addressed. The task of policy makers and researchers is to first identify those gaps and then to take measures addressing the same. Ahmed (2010) suggested that increase in credit delivery centres, that is, expansion of bank branches in rural area would act as a credit support activity. Proper mechanism for recovery of loan amount from debtors will ensure sustainable performance of banks in the priority lending sector.

Uppal, (2009) highlighted the need to channelize the flow of credit to priority sectors for the larger interest of the country. Uppal studied the advances of public, private and foreign banks to agriculture and small scale industries on the parameters of lending targets achieved, and NPAs (Non-Performing Assets) while lending to priority sector. The study concluded that the public sector banks could not achieve their targets of 40% lending to priority sectors while private banks did achieved their overall targets. However, no private sector bank could achieve the target of 10% lending to weaker sections of the society. The issue of rising NPAs of public sector banks to high priority sectors is an area of concern and need to be taken care of at the earliest. The major problems of priority sector lending identified in the study include low profitability, high NPAs, and higher transaction costs. The study suggests that proper attention should be paid to these issues for sustaining the operations of commercial banks in the priority sector lending.

Shah et al. (2007) briefly overviewed the 20th century rural credit in India. They reported that rural people were largely dependent on usurious moneylenders for their credit needs. The rural credit system was marked by exploitative grid of interlocked and imperfect markets controlled by money lenders. The researchers traced the impact of nationalization of banks and came to the conclusion that the process of nationalization of commercial banks had a positive impact on the overall rural credit market and development. Shah et al. (2007) made several suggestions for the present requirements of finance in rural India. These suggestions involve changes in:
• public investments in natural resource regeneration, ecologically sustainable, low-cost, low-risk agriculture;

• market support for crops grown in rain-fed areas such as cotton, pulses and oil-seeds;

• the aims of public sector banking from mere profit making to strengthening their capacity to deliver high quality credit;

• the cooperative credit structure to make it more democratic, member-driven, professional organization based on the concept of mutuality; and

• the Self-Help Groups (SHG) and bank linkage programs where the government should bear the promotional costs in the initial years.

Zaveri, (2003) argued that exponential growth of low cost funds made available by the commercial banks in India where jobs and incomes are uncertain is dangerous. It also points out that the Indian financial intermediaries by following the same path in the past are still nursing sizable amounts of non-performing assets.

Dasgupta, (2002) has argued that priority sector credit lacks a focus and rationality. In the pre-reform period, there was to some extent an emphasis on weaker section and neglected sectors but in the post-reform period priority sector is just a bundle of list, which has been regularly modified. So the paper suggests for re-examination of the rationality of priority sector, prepare an appropriate list and formulate a strategy to ensure adequate flow of credit to the desired sectors.

Nair, (2000) has broadly reviewed the major trends in rural financial intermediation in India by public sector commercial banks in the post liberalization period. It has examined their role vis-à-vis the newly emerging institutional forms with their thrust on what is called micro finance services. The paper shows that although deployment of credit in the rural sector has increased over the year, this increment was mainly tilted in favour of industrial sector. In 1985, nearly 52 per cent of the funds deployed in rural areas went to agriculture, bulk of it as direct finance. Industry accounted for 16 per cent, trade 12 per cent and transport operations and small scale industries (other than artisans and village industries) 7 per cent each. About a decade later, in 1994, the credit outstanding in the rural sector increased by a heavy amount (about Rs. 1,24,000 crore); but then half of this increment was channelised to industry, with just about 11 per cent going to agriculture, just as much to trade or
personal/professional services loans. The paper has argued that in micro finance, in the absence of any direct transaction between the bank and final user of credit, it is unclear whether the emotional and spatial distance between the two has narrowed in the new arrangement.

Satyasai and Badatya, (2000) prescribed for a total revamping of the rural credit system. It showed that the co-operative system in general failed to perform its functions of providing loans to the priority sector. It added that the problem of Rural Co-operative Credit Institutions (RCCI) got accentuated on account of certain weaknesses, some internal and others external to them, such as depletion of resource base, declining business level, rising transaction costs, mounting overdue, erosion in leadership, defective management, excessive bureaucratization and official domination etc.

Laxmi and Venkatesulu, (1999) To show the importance of agriculture and commercial banks, analysed the Indian economy, the share of agriculture in National Income, occupational structure and Indian exports before and after the independence. Also mentioned the commencement and history of commercial banks, their trends and problems of over dues analysed. Important agriculture products like Coffee, Tea Tobacco are backbone of items of exports. Analysed that decadal decrease in all these products is a matter of concern. The central Government and the States Governments have come together for the development of agriculture sector. In early stage commercial banks were also facing problems of lack of branches and the expert human resource to run the business. Necessary steps taken by the commercial banks resulted in increase in direct finance in district of the study. For smooth credit delivery it was suggested that banks should form certain committee to provide loans and repayment also. The loan should be given within the specific time limit otherwise it may be used in other purposes. The banks should clear the repayment schedule at the time of giving credit so that the farmers may fix their mind to repay in certain instalments. Time to time visiting to the farmers will result in fasten the recovery of loans. (reference: discovery publication house, ansari road daryaganj delhi. Topic financing of agriculture by commercial banks).
2.2 Studies Based On The Nature Of Agriculture Finance

Hrishikesh and Reddy, (2014) made several suggestions in their paper for farmers, bankers, and government and RBI for plugging the anomalies that exists in agricultural credit mechanism in India. They suggested that the government should promote eco-friendly farming systems. Government policies should make it compulsory for farmers to adopt drip irrigation system for availing benefits of commercial bank finances. A risk mitigation mechanism should be established with the creation of a corpus fund by the government that can be monitored by commercial banks. Commercial banks can start some training programs for small and marginal farmers through which they can be taught about the benefits of primary and secondary level value additions in crops they produce. Moreover, these training programs can also be used to educate farmers about the measures of capacity building techniques for storage of food grains.

Maan and Singh, (2013) The National Bank for Agriculture and Rural Development (NABARD) is the crowned organization with respect to all matters relating to policy, planning and operational aspects in the field of credit for the promotion of, agriculture and allied activities in rural areas. NABARD issues credit to various banks for their term lending operations for the purposes of agriculture and rural development. The National Bank of Agriculture and Rural Development (NABARD) has emerged as an refinancing institution for agricultural and rural credit in the country since July, 1982. It has taken over the refinancing functions from the Reserve Bank of India with respect of State Cooperative Banks and Regional Rural Banks. It has also taken over the ARDC (Agricultural Refinance and Development Corporation), Developing a strong and efficient credit delivery system which is capable of taking care of the expanding and diverse credit needs for agriculture and rural development was a task that received the attention of NABARD. NABARD is involved in the implementation of projects assisted by World Bank and its affiliate, the International Development Association (IDA). There are some other International Aid Agencies which provide assistance to NABARD in respect of various projects. NABARD has been associated with the implementation of 42 projects with external credit out of which 38 projects are assisted by World Bank and its affiliate, i.e. IDA and International Bank for
Jumrani and Agarwal, (2012) Analysed the trends and concerns in the formal credit delivery in India. After the late nineties there has been a significant improvement in the credit delivery. The agriculture sector performance has been tremendous. Both, the number of accounts and amount outstanding under priority sector grew at an annual rate of 3.8 per cent and 15.2 per cent, respectively during the period 1997-98 to 2007-08. They mainly focused on lending to the agricultural credit. The number of accounts grew at an annual rate of 5.2 per cent and the amount outstanding at 16.5 per cent. The amount outstanding per account grew at an annual rate of 10.8 per cent from 25452 in 1997-98 to ‘ 78646 in 2007-08. The increasing level of formal debt may be perceived as a sign of modernization and growth, but at the same time, the absence of essential conditions to ensure that credit is being used in a judicious manner may also force the farmers to enter into the vicious debt traps. The probability of such a situation increases all the more in the case of technology fatigue, depleting natural resources and rising uncertainty over economic returns — a situation that has been staring India in its face in the recent past. Adequate access and appropriate absorption of credit by the farmers is indispensable for the long-term growth and sustainability of agriculture, and consequently for the overall economic growth. For measuring the inclusiveness of the formal agricultural credit system, the author analyzed the distribution of amount outstanding as per their credit limit size classes. The study showed that the small farmers had very little share in relation to holdings. The gap is very large between large and small farmers in terms of amount holding the account. The analysis reflects imbalance between direct and indirect finance.

Kishor, (2012) He mainly focused on the policy reforms which were helpful in increasing agriculture credit for the sustainability of agriculture and rural development. He emphasised to strengthen the agriculture sector to reduce rural poverty, food security, unemployment and sustainability of natural resources. By increasing productivity with the help of high yielding seeds, application of chemical fertilizers and pesticides, mechanization and making availability of institutionalized credit for various activities, even though it is not profitable to the ultimate producer as it should be. Due to commercialization more numbers of middle men come into play and farmers are very far away to get due credit. And food requirement of the country
gets affected as agriculturists lack resources. This means rural credit system needs more marketing of the products available for the rural people. The time has come to redefine agriculture as the integrated activities has come to redefine agriculture as the integrated activities relating to production, processing, marketing, distribution, utilization and delivered at each level individually. Agricultural credit development strategy worked in the favour of farmers as far as institutional credit delivery is concerned. As a result of efforts in the agriculture credit delivery system, the share of private money lenders (non-institutional credit) has decreased substantially from 93 per cent in early 1950's to 31 per cent by 1991. He quoted The All India Rural Credit Survey(1954) showed that agriculture credit has not reached up to sufficient quantity, and is not of correct type, did not reach to the right people and also fell short of the purpose. He emphasised on more use of information technology for the sustainable food security of Indian Agriculture.

Kumar, (2013) Mainly described finance as the backbone of agriculture and rural people especially persons who are mere working for the existence of their lives. Government officers and bankers should take steps to reduce poverty as in India more than 25% of the population sill living below poverty line. Since nationalization commercial banks provide loans to the poor under priority sector lending (PSL). Banks have certain targets to provide fund for the priority sector, small scale industries, small business man, education, housing and micro finance. He also pointed out the problems of agriculture credit in India like Banks should ensure the feasibility of the project for small scale farmer otherwise problem of recovery will arise. One of main problem of utilising agriculture credit is that is not used for in the effective to get the desired results. The banks should have the target that a certain amount of agricultural credit should reach to the priority sector. Farmers also face some problems like high interest rates, lack of awareness, non-cooperative staff, recovery fear etc. He suggested that separate segment of banking operation “Banking for weaker section” be created and result of banks be highlighted with this segment. Interest rate should be reduced & subsidized. Financial education for weaker section be spread with more involvement of educational institutions.

De, (2010) presented an overview of the agrarian credit scenario in India. The various issues took up in the paper the differences between demand and supply of agrarian
credit, the emergence of sectors within the Indian economy which compete with agriculture for institutional credit and the aversion of institutional lenders towards agrarian borrowers. De (2010) also analysed the deficiencies plaguing the three distinct phases of a credit cycle - resource mobilisation, lending and recovery. It is argued in the paper that financial liberalization and deregulation of the economy along with financial discipline measures reduced the attention towards agriculture in general, and agricultural credit, in particular. The institutional credit organizations have failed in meeting the demand for agricultural credit. The emerging sectors of IT and real estate are increasingly competing for credit with agricultural sector. The problems highlighted in the paper are not exhaustive but are indicative in the sense that they be sorted out through agriculture focused credit policies.

Seibel, (2007) Discussed about the scenario of India Agriculture during sixties and seventies when agricultural production was the main issue of the rural development. And for this Agricultural credit was being given to specially farmers to get improved seeds and seedlings, fertiliser, pesticides, tools and machines. The issue was how to disburse agricultural credit to farmers. The funds were provided by governments and donors. Disbursement mattered, not repayment because agricultural credit was a service not the business. After that population grew rapidly and villagers were trying hard for their living and it was not easy to earn living only by doing farming so the rural people had choose some other option whether it was off-farm and non-farm. For this change they needed fund and concept of microfinance came into existence. Suggested that domestic resources can be effectively mobilised through equity instead of deposits by shareholder- driven RMFIs. Equity provided by external investors may bridge liquidity shortages and leverage own resources Equity-driven RMFIs resources mobilisation through equity mobilised by local shareholders motivated by profit sharing and access to credit. Drew the attention that the growth of sustainable RMFIs and sustainable financial services is contingent upon effective supervision.

Burgess and Pande, (2003) Discusses how poor people remain poor due to scarcity of finance. In their paper they used the data on the Indian rural branch expansion program to provide empirical evidence on poor people's condition between 1977 and 1990, the Indian Central Bank mandated that a commercial bank can open a branch in a location with one or more bank branches only if it opens four in locations with no
bank branches. In the study they provided that between 1977 and 1990 the rule implemented by Indian Central Bank caused banks to open relatively more rural branches in Indian states with lower initial financial development. But after 1990 it was not possible for the banks to expand their branches whatever the reason may be. They showed by the analysis that the Indian rural branch expansion program significantly lowered rural poverty, and increased non-agricultural output.

The exposure of an Indian state to the rural branch expansion program was jointly determined by its initial financial development and the license regime shifts in 1977 and 1990. Between 1977 and 1990 initial financial development and rural branch. They examined the relationship between initial financial development and poverty outcomes. By regression analysis they showed that how poverty rose or fell in respect of financial development. Initially financial development was not helpful in poverty reduction.

Mohan, (2004) discussed the risky nature of Indian farming as there are a numbers of rivers for water supply to the agricultural fields even though Indian agriculture heavily depends on monsoons. Due to failure of monsoons the farmers used to face several difficulties like earning of their livings. So they had to move to the money lenders. The need of agriculture credit felt .In 1935 Reserve Bank of India was founded. In the survey of 1936 and 1937 RBI found that the source of credit was mainly moneylenders and cooperatives and other agencies had very little part to play. RBI realized its role and build a cooperative credit structure. It was the period of between 1960 to late 80s when things started to change as NABARD came into existence in 1982 and took over the entire undertaking of Agricultural Refinance and Development Corporation(ARDC). Narasimham committee provided blueprint for carrying out overall financial sector reforms during the 1990s. The financial sector reforms initiated in 1991 and included various measures in the area of agricultural credit such as deregulation of interest rates of co-operatives, and RRBs; deregulation of lending rates of commercial banks for loans above Rs. 2 lakh; recapitalisation of select RRBs; introduction of prudential accounting norms and provisioning requirements for all rural credit agencies; increased refinance support from RBI and capital contribution to NABARD; constitution of the Rural Infrastructure
Development Fund (RIDF) in NABARD for infrastructure projects; introduction of Kissan Credit Card (KCC) and stipulation of interest rate not exceeding 9 per cent for crop loans up to Rs.50,000 extended by the public sector banks.

Based on the above assessment he concluded overall institutional credit over the years has been increased. Still efforts are to be made to decrease the gap in the system like inadequate provision of credit to small farmers.

2.3 Studies Based On The Performance Of Agriculture Due To Credit

Rimal, (2014) discussed the performance of the agriculture sector by describing the agriculture credit is one of the performance indicator. He analysed the performance of the commercial banks in agriculture production in Nepal using data of Cobb Douglas Production Function (2002-2012) obtained from various issues of Economic Survey, Banking and Financial Statistics, Ministry of Finance and Statistical Information on Nepalese Agriculture, Ministry of Agricultural Development, Government of Nepal. The estimated Cobb-Douglas Production Function showed that agricultural credit flow of commercial banks during the study period was positively and significantly impacting the agricultural gross domestic production of Nepal. Agriculture Credit of commercial banks declined in 2009. The share of commercial banks to agriculture gross domestic product has increased through the study period except the year 2009. The increased amount of fertilizers and improved seed hardly have any effect on agriculture production. He recommended that the financial services system focused on urban-area most extend and deepen their services in providing agricultural credit in time and facilitate the agricultural production system of the rural areas of the country.

Lad, (2013) He studied the agriculture credit delivery, basic needs of agriculture financed examined the role of NABARD in agriculture development. He categorized the need of finance in two groups: one is productive need and other one in unproductive need. Under first category purchase of fertilizers, growth of land and credit expenditure on irrigation tools comes while in second category celebration of birth and marriages comes which cannot be said as perfect use of agriculture credit. Coming to the commercial banks, initially these banks were not interested giving finance to agriculture rather indulged in profit making by giving loans to trade and industry. After 1960, the scenario has been changed and commercial banks started to
provide direct and indirect loans. Direct finance is given for agriculture activities on short and long term basis while indirect finance is delivered for distribution of fertilizers and other inputs. The commercial banks have implemented “Village Adoption Scheme” by 1987-88 the commercial banks had given Rs. 3930 crore in advances. Commercial bank lent 4,806 crore to agricultural finance in 1991-92 and in Rs, 68,557 crore in 2005-06. He also discussed the role of Land Development Banks (LDBs) and Regional Rural Banks (RRBs). Because of RBI’s interest to create a new department for agriculture credit ARDC (Agriculture Refinance Development Corporation) came into existence. After that NABARD was set up to deliver agriculture finance, to provide refinance facilities to all banks for landing loans to agriculture activities. Now NABARD along with many co-operative banks, commercial banks is working efficiency and effectively towards financial problem.

**Shukla, Tewari and Dubey, (2012)** Studied about the production technologies required for the betterment of agricultural production. Since agriculture is not only being the domestic product and fulfilling the national demand but also is playing a key role in foreign exchange generation. Therefore need for the investment in agriculture sect was felt. They covered the credit flow from cooperatives, scheduled commercial banks and regional rural banks which are the pillars of institutional credit system. They analysed that cooperatives dominated the scene in agricultural credit flow till 1995-96 despite its share in credit supply declining from 61.8 per cent in 1992-93 to 47.6 per cent in 1995-96. Commercial bank credit over-took cooperatives in 1996-97 with its share in total agricultural credit consistently increasing from 48.4 per cent in 1996-97 to 69.5 per cent in 2005-06. Share of regional rural banks (RRBs) in total agricultural credit also increased consistently from 5.48 per cent in 1992-93 to 8.43 per cent in 2005-06. The total agricultural credit flow from all institutional agencies shot up to Rs. 180486 crores in the 2005-06 from Rs 15169 crores in 1992-93 after economic liberalisation policy launched in 1991-92. Studied that short term credit provided by the cooperatives and commercial banks continued to grow but still a lot to be done to improve agriculture productivity.

**Shabbir, (2013)** He studied in his paper mainly the breakup of Priority Sector Advances to Sub-sectors within the overall Priority Sector advances (PSA) After nationalisation of the Banks directed lending to certain sectors, such as, Agriculture,
Small Scale Industries and weaker section and others. Did the comparative study of agriculture sector and small scale industries by SCBs and PSBs from 1969 to 2011 with the objective of upliftment of these sectors and analysed the degree of credit delivery and fulfilment of the targets in the agriculture sectors. Conducted the study by assuming the hypothesis whether banks are eager to provide credit to the priority sectors and banks are interested in giving loans by direct or indirect means. And found that share of agriculture credit has been increased in the total credit provided by the banks which means now the banks are willing to deliver credit to the priority sectors and amount of direct credit has been decreased between the period of 1999 to 2007. The growth rate of lending to small Scale industries by public sector banks was higher before nationalisation but later the growth was modest. As compared to SCBs as a whole, the share of PSBs in credit to SSI has been higher. This implies that non-public sector Scheduled Commercial banks have been giving a lesser percentage of credit to SSI. The growth rate of lending to SSI continuously increased from 2004 to 2007, and out of that the highest growth rate was in 2007 i.e. 25 per cent. Several favourable policy initiatives undertaken by the central Government and the Reserve Bank including, inter alia, the policy package for stepping up of credit to Small and medium enterprises (SMEs) announced on August 10, 2005, have had a positive impact, that is why growth rate of lending to SSI was highest in 2006 and 2007.

Chilumuri, (2013) Studied about the impact of globalization on Indian Banking Sector as globalization helps to break the international barriers to integrate the national economies, trade of goods, flow of finance and corporate investments. Indian Banking system has shown significant growth as it provides many services like Mobile Banking, SMS Banking, Net Banking and ATM services to its clients. Studied about the effect of globalization on scheduled commercial banks with special reference to agriculture sector. It was found that the assets and liabilities growth from 1991-92 to 2001-02 was 349.60% and from 2001-02 to 2010-11 it was 367.82%. The impact of globalization on SCBs total growth rate of assets and liabilities was positive. The deposits growth from 1991-92 to 2001-02 was 353.06% and from 2001-02 to 2010-11 was 366.698%. The loans and advances growth from 1991-92 to 2001-02 was 304.07% and from 2001-02 to 2010-11 was 565.70%. In the total SCBs advances the public sector banks advances were 80.95% in 1996-97 and 76.77% in
2010-11, the remaining share was of private sector and foreign banks advances. The non-performing assets value has reduce in public sector banks and NPAs were increased in new private sector banks. It is found that the branches growth from 1982 to 92 was 54.60%; from 1992 to 2002 it was 9.28% and from 2002-12 it was 46.72%. The public sector banks share in total SCBs branches was 83.05% and private & foreign banks branches share was 16.95%. The majority of public sector banks branches were located in rural and semi-urban areas, and the majority of private and foreign banks branches were in semi-urban, metro and urban areas. He suggested that the private and foreign banks should concentrate on establishing branches in rural areas so as to stimulate savings and services. He also found that the total public sector ATMs share was 60.82% and the private and foreign banks ATMs share was 39.18%. The number of accounts of SCBs in rural area in 2011 were 2,50,253 with Rs.4932 billion deposits and 1,79,795 accounts in metropolitan area with Rs.30689.41 billion deposits. It is suggested that the SCBs should take steps to increase the deposits from rural areas. The growth rate in the total direct and indirect SCBs advances to agriculture from 1981-82 to 1991-92 was 256% from 91-92 to 2001-02 growth rate was 244.23% and from 2001-02 to 2010-11 was 682.45%. It is suggested that to direct a large volume of bank credit flow to agriculture sector was necessary to make it more effective instrument of economic development through SCBs. The comparative analysis of growth pattern of key parameters assets, deposits, advances and branches etc., reveals that the “globalization” had a positive impact on the growth of banking sector. The result projected that globalization is almost a complete success on growth front. To conclude that the recent trend of growth of banking sector showed the trust of Indian economy on globalization and liberalization. This has rendered a positive impact on the growth of Indian banking sector. All indicators shows the positive impact, in each case the average growth rate is high in post-globalization period than in pre-globalization period.

Ananth and Krishnakumar, (2010) Emphasised on Business correspondent (BC) and Business Facilitator (BF) which RBI introduced in 2006. Gave some steps for effective BCs/BFs model. There should be at least one BC for each block in which the bank has a branch; ensuring there is at least one Business Correspondent counter in each significant village or gram panchayat location. Each BC location will need to be equipped with a Point of Transaction (POT) that has a biometric reader. The banks
may sanction short term loans to the BCs to meet the operation cost at Point of Transaction. The Banks can implement a small charge on the customers for giving the service of BC. The Banks will have to take the services of high technology provider’s companies. When satisfied by the work of BC the Banks may give him the higher responsibility of providing long term loans. The Bank would then need to sanction an additional line of credit at a sustainable rate, say 10%, for the BC to originate loans on its own books. Banks should also encourage Business Correspondents to expand the business from domestic level to the international level. As a result it would be a profitable business for both the banks and the BCs appointed. It would not only be viable, but would also help generate a portfolio of assets that could be used as priority sector assets.

Cole, (2008) Quoted that government owned banks in India are bound to perform according to the political party’s will to give them electoral advantage. Analysed the credit distribution of banks before and after elections as elections are held every 5 years according to our constitution. Concluded that credit was delivered in elections year was more than that of off election season and especially in the cities area credit was released more in compared to rural area as margin of victory was very less in cities. Found that government owned banks leads to lower credit rate and low quality financial intermediation. He took a sample of 412 districts over eight years, with 32 elections, allows district fixed-effects and observed decisions made by over 45,000 public sector banks, disbursing millions of loans. Credit varies continuously, adjusts quickly, and repayment rates are observable. Described that sometimes in the view of coming elections politicians are bound to work in public's interest. While doing the evaluation some limitation of data were also there as he took only 8 years as a time period of the study which is very less as far as estimation of elections is considered. One very important outcome came out that politicians do not hesitate in manipulating the resources to achieve their electoral benefits. Another important outcome was that ownership by the government does a negative impact on the overall economic development because cost of misuse of credit is so high that it is nearly impossible to have good output. Politicians appear to care more about winning re-election than rewarding their supporters, and they do so by targeting “swing” districts.
Golait, (2007) expressed dissatisfaction over the profit seeking activities of commercial banks whereby they were found to be largely extending credit to finance contract farming, value chains, traders and other intermediaries. It implies that most of the commercial banks are looking at low risk options in financing agricultural credit in order to fulfill government norms. Subsequently, a large chunk of small and marginal farmers get devoid of much needed credit. Golait (2007) called for bringing changes in institutional systems and products such as future markets and weather insurance to minimize the risk of lending of commercial banks.

EPW Research Foundation came up with a research report in 2007-08 on changing profile and regional imbalances in agricultural credit in India. The report made a systematic analysis of the evolution, trends and composition of institutional credit extended to the agricultural sector in India and the nature of inter-regional, inter-state and intra-state disparities prevailing in the distribution of farm credit. It reported that the agricultural sector in India is facing multiple challenges. These challenges are primarily due to an agrarian crisis and an agricultural developmental crisis. The agricultural sector is marked by not only declining growth but also by increasing marginalization of poor farmers. The solution to these problems lies in revitalization of entire sector by diversification and expansion of agricultural activities into non-farm economic activities. More enduring measures are required to making agricultural financing a success. Some of the measures outlined in the report are:

(i) resurrection of rural financial architecture;
(ii) increase in rural branch banking and mobile banking;
(iii) creation of a rural cadre of bank officers with specialized qualifications combined with adequate compensation packages;
(iv) establishing linkages between cooperative societies and banking entities;
(v) ensuring close coordination between district planning authorities and banking institutions operating in the district;
(vi) considering micro-finance as an integral part of mainstream banking;
(vii) effectively implementing measures of ‘financial inclusion’;
(viii) prioritizing formulation of credit architecture for underdeveloped regions like central, eastern, and north-eastern regions;
(ix) systematically monitoring guidelines that are issued by RBI and the government; and
(x) to streamline the database on agricultural credit.

Banerjee, Duflo, (2004) Basically studied the reforms of banks in India. Discussed that most of the banking business is regulated by State and nationalised banks. Even non-nationalised bank are bound to follow the regulations of RBI as to whom credit to deliver and what activities they are allowed to. They took the data from Reserve Bank of India and mainly calculated credit/deposit ratio of various public and private sector banks. Analysed the banking operation activities according to the location of the banking unit where it operates during the period 1985-2000 and specially the post period of 1991-92. Burgess and Pande studied the impact of this regulation over the period 1977-1990. They found that a 1 per cent increase in the number of rural banked locations, per capita, resulted in a 42 per cent decline in poverty, and a .34 per cent increase in total output. Cole did empirical study to show the impact of bank nationalization on rural bank growth. Discussed that during 1980-2000 the rate of opening branches of nationalised banks decreased. Having gone through many aspects of Indian banking system they found many problems with the Indian banking sector, ranging from under-lending to unsecured lending. The government has realized the need of doing something extra rather than depending upon only past trends. Suggested that the privatization of banks will help to improve the condition as private sector banks grow faster. Giving credit to agricultural activities is now becoming priority for private sector banks too as public sector banks are expected to do the business. On the other hand there is also the risk of failure of private banks.

Ramachandran and Swaminathan (2001) discussed in his paper titled "Does Informal Credit Provide Security? Rural Banking Policy in India" about rural banking and credit policy and the effect of those policies on the credit of rural workers. They tried to examine, the major directions of rural banking and credit policy and indicators of performance of agriculture finance in India since 1969, the year in which 14 major commercial banks were nationalized. Also they attempted to describe and analyse features of indebtedness of rural households, particularly rural worker households, in a south Indian village during different periods of national banking policy. They evaluated the potential of a new policy alternative microcredit projects controlled by non-government organizations - as a solution for problems of rural indebtedness. He
stated Darling's statement (1925), that "the Indian peasant is born in debt, lives in debt and dies in debt." Which holds true even if in today's scenario. They also discussed the concept of microcredit for the poor for income generation through their self employment. They summarized microcredit as very small loans, no collateral, borrowers from among the rural and urban poor, loans for income-generation through market-based self-employment, the formation of borrower groups, and privatization, generally through the mechanism of NGO control over disbursement and the determination of the terms and conditions attached to each loan. Their analysis tried to show that changes in national banking policy have had a rapid, drastic and potentially disastrous effect on the debt portfolios of landless labour households. Wherever due to lack of information through data available could not examine the distribution of credit in the village as a whole. The share of the formal sector in the principal borrowed by landless labour households increased from 17 per cent in the green revolution phase to 80 per cent in the IRDP phase and fell to 22 per cent in the liberalization phase. The share of production and business-related loans in the proximate purposes for which all loans were taken by landless labour households was 23.8 per cent in 1977, rose to 44.2 per cent in 1985 and fell sharply to 22.6 per cent in 1999. The 1999 survey showed new forms of informalization of the credit market, a proliferation of money lending as a whole-time or part-time occupation, and new trends in the personalization of individual loans.

Singh and Pundir, (2000) elaborated the importance of agriculture sector by stating over 25% of Countries GDP is contributed by this priority sector. It means people doing the agriculture jobs are so critical in the development of any country. Therefore no country can be successful if it ignores this sector. Country's overall development is influenced by a multitude of factors such as natural resources, human resources, technology, and institutions and organisations including co-operatives. India is the largest network of co-operatives in the world as They occupy an important place in India's rural economy in terms of their coverage of rural population and their share in the total supply of agricultural inputs including credit and contribute significantly to rural development. They distinguished co-operatives from other forms of organisations and highlights the important place they occupy in India's rural economy. Exclaimed the contribution of cooperatives to rural development that is broadly defined as a set of desirable societal goals such as increase in real per capita
income, improved income distribution and equitable access to education, health care, and employment opportunities. Also identified and discussed some other issues in the management of co-operatives and outlines strategies for their resolution. Found that overwhelming importance in India's rural economy, most of the co-operatives suffer from a variety of internal and external problems. The author commented on the constraints which includes the lack of professionalism in management; an archaic co-operative law, excessive control and interference by government; lack of good elected leadership; small size of business and hence inability to attain financial viability; lack of performance-based reward systems; and internal work culture and environment not congenial to the growth and development of co-operatives as a business enterprise.

Swain, (2002) Investigated empirically the effect of good credit rationing in credit markets of Puri where customers are free to choose the formal or informal sector for credit. He also gave his views how the present situation can be improved. He used the assumption that formal sector provide credit at lower rates and the borrowers are also willing to take credit from formal sector. Since decades the informal sector has been playing dominant role in delivering the rural credit in India. According to the All-India Rural Investment Survey, in 1951-52, almost 83 per cent of the cash loans were provided by the professional moneylenders whereas the formal institutions provided only 8.7 per cent. The Government of India decided to actively intervene in the credit market with the commencement of the Integrated Scheme of Rural Credit (1951). The aim was to set about a systematic expansion of the institutional credit infrastructure, with the Reserve Bank of India (RBI). After the evolution of NABARD in 1982 many reforms were made to facilitate the rural credit and one of them was introduction of Rural Infrastructure Development Fund (RIDF)

Desai, (1989) Discussed about the role of institutions regarding financing agriculture and felt the need that these institutions should try to perform some new functions like better access to extension, inputs, and marketing services as a result of technological changes in the priority sector. It may be stated here that rural financial institutions (RFIs) can promote access to inputs, marketing, and processing services by serving the agricultural inputs sub-system (AIS) and the agricultural produce marketing and processing sub-system (AMPS) besides the agricultural production sub-system (APS). Such an access is indeed the rationale behind direct and indirect rural credit policies. I
his cross sectional study he found that the degree of agricultural progress is positively related with the share of agricultural inputs marketing sub-system (AIS) credit in total institutional credit, agricultural production sub-system (APS) credit for current production growth and stability (CPGS) in total cooperative credit. He concluded that degree of agricultural progress is negatively associated with the share of current production diversification and growth (CPDG) loans (for supplementary activities like dairy, poultry, sheep farming, and biogas) in APS credit. 2. Agricultural produce marketing and processing sub-system (AMPS) credit in total institutional credit. He had suggested that NABARD and RBI need to take action on a priority basis to forge effective and efficient backward and forward linkages of APS with AIS and AMPS by: altering the scope of direct as well as in direct rural credit and promoting more flexible refinance and/or temporary credit accommodation, especially for working capital credit for the three sub-systems.

Bhandari, (2009) Studied the relation between the banking services and poverty reduction in Indian states. As the facilities given by the banks increase, the number of people start to associate with the banks and result shows that it helps in poverty eradication. In his study he took the period from 1980 to 2007 and divided it into three sub groups 1980-90,1991-99 and 2000-2007. The results showed that the time period of 1991-1999 was the worst in terms of opening accounts. In rural areas, high growth in bank accounts was accompanied by reduction in below poverty line population in Kerala, Gujarat, Rajasthan and Haryana.

2.4 Studies Based On Importance Of Microfinance

Patel, (2014) in an article posted on website India Micro Finance (www.indiamicrofinance.com) reported that the credit flow to agricultural sector in India, after reforms in financial sector in early nineties, has improved. This flow increased by around 243% in the tenth plan and 277% in the eleventh plan over the previous plans, respectively. Despite the increase in flow of credit towards agricultural sector, many pressing issues are still required to be addressed. These include, the unsatisfactory improvement in crop productivity and output; significant disparities in the flow of credit between states, cities, and villages; significant imbalances between short and long term credit; the imbalances between loans
disbursed for agriculture and allied activities; and the difficulties experienced by small farmers, landless labourers, people living in hilly areas, and tribal people in accessing institutional credit.

Kumar, (2012) Elaborated that in developing countries' policies agricultural credit is considered important sector to develop the nation's economy. Even though the impact of agriculture credit on the borrowers is very low as far as their economic condition is concerned. He used the data from the nation and applied matching techniques to evaluate this impact for a sample of farmer households, by matching on covariates that were measured before a proportion of these households availed of loans. He analysed that impact of agriculture credit on farmers' income or wealth status was hard to estimate. It was also difficult to find a credible instrumental variable, because most variables that determine access and demand for credit in the rural Indian context were likely to influence agricultural productivity independently as well as through the link with credit.

Raghavan, (2009) in his paper titled “Micro-Credit and Empowerment: A Study of Kudumbashree Projects in Kerala, India” has tried to examine the socioeconomic impact of the Kudumbashree projects on the rural and urban poor in salvaging them from deprivation and creating gender equity. He concluded that Kudumbashree has become the lifeline to many of the poor women in the State of Kerala. It is a massive anti-poverty programme of the Government of Kerala aiming at eradicating poverty and salvage the destitute from the wretches of extreme deprivation. He pointed out that the formation of 1,65,840 NHGs of the women from 33,45,509 risk families, covering urban, rural and tribal areas of the State helps develop 2,42,489 poor women into vibrant micro-entrepreneurs. Because of this programme, the poor women of the State have become active participants in the planning and implementation process of various ant-poverty programmes. By participating in various incomes generating-cum-developmental activities, the morale and confidence of women became very high. Capacity of the poor women of the State in several areas has gone up considerably. There is also a marked improvement in the status of women in families and community.
Kumarmanglam and Vetrivel, (2010) Studied about the conceptual framework of microfinance in India. Lack of formal employment makes the poor to borrow from moneylenders at higher rates. Here microfinance come into play a very key role as it is only for the people who do not have sufficient funds to earn their living. The author has evaluated the success and failure of microfinance institutions across the world. Concluded that now poor are more eager to pay higher interest than commercial banks provide the access to credit. Group pressure motivate them to repay more willing and time to time. This indicates that banking on the rural people can be a profitable business too.

Shah et al. (2008): Done the case study in certain villages in Chitral district of Pakistan and defined that finance was considered as the basic ingredient for each and every economic activity including agriculture where agriculture is the main source of any economy. Hence it is the main duty of the concerned government to give support this sector. So the state has to extend institutional credit to those who cannot afford to fully utilize the available technology. In their study the main source of institutional credit was Zari Taraqiati Bank Ltd (ZTBL). The motive of their research was to study the impact of credit on farm productivity and income of the sample farmers in a backward District i.e. Chitral, of Northern Pakistan. By socio-economic study of the farmers they declared that the farmers are bound to do some non-farm activities. Types of loans obtained by the farmers was basically for production and the farmers who were having large land holding used long term loan for development purpose. T-test was applied for calculating the impact of credit on cropping pattern and concluded that the area under crops showed the significant growth while the area under fruits and vegetable could not show the significant results.

Seibel, (2007) done the study on changing issues in agriculture, rural development and rural finance. He discussed about the issue how Microfinance could be linked to rural entrepreneurs through inclusive financial systems development. Drew conclusion that should provide incentive-driven schemes for upgrading institutions in terms of legal status, super-vision, and outreach. Should try to escape from temporary or a-hoc solutions with no chance of sustainability. Should initiate cooperation between research funding and development agencies.
Rajesh Chakrabarti, (2005) in his paper, “The Indian Microfinance Experience – Accomplishments and Challenges” pointed out that the biggest challenge in development is the simultaneous development of investment potential and improvement of skill levels of the borrowers. A glut of low skilled services is an unwelcome substitute for scarcity of credit. With the microcredit alleviates the credit availability problem, the need for micro-consulting, business planning and services like marketing, are being felt with greater acuteness. Microcredit cannot be expected to be a panacea to rural developmental problems. In some sense, its role is similar to that of credit in the general economy. It is a string that can hold back progress, but it is almost impossible to push on a string. Thus there is a very real need of investments that yield higher returns than the sustainable microcredit interest rates for the microcredit initiative to be truly successful.

Sriram, (2005) in his paper “Information Asymmetry and Trust: A Framework for Studying Microfinance in India” has attempt to examine the trajectory of institutional intermediation in the rural areas, particularly with the poor and how it has evolved over a period of time. He suggested that informal institutions and groups manage close-knit groups and communities much better than formal institutions. However, the opposite is quite true of formal institutions where memory is based on records and not on the basis of interpersonal transactions. Here, the institutions are capable of managing diversity. In fact, the strength of formal institutions is essentially because they are able to manage diversity and reduce the covariance risk. This also gives scope for rapid scalability and replicability. He concluded that as the institutions achieved certain scale, the political economy of the activity dictates that they go beyond interpersonal trust and move towards systems and procedures.

Puhazhendhi and Satyasai, (2000) carried out the impact study for NABARD on SHG-bank linkage programme in 2000. This study was carried out to evaluate the social and economic impact of SHG-Bank Linkage Programme on SHG members. The study was conducted for the country as a whole, covering socio-economic changes in the conditions of 560 SHG member households from 223 SHGs located in 11 states. Pre and post-group situations were compared to assess the impact of SHG on living standard of the members. Change in the various socio-economic parameters like borrowings, savings, assets, employment level, levels of income, consumption
pattern etc, communication skill, self confidence, behavioral changes, family violence etc were taken into consideration to find out the overall change in the socio-economic conditions of the SHG members. The results of the study suggest that out of the total sample, 84 per cent belonged to the economically weaker sections. With regard to meetings, about 65 per cent of the groups recorded more than 90 per cent of attendance during group meetings. As far as changes in socio-economic conditions are concerned the study found out that those people who come together to form SHGs end up better off in social and economic terms. There is a significant improvement in the asset position of the sample households, an average increase of about 72 per cent in the value of assets per household is recorded comparing the pre- and the post-SHG period. Around 59 per cent of the sample households registered an increase in the value of assets from pre- to post- SHG situation. In terms of average household savings, the study recorded more than threefold increase in the household savings. The average borrowing per household also nearly doubled from Rs. 4,282 during the pre-SHG situation to Rs. 8,341 in the post-SHG situation. There is also an increase of more than 17 per cent in the employment situation. The study further reported that the share of households within the SHGs living below the poverty line was reduced from about 42 per cent to about 22 per cent in the post-SHG situation. While looking into the social impact, the study reported that there is significant improvement in the self-confidence, further the study also acknowledge about better treatment within the family and a decline in family violence after joining the SHGs. Also there is improvement in decision-making abilities and communication skills of the SHG members after joining the SHG. The members were also very confident of confronting the various social evils and problems they faced in their everyday lives.

Mayer, (2001) in his study on “Micro Finance, Poverty Alleviation & Improving Food Security: Implication for India” has opined that micro finance did have been emerged as a special vehicle and it can contribute to poverty alleviation and food security. It does this through supplying loans, savings and other financial services that enhance investment, reduce the cost of self-insurance, and contribute to consumption smoothing. Further he suggested that India has expanded microfinance, but it has not yet developed a strong system capable of serving massive numbers of poor in a sustainable fashion. The researcher concluded that the policy of supporting SHG linkages with banks has merit in a country with a large bank network, but it should
not be the only model encouraged. That is why additional efforts are needed to create and nurture competitive MFIs willing to experiment with other models.

Quarte et al. (2012) Described about the agriculture position of African countries which is similar to our country and farmers there also having low income. Discussed about the Ghana where more than 70% of the population is living in rural areas and agriculture is the main source of living and agriculture contributes to country’s GDP significantly. They investigated how middlemen are important in agriculture financing because they make an effect on farmers’ actual margin. The analysis shows that farm gate prices are offered higher but farmers do not get the due margin because middlemen are there for their earnings. And suggested by the study that the state should use its regulatory powers to ensure that the agricultural sector does not suffer unduly from its privatization and liberalization policies. Farmers should also be educated on other forms or sources of credit and marketing channels. They can also form cooperatives to enhance their bargaining power and improve their chances of obtaining credit from formal institutions.

Salami and Arawomo, (2013) Elaborated that for any country to grow the agriculture sector should have the potential to feed the population, employment creation, bring foreign money to the country and provide raw materials to the industry. Their study was based on Africa and analysed that African countries have great agriculture land and have enough resources for agriculture production but still this continent is great importer of food. The main reason behind that is lack of credit and as a result no new technology is adopted and agriculture production remains low. The study examined the extent of agriculture credit and factors affecting the credit in Africa. The data collected was from 1990 to 2011 from 10 different countries of Africa. Found that in spite of low saving the saving rate does an impact on agriculture credit. They use the four governance variables- Corruption index, Rule of Law index, Regulatory quality index, and Government Effectiveness index and concluded that these variables have negative impact on agricultural credit in the continent. The interest rates charged by the commercial banks have negative impact on agriculture credit.

Dev, (2012), He determined that agriculture in India facing how many challenges and how it affects cultivation pattern, growth and participation in small holdings. He also
examined that what lesson did other countries take from India’s experience. He gave the reference of 11th five year plan and stated that the Government is the key to improve the productivity of agriculture by providing support to small and marginal farmers. He suggested the report of National Commission for Enterprises in the Unorganized Sector (NCEUS) can be believed that small and marginal farmers should need a training programme to build their capacities and they should focus on: (1) Special programmes for marginal and small farmers; (2) Emphasis on accelerated land and water management; (3) credit for marginal and small farmers; (4) Farmers’ debt relief commission.

Vakulabharanam, (2005) has argued that the reduction of domestic support in terms of subsidy and credit on the one hand, and drastic price fall of agricultural commodities in the international market on the other hand, has led to distress in the farming class of the state.

Mishra, (2007) Reddy and Mishra, (2008) emphasise that crisis in agriculture was well underway by the 1980s and economic reforms in the 1990s have only deepened it. Decline in the supply of electricity to agriculture has been regarded as major cause of distress.

Narayanamoorthy, (2007) argues that fall in wheat and rice production is not due to technology fatigue rather due to extensive mono crop cultivation and high use of fertilisers and faulty agricultural pricing. Lack of allocation of funds to irrigation development after liberalisation has also resulted in the stagnation of net area irrigated. This poor growth in surface irrigation has compelled farmers to rely heavily on groundwater irrigation. The increased dependence on groundwater irrigation increases the cost of cultivation and depletion of ground water resources and in addition to this credit unavailability for investment on inputs put farmer in further crisis.

Suri (2007) and Reddy, (2006), argue that agrarian distress is result of the liberalisation policies which prematurely pushed the Indian agriculture into the global markets without a level-playing field; heavy dependence on high-cost paid out inputs and the other factors such as changed cropping pattern from light crops to cash crops;
growing costs of cultivation; volatility of crop output; market vagaries; lack of remunerative prices; indebtedness; neglect of agriculture by the government; decline of public investment have contributed further to agrarian crisis. Same time, they points out that technological factors, ecological, socio cultural and policy related factors have contributed for the crisis.

**Sharma and Prasad, (1971)** They stated that the introduction of latest technology without credit facilities would not have significance influence on the income of the farmers. Agriculture credit has direct relationship with the income level farm productivity and agriculture development.

**Naryanan, (1987)** Studied most of villagers who took loan were small and marginal farmers and agricultural laborers. He further observed that due to inadequate credit given to them, there was no increment in the income of beneficiaries.

**Binswanger and Khandker, (1992)** found that the output and employment effect of expanded rural finance has been much smaller than in the nonfarm sector. The effect on crop output is not large, despite the fact that credit to agriculture has strongly increased fertilizer use and private investment in machines and livestock. High impact on inputs and modest impact on output clearly mean that the additional capital investment has been more important in substituting for agricultural labour than in increasing crop output.

**Ranga Reddy, (2004)** Studied that the National Commission on Agriculture (1976) projected that the actual requirements of credit for agriculture would be Rs.9, 400 crore by 1985. But, the Planning Commission target for 1984-85 was Rs. 5415 crores, while actual disbursement of credit was Rs. 6167 crores in 1985-85. Although Planning Commission’s target figure for 1984-85 was surpassed by the actual disbursement, the National Commission’s projected figure was not achieved.

**Burgess and Pande, (2005)** found that a one per cent increase in the number of rural banked locations reduced rural poverty by roughly 0.4 per cent and increased total output by 0.30 per cent. The output effects are solely accounted for by increases in non-agricultural output – a finding which suggests that increased financial
intermediation in rural India aided output and employment diversify action out of agriculture.

NABARD, (1989) conducted, “Studies on Self-Help Groups of the Rural Poor”, to understand the background of the emergence of self-help groups, their composition, methods of working and their linkages with the financial institutions, and to examine possibilities for development of linkages between the self-help groups, self help promotion institutions and the financial institutions for providing support to the self-help initiatives of rural development. The survey covered 46 SHGs spread over 11 States and associated with 20 SHPIs (self-help promotion institutions). The study concluded that sample SHGs were formed with an emphasis on self-help and with a view to promote objectives like freedom from exploitation, economic improvement, and raising resources for development. By and large, the sample SHGs were of 'target group' people consisting of small and marginal farmers, agricultural labourers, artisans, scheduled castes and scheduled tribes and women. Homogeneity in terms of caste, specific economic activity, etc., have played a role in organising the poor into SHGs, though in some cases groups comprising different castes or sub-castes were also formed. The SHGs involved mainly in savings and credit activities, have evolved a variety of instruments to promote thrift among their members. These groups were involved in generating a 'common fund' from out of small thrifts, promoted on a regular basis among the members by curtailing their unproductive expenditure. The study further pointed out that SHPIs have played a commendable role in organising the rural poor into self-help groups and thereafter promoting their proper functioning. The study suggested that the absence of a legal status of SHGs seems to be a major constraint in the development of linkages between the SHGs and banks and a more active involvement of government development agencies with the SHGs may lead to securing more recognition for the SHGs.

Harper Malcolm, (1998) from his study “Profit for the Poor: Cases in microfinance” concluded that microfinance is a business and microfinance programmes which aim to assist the poor must be designed and managed in a business like way and that microfinance institutions must be managed like any other business. He concluded that new approaches have only reached a small fraction of market: microfinance must be ‘massified’. He suggested that the eventual aim for microfinance should be, to
become as widely available as any other consumer product. Decisions about funding ownership and system should be made toward all this end. According to him what microfinance need is institutional flexibility, good management and open minds.

2.5 Studies Based On Problem Of Credit Delivery And Over Dues

Satyasai, (2008) He examined some constraints that strangle the credit delivery after seeing the importance of the agriculture credit and discussed the measures to solve the issue. The Government policy on agriculture credit has been mainly focussed on institutionalisation for providing cheaper credit to farmers due to which the share of moneylenders has been decreased over the years from 93 per cent in 1950 to 31 per cent in 1991. While there has been some constraints also like failure of multi-agency approach due its deficiency in design and architecture. A serious fault of the multi-agency approach was the ineffective cooperative system. Poor health, lack of adaptation to the needs, politicisation, loss of member orientation and credibility inter alia disoriented the system. They showed with the help of the table that cooperative system is incapacitated due to heavy losses which invariably increased over the past few years. Cooperatives are ailing in most of the districts and lost their eligibility for NABARD’s refinance. This impaired their ability to lend fresh loans and hence, their borrowers lose their freedom to choose the agency or product.

Suggested several measures to be taken to revitalise the system from time to time. Cooperatives are being given a package assistance for revival following the Vaidyanathan Committee Report. RRBs have been amalgamated and are being given capital to cleanse up their balance sheets. Commercial banks have been successfully involved in ‘Farm Credit Package’ for doubling the credit and other initiatives of Government of India. The SHG-bank linkage has been promoted on a large scale to supplement rural credit delivery. But, its high transaction costs make it a costly alternative, especially when the business is handled solely by NGOs/MFIs. A thorough overhauling of the rural credit system and its restructuring is the need of the hour. However, it cannot be effective if done alone in isolation without revitalising the Indian agriculture itself.

Golait, (2007) in the Reserve Bank of India’s Occasional Papers analyzed the current issues in agricultural credit in India. Golait (2007) reported that the credit delivery to
agriculture was inadequate due to the hesitant nature of banking system in providing credit to small and marginal farmers. There is a rise in the demand for agricultural credit due to gap in income realization and expenditure in agriculture, lumpiness of investment in fixed capital formation, and rise in capital needs due to technological innovations. The paper analyses the effect of efforts of government and RBI in increasing the credit flow to agriculture through commercial banks. The share of commercial banks in total agricultural credit increased from 33% in 1992-93 to around 68% in 2005-06. However, the growth of direct finance to agriculture and allied fields decline in 1990s (12 per cent) as compared to 1980s (14 per cent) and 1970s (16 per cent).

Satyasai, (2008) studied the structural constraints in the rural credit delivery system in India and suggested some corrective measures. He emphasized the importance of rural credit to agriculture and rural development along with discussing some structural constraints that hamper the credit delivery. In India the public policy on rural credit has been focused on institutionalization as a means of providing cheaper credit to farmers. This has resulted in decline in the share of moneylenders in rural credit from 93% in early 1950s to 31% in 1991. But by 2002, these moneylenders again emerged as an important source of rural credit with a share of 39% highlighting the ineffectiveness of institutionalization measures and deficiencies in their design and mechanism. The study reported that the cooperative banks are dealing with financial problems, the regional rural banks (RRBs) are in disarray and commercial banks have lost their interest in rural credit. These conditions have contributed to the ineffectiveness of the multiagency rural credit delivery system.

Atibudhi, (2007) compared the state credit scenario in the context of all India situations, and observed the regional disparity across the country in the disbursement of agricultural credit by the commercial banks. The southern region continued to account for bulk of the credit disbursement to agriculture, followed by the western, northern and central regions.

Ray, (2006) Bank reform and Financing the value chain in agriculture. The risk in financing agriculture can be estimated and subsequently mitigated, provided the banker projects the financial conditions of the farm sector. In this context the role of
policy makers is significant. Data on recent levels of farm income, asset quantities and prices of agricultural output are vital to building a suitable projection model. Development of such a database with a high level of speed and accuracy and accessibility of such a database to banker is essential for quantification of risk in agricultural finance. Agricultural capital markets should be widened and deepened with more opportunities to raise equity capital. An independent regulatory agency is to be constituted to supervise the agricultural credit. All institutions like co-operative banks, commercial banks, NABARD, should be brought under this agency. The RBI should concentrate more on regulation of money, debt and foreign market. Agricultural finance should be under separate regulation. The existing forward markets commission, which oversees the commodity exchange, should also be brought under the farm credit. Banks should understand that agriculture is a way of life for the farmers and is only subsequently transformed into a business. It can’t simplistically be compared with exposures to industrial and other retail advances. There is, therefore, a need to look beyond mandatory targets, designing new strategies and leveraging existing infrastructure, quantification of credit risk and activating a package of financial services is essential for improving the farm credit system and increasing agricultural output.

Mohan, (2006) Agricultural credit in India-status, issues and future agenda. The flow of credit to the agricultural sector failed to exhibit any appreciable improvement due mainly to the fact that commercial banks were not tuned to the needs and requirements of small and marginal farmers; while co-operatives on the other hand lacked resources to meet the expected demand. The solution that was found, involved the establishment of a separate banking structure, capable of combining the local feel and the professionalism and large resource base of commercial banks. Following the recommendation of the working group on rural banks (Chairman M. Narasimham-RBI 1975) Regional Rural Banks were set up. By the end of 1977 there emerged three separate institutions for providing rural credit which is often described as the “multi agency approach”. Following the recommendations of the committee to review arrangements for Institutional Credit for Agriculture and Rural Development, the NABARD was set up in 1982 to provide credit for the promotion of, among other things, agriculture. NABARD took over the entire undertaking of the ARDC and the refinancing functions of the RBI in relation to state co-operatives and RRBs. Since its
inception, the NABARD has played a central role in providing financial assistance facilitating institutional development and encouraging promotional efforts in the area of agricultural credit. NABARD also administers the Rural Infrastructure Development Fund (RIDF) which was set up in 1995-96. The corpus of RIDF is contributed by scheduled commercial banks to the extent of their shortfall in agricultural lending under the priority sector targets.

Upadhyay, (2005) Banking reforms and Agricultural credit-Indian banks have been suffering from lower rate of returns through concessional interest rates and high defaults from farm credits. If interest income is at least equal to the cost of lending that would bring the break-even condition. If the break-even is not reached, then banks have to cross-subsidize the farmers. The more the default risk, the higher the quantum of cross-subsidy. According to an estimate, cross-subsidy to Indian agriculture by the commercial banks has been increasing. This was Rs.77crore in 1980-81., but it went up to Rs.967 crores in 2000.Banks had to cross-subsidise agricultural sector from the income generated by the other sector. This has also hampered the credit flow to the agriculture in recent years when banks are guided by the commercial principles, particularly after reforms process started.

The analysis demonstrates that the share of credit to agriculture in total cost bank credit has declined in recent years; particularly after economic reforms despite repeated concern expressed by the monetary authorities. There is a need to adopt a proper risk management system distinguishing clearly between risky borrowers. There is a need to focus on diversified activities such as storage, transportation, processing and marketing of agricultural products. The rural areas are undergoing a transformation process in respect of consumption and dietary habits from cereal to non-cereal products. The financial institutions should shed their conservative outlook and identify the emerging areas to address the needs of rural farmers through perspective analysis. Initiatives need to be taken in newer areas such as Aquaculture, Horticulture, Pisciculture, Dairying, Poultry, Food processing and other Agro-processing activities in rural areas. The conventional approach and credit delivery practices will not augment the net credit flow to agriculture nor will it bring any qualitative
Atteri et al. (2005) analyzed the indebtedness of Indian farmers in various regions of the country on the basis of four factors, namely, income sources, farm holding size and purpose-wise distribution of outstanding loan. They found that the source of income for more than 50% of the farmers in India is cultivation of field crop. Their study revealed that despite the fact that nearly 45% of the farmers engaged in agricultural activities are in debt, a very small number of farmers these loans for the purpose of pursing additional activities like plantations, and animal husbandry. The study has practical applications for commercial banks that are pondering over the issue of lending different sectors in agriculture. Taking clues from this study, the banks can formulate policies that are focused on granting credit to those sectors in agriculture that are preferred by farmers. Moreover, specific policies can even be made for sectors like animal husbandry, fishery, etc. such that farmers are able to generate additional income from these activities.

Kumar, (2005) observed constraints facing Indian agriculture and the path ahead in reorienting both agricultural policy and practise to the changing circumstances.

Singh et al., (2004) Mainly studied the problems of overdues and the inability of banks to recover the loans from the debtor. Also analysed the availability, utilization and repayment of crop loan in Rajpur district of Chattisgarh. Forty per cent of the non-defaulter group and 60 per cent of the defaulter group misutilized the crop loan was not up to the extent for production and repayment has been affected. Vyas, (2004) described that the Indian agricultural situation and pointed out that policy interventions and institutional support to agriculture has been grossly inadequate in addressing agrarian distress.

Viramagami (2003) Suggested that the RBI should provide financial support to PACs. To avoid multiple financing, Co-ordination between financial institutions should maintained. Banks should maintain rules and regulations to face the recovery of credit.

Choughary (2002) In his study to credit flow of agriculture feels that the recycling of funds is not possible on account of mounting of over dues. The recovery of loans requires a co-operative and collective responsibility of administrative machinery public and loaners. The repaying capacity of their loaners should be taken into
consideration and there should be constant water on end use of the credit by the supervisory staff of different institutions.

Karmakar, (1999), pointed about the various problems of rural credit delivery system in India. The major problem according to him is the repayment and recovery of the loans at the borrowers level and the consequent weakening of the entire institutional credit system. He pointed out that the causes on the internal front were defective loan policies and procedures, inadequate supervision and monitoring and unprofessional management. On the external front, the problems were occurrence of natural floods and droughts, absence of backward and forward linkages, defective legal frame work, and lack of support from the government machinery in recoveries. Because of all this, he summarised that instead of mobilizing resources for rural development, the programme for rural development has actually been consuming scarce monetary resources and has not worked out to the advantage of the rural borrowers, the bank and the government.

Jugal (1997) Inferred that the term loan for agricultural purpose granted by zonal development Banks enable the barrowers to improve from mechanization by purchasing tractor, tillers and IP sets for minor irrigation the term loan also helped in increasing irrigation area by 22.40 per cent of land holding as well as cropping patterns and cropping intensity from one crop to two crops a year.

Veerashkarappa (1997) In his study on Institutional finance for rural development, concluded that institutional finance was instrumental in acquiring productive form assets and development of irrigation facilities this result in changes in the cropping pattern increase in the cropping intensity and adoption of HYVs.

Johan, Swinnen and Hamish, (1997) studied the problems of financing agriculture in Central and Eastern European agriculture. They analysed the problems in the credit market for agriculture stem from both demand and supply forces from the survey conducted in 1993 & 1995by Euroconsult in five CEE countries. According to them Credit and risk markets in the most well-developed market economies do not work as per the requirement due to which very important information does not reach to the beneficiaries. Production incorporates time lags inherent in biological processes, and
is subject to the random influence of weather, diseases and pests. Concluded in the study that credit markets do not work up to the mark whether in developing countries or developed countries. Banks do not prefer to lend agriculture loan as it is high risk taking and no profitability activity. Also suggested that if we really want to do for the future of agriculture credit it is that agricultural programs tend to create their own constituency and tend to persist long afterwards, because for political economy reasons they are very hard to remove once they have been implemented. This suggests that one can expect the Central and East European agricultural credit programs to remain. Agricultural programmes should mainly focus on finding the main cause of the credit problem rather than mere seeing the symptoms. After that Government Credit Programmes will have an effective affect to solve the agriculture credit problem.

2.6 Studies Based On Technology And Innovation For Agriculture Credit

Rao, (2014) also reported that the prudential measures taken by the government over the years has improved the performance of commercial banks. These measures have resulted in recovery of past dues of the banks. A number of factors have contributed towards the improvement in gross and net performing assets of commercial banks. These factors include moderate inflation expectations, decline in real interest rates, rising income of households and entry of new private banks. The decline in non-performing assets to advances is a proof of asset quality improvements of banks in India.

Patel, (2014) came up with various suggestions for improving the present conditions. Firstly, the government policy should focus on investing significantly in rural infrastructure to improve the energy, transport, communication, storage, processing and marketing facilities of farmers. Secondly, establishment of state-of-art Agrimetrology centres in all agro-ecological regions would provide updates of weather to farmers. Thirdly, expansion of irrigation and reclamation of wasteland measures be adopted. Fourthly, the government should integrate agri-education and research activities. Finally, Patel (2014) suggested the development and use of genetically modified varieties of crops, micro-irrigation system, greenhouse
Satish, (2011) analysed the innovations in agricultural credit market in India. He cited many recent innovations taking place in financing agriculture in the developing world, and especially in India. To boost agricultural production, the Government of India announced a program to double the flow of institutional credit to agriculture starting from 2004-05. The program was aimed at expanding the Kisan Credit Cards, financing new investments, rescheduling and restructuring of loans in areas affected by natural calamities, one time settlement (OTS) for farmers in distress and redemption of loans from informal sources. Again in 2006-07, the Government of India announced the interest subvention and debt waiver scheme to help poor farmers in getting cheap finance from the banking system.

Satish, (2011) has enumerated many innovative schemes and measures taken by the National Bank for Agriculture and Rural Development (NABARD) in agriculture credit markets. These measures include:

(i) product innovations in the form of launch of Kisan Credit Card (KCC),
(ii) process innovations covering the Self-help Group (SHG) bank linkage programs and establishment of Joint Liability Groups,
(iii) institutional innovations by establishing ‘farmers’ club’ that would be made more effective through three policy measures, viz., (a) link them with technology transfer and market access; (b) ensure sustainability of the clubs over a period of 3 to 5 years and (c) convert them into Producers' Groups/Companies/Federation of Farmers' Clubs, and
(iv) Other innovations in the areas of inventory financing and warehousing, supply chain financing, and contract farming.

To improve the accessibility of credit to farmers, the Government of India has time and again initiated several measures to increase sources of institutional credit. These policies are aimed at providing timely and adequate credit support to all farmers with special focus on small and marginal farmers. Through institutional credit, the government intends to enable small farmers to adopt modern means of farming and to improve their agricultural practices to achieve higher productivity. According to a 2012 report by the Department of Agriculture and Cooperation under the Ministry of Agriculture, Government of India, the various government policy measures have
resulted in an increase in the share of institutional credit of the rural households. Table 2.1 shows the progress made in flow of agricultural credit in the last ten years:

Table 2.1:
Flow of Agricultural Credit in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Target</th>
<th>Achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>105000</td>
<td>125309</td>
</tr>
<tr>
<td>2005-06</td>
<td>141000</td>
<td>180486</td>
</tr>
<tr>
<td>2006-07</td>
<td>175000</td>
<td>229400</td>
</tr>
<tr>
<td>2007-08</td>
<td>225000</td>
<td>254658</td>
</tr>
<tr>
<td>2008-09</td>
<td>280000</td>
<td>287149</td>
</tr>
<tr>
<td>2009-10</td>
<td>325000</td>
<td>384514</td>
</tr>
<tr>
<td>2010-11</td>
<td>375000</td>
<td>468291</td>
</tr>
<tr>
<td>2011-12</td>
<td>475000</td>
<td>511029</td>
</tr>
<tr>
<td>2012-13</td>
<td>575000</td>
<td>308025*</td>
</tr>
<tr>
<td>2013-14</td>
<td>700000</td>
<td></td>
</tr>
</tbody>
</table>

* As on 31st October, 2012

technology, promotion of remote sensing technology, and expansion of farm mechanization programs.
Chapter 3

Research Methodology
Research Methodology

The dimension of the study relates to the analysis of the effectiveness of agriculture credit in the starting and survival of rural poor from the view point of government. This study analyses various aspects of farm and nonfarm activities in which government and its officials help to provide loans to the needy poor. The study also analyses various aspect of socio-economic empowerment of rural people whose primary source of earning is nothing but agriculture and its allied activities. This study is partly evaluatory and partly analytical in nature. The impact of the cooperatives and regional rural banks in which they are involved is based on the assessment of the detailed information obtained from the data obtained from the lead bank of Etawah. The data includes different blocks of Etawah district. Relevant data were collected from the office of the planning commission, Uttar Pradesh, official website of Uttar Pradesh Government covering the qualitative and quantitative aspects of the study. Further, commercial banks’ responses on problems faced by in delivery the credit to the targeted people and their suggestions on improvement of the delivery as well as the performance of credit. The records maintained by the lead bank were also looked into for the collection of quantitative data about the performance of the credit delivery. Relevant information from the banks and websites was collected on the performance of the selected blocks of Etawah district on loans taken and disbursement and repayment performance of loans. Besides, collection and analysis of secondary data and relevant literature has been compiled, analyzed and reviewed accordingly.

3.1 Need of the Study

Like other industries, agriculture also requires capital. Small farmers and marginal farmers need credit since their capital is locked up in their loans and stock. They need funds to meet their operational expenses. Their credit need is high at the time of crop season. Millions of farmers are depending upon marginal and subsistence farming. Due to low yield, they are not in a position either to have ‘surplus’ for distribution or at times even to continue the production process successfully and economically. Due to these reasons they depend mostly on credit even for normal agriculture operations and have to pay a part of their income by way of interest later.
Recognizing the importance of agriculture sector in India's development, the Government and the Reserve Bank of India (RBI) have played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector. Agricultural policies in India have been reviewed from time to time to maintain pace with the changing requirements of the agriculture sector, which forms an important segment of the priority sector lending of scheduled commercial banks (SCBs) and target of 18 per cent of net bank credit has been stipulated for the sector. The Approach Paper to the Eleventh Five Year Plan has set a target of 4 per cent for the agriculture sector within the overall GDP growth target of 9 per cent. In this context, the need for affordable, sufficient and timely supply of institutional credit to agriculture has assumed critical importance.

The evolution of institutional credit to agriculture could be broadly classified into four distinct phases - 1904-1969 (predominance of co-operatives and setting up of RBI), 1969-1975 nationalization of commercial banks and setting up of Regional Rural Banks (RRBs), 1975-1990 (setting up of NABARD) and from 1991 onwards (financial sector reforms).

The study proposed to highlight the agricultural credit extended by the commercial banks in Etawah District of U.P. State and analyze the repayment performance of the borrowers. The commercial Banks generally aim at intensive coverage of selected areas for meeting the priority sector credit needs, especially the agricultural credit requirements and ensuring effective supervision over the use of loans.

Poverty is a crucial problem in all developing countries in the present day world. It is felt that the problem of poverty can be solved through a concerted effort by the State. Poverty alleviation has always been one of the primary objectives of different governments in India and is always one of the main goals of any planning in national economy. Therefore it is of prime importance to formulate situation specific poverty alleviation policies and programmes for generation of a minimum level of income for rural poor, which form a substantial part of national population in our country. One initiative can be through the development of priority sector. Since the early national plans, successive governments in independent India have emphasized the link between improving access to finance and reducing poverty. In the of post nationalization period in India for the development of the rural areas thrust was
always there on the banks to increase credit in rural areas for the socio-economic development of the rural poor. Since independence no significant impact has been made on the agriculture sector prevailing in rural India despite the presence of a vast network of commercial, cooperative and rural banks and other financial institutions present in the rural areas.

The failure of these institutions gives rise to the role of the governmental and other institutional players to provide favorable environment to the poor to develop their own organizations. The decade of 1990’s witnessed growth of various people’s organizations. Most importantly the failure of the state led and formal financial system in reaching to the rural poor give rise to the emergence of microfinance movement in the country.

India has nearly 400 million people, living below or just above an austerely defined poverty line. Of these, nearly 60 million households are in rural India and remaining 15 million are urban slum-dwellers. The current annual credit usage by these households was estimated in 1998 to be Rs. 465,000 million or US $10 billion. It is estimated that the number of small loans accounts from banks covered some 40 million households in 2000. The remaining 35 million households are perhaps meeting their credit needs from the informal sector. In such a scenario agriculture credit through commercial banks is like a life to the rural poor which will eventually help in poverty eradication and economic empowerment.

Most people living in the rural areas of the country draw their livelihood from agriculture and allied sectors. Accordingly, the strategy of the Government has been to improve the economic and social conditions of the underprivileged sections of the rural population with emphasis on agricultural production and also the non-farm sector to promote productive employment opportunities, by integrating traditional production infrastructure, skills and locally available raw material. Though the agricultural sector occupies a pivotal place in the national economy both in terms of its contribution to the gross domestic product and employment generation. However the data available from the National Sample Survey Organization (NSSO) clearly shows that the non-farm employment growth had been significantly higher than farm sector employment growth during the last thirty to forty years. The rural non-farm sector generally refers to all non-agricultural activities: mining and quarrying,
household and non-household manufacturing, processing, repair, construction, trade and commerce, transport and other services in villages and rural towns undertaken by enterprises varying in size from household own-account enterprises to factories.

Though the growth of employment in the rural non-farming sector is significant in the last few decades but still the rural non-farm sector in India is facing large number of problems. But the most significant problem which the rural non-farm sector is facing since independence is the timely availability of funds. According to the Census of India (2001), 70% of the total rural population does not have access to banking services (savings or credit through the formal banking system). An effort has been made by the government to overcome this problem through the NABARD. The government is encouraging people to come together, to make groups and to work together in the viable non-farm activities so as to address their common problems. The agriculture finance project intervention in terms of formation and stabilization of commercial banks comprising of people by extending credit support and promotion of thrift to promote viable economic activities in the backward areas has resulted in empowerment of people involved in these activities. However, there is scarcity of resource literature regarding the impact farm credit of on their socio-economic empowerment and also on whether these activities are viable in the long run or not. Against this background, present study farm been carried out to assess the impact of agriculture-finance on non-farming sector and to find out what are the problems and constraints associated with these non-farm activities.

3.2 Area of the Study

For this study, “Role of Commercial Banks for Agriculture Credit-with special reference to Etawah District of UP State”, all the Blocks were taken i.e. Jaswantnagar, Basrehar, Barhpura, Takha, Bharthana, Mahewa, Chakarnagar and Saifai from the district Etawah. The blocks which were transferred to Auraiya District were not taken in consultation for the credit delivery and other related works.

3.3 Scope of the Study

Alleviation of poverty remains a major challenge before the Indian government. Acceleration of economic growth, with a focus on non-farming sectors, which are employment-intensive, will, facilitates the removal of poverty in the long run.
Considerable scope exists for development of agriculture-finance through Commercial banks in India since there is enormous unmet demand for financial services in rural areas. As reported by the census of India (2001), 70% of the total rural population in India does not have access to banking services. In this context, the current study provide detailed insight into various aspects of selected blocks working in farming sector in Etawah District besides various issues which are hampering their performance have also been discussed. There is a need for a critical examination of the strategies adopted, the interventions sought, funds flow and its utilization, organizational structure of the commercial banks etc to understand the impact of microfinance. Understanding these issues is the basis for providing recommendations focused towards better functioning of commercial banks that would not only generate growth in the rural sector but would eventually lead to the growth of the whole economy. Within the limited scale of the study and objectives, the recommendations have been formed based on the data observations and the issues emerging therein as well for the further strengthening of the commercial Bank Linkage approach. To find out various problems and constraints with special reference to availability of raw materials, technical guidance, marketing and training facilities, etc affecting viability of the agriculture products.

3.4 Background (Uttar Pradesh)

Uttar Pradesh is not only the most populous but the fifth largest state in India. Geographically it is situated in one of the most fertile tracts of the country i.e. Ganga and Yamuna basin. Its population of 16.61 crores is 16% of the country which is more than that of many other countries of the world but occupies only 7.36% of the total area of the country. It produces not only sufficient food grains for the sustenance of its population but also fulfils the food grains requirement of other states and generate a surplus for export as well.

3.5 Etawah

The district of Etawah lies in the southwestern portion of Uttar Pradesh 26° 47" north latitude and 72° 20" east longitude and forms a part of the Kanpur Division. In shape it is a parallelogram with a length from north to south 70 km. and East to west 66 km. on one side and 24 km. on the other side. It is bounded on the north by the districts
of Farrukhabad and Mainpuri, while the small extent of western border adjoins tahsil Bah of the Agra district. The eastern frontier marches with the district of Auraiya, and along the south lie Jalaun and the district of Gwalior, the division line being, except for a short distance, the Chambal and Yamuna rivers. The total area in 2011 is calculated to be 2434 km.

3.5.1 Area and population

The area of Etawah district in square kilometers has been drawn for the purpose of the finding the adequacy of research objectives. And number of families, rural population and the increment in the population for every ten years has also been calculated.

Table 3.1
(Area and Population)

<table>
<thead>
<tr>
<th>Year</th>
<th>Area (in Sq. Km)</th>
<th>No of Families</th>
<th>Rural Population</th>
<th>% decadal increment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>People</td>
<td>Male</td>
</tr>
<tr>
<td>1991</td>
<td>2406.57</td>
<td>159389</td>
<td>998317</td>
<td>547266</td>
</tr>
<tr>
<td>2001</td>
<td>2311.00</td>
<td>214222</td>
<td>1030789</td>
<td>557439</td>
</tr>
<tr>
<td>2011</td>
<td>2478.00</td>
<td>277527</td>
<td>1215511</td>
<td>652740</td>
</tr>
</tbody>
</table>

Source: planning commission Uttar Pradesh

3.6. Objectives of the Study

- To assess the agricultural credit requirements of cultivators in the state with special reference to Etawah district.
- To study the disbursement of loans in the region for agricultural development.
- To examine whether credit are properly used or misused.
- To investigate the pattern of utilization and repayment of such credit and problems of farmers.
- To study a relationship between the flow of institutional credit and agricultural growth in Etawah district.
- To examine the deficiencies of the pattern of institutional credit and suggest
remedial measures to strengthen the institutional credit structure in the district

- To evaluate the role of institutional finance for agricultural development of Etawah district.
- To assess the group financing for agricultural development.
- To suggest suitable remedial measures for recovery of over dues.
- To review the history of agriculture credit delivery through commercial banks in Uttar pradesh.

Besides the above objective, the following other objectives were also taken into consideration according to the availability of data. They are; (a) To review the growth and development of agriculture credit delivery in Etawah and its relevance to Uttar Pradesh and India. (b) To examine the socio-economic status of the people indulged in agriculture related and various non-farm activities. (c) To find out the economic viability of agriculture credit investment in agriculture sector through commercial Banks in Etawah district. (d) To find out impact of agriculture credit through commercial banks on the socio economic status of rural poor. (e) To suggest measures that how, the agriculture credit in priority sector by commercial banks, can be made more effective and viable on the basis of case study of Etawah district.

3.7. Collection of data

Since the study is based on secondary data, data has been collected through various published and unpublished sources. While collecting and analyzing data the into a useful manner it was kept in mind very cautiously that the data should be complete, the data should be consistent, the data should be adequate and it should be homogenous also.

The office of the planning commission, Uttar Pradesh was visited for the collection of data. Lead Bank of Etawah District also provided help in collecting data. Official website http://updes.up.nic.in & http://etawah.nic.in were also visited.

The data from the year 1995 to 2013 has been taken into consideration under various sections, like agriculture production, land uses for agriculture, area covered by main crops.
3.8 Data Collection Technique

Generally we come across the problems relating to one variable only. In practical life we sometimes face problems involving two or more variables. If two quantities are related in such a way that changes in one is accompanied by the changes in other, these quantities are said to be correlated. The degree of relationship between the variables under consideration is measured through the correlation analysis. The correlation analysis refers to the techniques used in measuring the closeness of the relationship between variables.

3.8.1 Correlation Analysis

The problem of analyzing the relation between different series should be broken into three steps:

1. Testing whether it is significant
2. Establishing the cause and effect relation, if any.

The study reveals the relationship of credit provided by the commercial banks to various factors like production of crops, area under irrigation, use of fertilizers, sources of irrigation etc.

Of the several mathematical methods of measuring correlation, the Karl Pearson's method, popularly known as Pearson's coefficient of correlation, is widely used in practice. The Pearson coefficient of correlation is denoted by symbol $r$. It is one of the very few symbols that are used universally for describing the degree of correlation between two series. The formula for computing Pearsonian $r$ is:

$$ r = \frac{\sum xy}{N\sigma_x\sigma_y} $$

$\sigma_x = \text{Standard deviation of series } X$

$\sigma_y = \text{standard deviation of series } Y$

$N = \text{Number of pairs of observation}$

$r = \text{the (product moment) correlation coefficient}$
Correlation coefficient can also be calculated without taking deviation of items either from actual mean or assumed mean i.e. actual mean X and Y values. The formula in such a case is:

\[ r = \frac{n \Sigma xy - \Sigma x \Sigma y}{\sqrt{(n \Sigma x^2 - (\Sigma x)^2)(n \Sigma y^2 - (\Sigma y)^2)}} \]

3.8.2 Compound Annual Growth Rate (CAGR)

The year-over-year growth rate of an investment over a specified period of time. The compound annual growth rate is calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period being considered.

\[ CAGR = \left( \frac{\text{ending value}}{\text{begining value}} \right)^{\frac{1}{\text{no of years}}} - 1 \]

3.9 Limitation in collection of data

While collecting and using of the secondary data, a proper scrutiny was made by keeping in mind the remarkable mark of Prof. Bowley “secondary data should not be accepted at their face value.” This is because such data can be erroneous in many respects due to bias.

3.10 Limitations of the Study

The study is mainly confined to Etwaah district. In this study primary investigation is restricted to the Lead Bank of Etawah in various blocks of Etawah district because studying of all the information provided by the bank in the district is not possible for an individual researcher due to constraints imposed by money, time, energy and efforts.

This study is restricted to selected blocks which are supported by commercial banks and availed agriculture credit from bank, i.e. Cooperative Banks. The study is limited mainly because its findings and recommendation are based on the limited coverage of small sample size and area, also due to limited use of statistical tools and techniques and due to poor availability of secondary sources of data. Moreover, the newly formed structure of financing agriculture which are still in infancy stage have their own limit alone in terms of their stabilization and bank linkages and hence their impact has been limited. However, review of literature and secondary data has been presented in the national perspective. One very important limitation of the study is
that data of Etawah district related to role of commercial banks was not properly available. Though analysis has been done on the basis of limited available data. The Planning Commission Uttar Pradesh has uploaded all the possible data of Etawah and other districts in various sections according to the year starting from 1995 under the section zila sankhiki patrika and it was very time consuming to find the relevant data from the source. Since the data has been uploaded for the official purpose of the UP government, hence data for the purpose study was very hard to find. The office of the Lead Bank in Etawah district was also visited for the collection of secondary data, but very little information could be gathered.
Chapter 4

Indian Banking System and Agriculture Finance through Commercial Banks
Indian Banking System and Agriculture Finance through Commercial Banks

The growth in the Indian Banking Industry has been more qualitative than quantitative and is expected to remain the same in the coming years. Based on the projections made in the “India vision 2020” prepared by the Planning Commission and the draft 10th plan, the report forecasts that the pace of expansion in the balance-sheets of banks is likely to decelerate. The total assets of all scheduled commercial banks by end March 2010 estimated at Rs 40,90,000 crores. That will comprise about 65 per cent of GDP at current market prices as compared to 67 per cent in 2002-03. Bank assets are expected to grow at an annual composite rate of 16.7 per cent that existed between 1994-95 and 2002-03. It is expected that there will be large additions to the capital base and reserves on the liability side. The Indian Banking Industry can be categorized into non-scheduled banks and scheduled banks. Scheduled banks constitute of commercial banks and co-operative banks. There are about 67,000 branches of scheduled banks spread across India. As far as the present scenario is concerned the Banking Industry in India is going through a transitional phase.

The Public Sector Banks (PSBs), which are the base of the Banking sector in India account for more than 78 per cent of the total banking industry assets. Unfortunately they are burdened with excessive non-performing assets (NPAs), massive manpower and lack of modern technology. On the other hand the Private Sector banks are making tremendous progress. They are leaders in internet banking, mobile banking, phone banking, ATMs. As far as foreign banks are concerned they are likely to succeed in the Indian Banking Industry. In the Indian banking industry some of the private sector banks operating are IDBI bank, ING Vysya Bank, UCO Bank, Oriental Bank, Allahabad Bank among others. ANZ Grindlays Bank, ABN-AMBRO Bank, American Express Bank Ltd, Citibank are some of the foreign banks operating in the Indian Banking Industry.

This Section navigates through all aspects of the Banking System in India. It discusses upon the matters with the birth of banking concept in the country to new players adding their names in the industry in coming few years.
India has a well-developed banking system. Most of the banks in India were founded by Indian Entrepreneurs and visionaries in the pre-independence era to provide financial assistance to traders, agriculturists and budding Indian industrialists. The origin of banking in India can be traced back to the last decades of the 18th century. The oldest bank in existence in India is the State Bank of India, a government-owned bank that traces its origins back to June 1806 and that is the largest commercial bank in the country. Central banking is the responsibility of the Reserve Bank of India, which in 1935 formally took over these responsibilities from the then Imperial Bank of India, relegating it to commercial banking functions. After India’s independence in 1947, the Reserve Bank was nationalized and given broader powers. In 1969 the government nationalized the 14 largest commercial banks; the government nationalized the six next largest in 1980.

Currently, India has 96 scheduled Commercial Banks (SCBs)-27 public sector banks (that is with the Government of India holding a stake), 31 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 38 foreign banks. They have a combined network of over 53,000 branches and 17,000 ATMs. According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75 per cent of total assets of the banking industry, with the private and foreign banks holding 18.2 per cent and 6.5 per cent respectively.

Banking scenario has changed rapidly since 1990s. The decade of 1990s has witnessed a sea change in the way banking is done in India. Technology has made tremendous impact in banking. ‘Anywhere’ banking and ‘Anytime’ banking have become a reality.

4.1 Banking Services in India

With years, banks are also adding services to their customers. The Indian Banking industry is passing through a phase of customers markets. There are so many choices available for customers to choose their banks now. This is possible due to the competition which is now far fairer among banks. Due to the competition and advancement of the technology, the customers have easy access to the banks now. Earlier, a cheque deposited in the north used to take to be cleared by the other bank in
one month time period in the south. Now even village people have the easy access to the banks and they are availing each and every service provided by the bank.

4.2 Regional Rural Banks

Rural banking in India started since the establishment of banking sector in India. Rural Banks in those days mainly focused upon the agro sector. Regional Rural Banks in India penetrated every corner of the country and extended a helping hand in the growth process of the country.

The existence of Regional Rural Banks in Indian financial scene is more than three decades old. Inception of Regional Rural Banks (RRBs) can be seen as a unique experiment as well as experience in improving the efficiency of rural credit delivery mechanism in India. To provide the rural credit, the RRBs are required to be more established as far as institutional credit is concerned. The Narasimham Committee conceptualised the creation of RRBs in 1975 as a new set of regionally oriented rural banks, which would combine the local feel and familiarity of rural problems characteristics of cooperatives with the professionalism and large resource base of commercial banks. Subsequently, the RRBs were set up through the promulgation of RRB Act of 1976. Their equity is held by the Central Government, concerned state government and the sponsor bank in the proportion.

SBI has 30 Regional Rural Banks in India known as RRBs. The rural banks of SBI are spread in 13 states extending from Kashmir to Karnataka and Himachal Pradesh to North East. The total number of SBI's Regional Rural Banks in India branches is 2349 (16 per cent). Apart from SBI, there are other few banks which functions for the development of the rural areas in India. Few of them are as follows.

4.2.1 Regional Rural Banks Act, 1976

Accordingly, the GOI, with certain modifications accepted the recommendations of the Group and the RRBs were set up under the ordinance 1975 by the president of India on September 1975 which was subsequently replaced by the RRBs Act, 1976 on 9 February 1976. Initially 5 RRBs were set up on 2 October 1975 at Moradabad and Gorakhpur of Uttar Pradesh, Bhiwani in Haryana, Jaipur in Rajasthan and Malda in West Bengal.
4.2.2 The Regional Rural Banks (Amendment) Act, 1987

The Regional Rural Banks Act, 1976 was amended in 1987 and the Regional Rural Banks (Amendment) Act, 1987 came into force on 28 September 1988. These amendments were done in pursuance to the recommendations of the Kelkar Working Group (1986). Some of the important amendments were:

1. Enhancement of the authorize capital of RRBs from Rs. 1 crore to Rs. 5 crore and paid-up share capital from Rs. 25 lakhs to 1 crore.
2. Provision for amalgamation of RRBs in consultation with all the concerned parties, and
3. Empowering the sponsor banks to monitor the progress of RRBs and also to arrange for their inspection, internal, audit, etc.

4.2.3 Working

Regional Rural Banks (RRBs) provide credit both directly and indirectly. RRBs grant direct loans and advances only to small and marginal farmers, rural artisans and agricultural labourers and others of small means for productive purposes. Indirect loans are given through cooperative societies operating with RRBs area. The lending rates of RRBs should not be higher than the prevailing lending rates of cooperative societies in any particular state. RRBs have some concessions with regard to requirement of cash reserves, liquidity, interest rates on deposits. RRBs are allowed to offer half per cent additional rate of interest on its deposits over the rates offered by scheduled CBs.

4.3 NABARD

National Bank for Agriculture and Rural Development (NABARD) is a development bank in the sector of Regional Rural Banks. It provides and regulates credit and gives service for promotion and development of rural sectors mainly agriculture, small scale industries, cottage and village industries, handicrafts. It also finance rural crafts and other allied rural economic activities to promote integrated rural development. It helps in securing rural prosperity and its connected matters.
4.4 United Bank of India

United Bank of India (UBI) also plays an important role in regional rural banks. It has expanded its branch network in a big way to actively participate in the development of the rural and semi-urban areas in conformity with the objectives of nationalization. Syndicate Bank was firmly rooted in rural India as rural banking and has a clear vision of future India by understanding the grass root realities. Its progress has been abreast of the phase of progressive banking in India especially in rural banks.

4.5 Cooperative Banks in India

The Cooperative Banks in India started functioning almost 100 years ago. The Cooperative Bank is an important constituent of the Indian Financial System, judging by the role assigned to co-operative, the expectations the co-operative is supposed to fulfill, their number, and number of offices the cooperative bank operate. Though the cooperative movement originated in the west, but the importance of such banks have assumed in India is rarely paralleled anywhere else in the world. The cooperative banks in India play an important role even today in rural financing. The business of cooperative bank in the urban areas also has increased phenomenally in recent years due to the sharp increase in the number of primary co-operative banks.

Cooperative banks in India are registered under the Co-operative Societies Act. The cooperative bank is also regulated by the RBI. They are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965.

Some cooperative banks in India are more forward than many of the state and private sector banks. According to NAFCUB the total deposits & lending of cooperative banks in India is much more than old private sector banks and also the new private sector banks. This exponential growth of cooperative banks in India is attributed mainly to their much better local reach, personal interaction with customers, their ability to catch the nerve of the local clientele.

4.6 Public Sector Banks in India

Among the Public Sector Banks in India, United Bank of India is one of the 14 major banks which were nationalized on July 19, 1969. Its predecessor, in the Public Sector Banks, the United Bank of India Ltd. was formed in 1950 with the amalgamation of
four banks viz. Comilla Banking Corporation Ltd. (1922) and Hoogly Bank Ltd. (1932). Oriental Bank of Commerce (OBC), a Government of India undertaking offers domestic, NRI and Commercial banking services. OBC has implemented Grameen Project in Dehradoon District (UP) and Hanumangarh District (Rajasthan) disbursing small loans. This public sector bank India has implemented 14 point action plan for strengthening of credit delivery to women and has designated 5 branches as specialized branches for women entrepreneurs.

4.7 Private Sector Banks

Private banking in India was practiced since the beginning of banking system in India. The first private bank in India to be set up in Private Sector Banks in India was Indiabank. It is one of the fastest growing Private Sector Banks in India. IDBI ranks the tenth largest development bank in the world as Private Banks in India and has promoted a world class institution in India.

The first Private Bank in India to receive a principal approval from the Reserve Bank of India was Housing Development Finance Corporation Limited, to set up a bank in the private sector banks in India as part of the RBI’s liberalisation of the Indian Banking Industry. It was incorporated in August 1994 as HDFC Bank Limited with registered office in Mumbai and commenced operations as scheduled Commercial Bank in January 1995. ING Vysya, yet another Private Bank of India was incorporated in the year 1930. Bangalore has a pride of place for having the first branch inception in the year 1934. With successive years of patronage and constantly setting new standards in banking, ING Vysya Bank has many credits to its account.

4.8 Several Stages of the Delivery of Financial Services in India

India’s formal financial sector comprises mainly of commercial banks, regional rural banks (RRB), as well as a large number of cooperative banks and societies. With the availability of a large network of more than 1,50,000 rural retail banking outlets the formal banking system has basically an enormous potential to provide financial services in nearly all rural areas of the country. Despite the existence of this relatively deep and diversified infrastructure of financial institutions the majority of the rural population, especially poorer households and women, do not have an appropriate
access to financial services offered through the formal banking sector. The inadequate access to appropriate financial services contributes to the relatively low levels of economic and social development in rural areas and restricts the possibilities for increased economic activities in many rural households (Meissner, Jan and Klaus Maurer 2006). Despite the presence of such huge infrastructure as discussed above, very large section of the India population is still not able to have credit from any formal source. According to the results of the survey “Indebtedness of Farmer Households”, carried out by the NSSO in 2003, only about 25% of the nearly 150 million rural Households had access to credit services from formal financial institutions. Linking the poor to the formal banking system used to be considered as too costly and risky by banks, mainly due to the high costs involved in managing small credit amounts without the usual collateral. Low income households are especially affected by this situation and often have to rely on informal sources (moneylenders, traders, etc.) for their credit needs where usually very high rates of interest are charged (NSSO, 2005). Even after fifty years of independence 60% of India’s population does not have access to formal financial service and only 5.2% of villages have bank branches (Patnaik Nageshwar 2009). The formal financing system does not meet the credit requirement of the rural poor especially because the population per branch ratio is very high and there are large numbers of rural areas in the country where there are no bank branches.

Since the early national plans, successive governments in independent India have emphasized the link between improving access to finance and reducing poverty, a stance that has had influence globally. The need to improve financial access for India’s poor, the overwhelming majority of whom are concentrated in rural areas, motivated the establishment of a vast network of rural cooperative credit banks in the 1950s. The partial nationalization of the Imperial Bank of India and the formation of a large number of new branches after 1955, coupled with the continuing failure of cooperative credit institutions, led to the nationalization of 14 largest commercial banks in 1969 under which banks were forced to expand and establish their branches in rural areas. In 1978, another 6 commercial banks were nationalized. This gave further boost to the role of commercial banks in rural sector. Emphasis was placed on lending to priority sectors including agriculture, artisans, small industries and small business (Priyanka, 2009). This led to a significant expansion of the number of rural
branches for the purpose of monetizing the rural economy. With increasing emphasis on 'priority' sector loans targeted at the poor and the weaker sections of the society, Regional Rural Banks (RRBs) were formed from 1975 onwards. Originally established to drive the moneylender “out of business” and bridge the capital gap supposedly unfulfilled by the rural cooperatives and commercial banks, these “social banking” institutions have expanded remarkably throughout the country. In 1991, for instance, there were 196 RRBs with over 14,000 branches in 375 districts nationwide, with an average coverage of three villages per branch. The banks had disbursed over Rs. 35,000 million in credit and mobilized over Rs. 49,000 million in deposits. Despite this impressive geographic coverage and intermediation activity, however, the RRBs suffered from poor financial health, especially because of mounting loan losses (Nitin, Thorat, 2001).

The RRBs could not fully achieve the goal as the issue of non-viability plagued them. Further, the fundamental malady of rural credit system has been the high level of overdue and the resultant bad debts, which threatened the basic structure of rural lending, making it non-viable and functionally ineffective. Almost all RRBs made losses from their lending operations and about 70 percent have accumulated losses in excess of their share capital, thereby becoming legally bankrupt. While these banks suffer very much from the general problem of the commercial banking system non-viability was built into their very concept. Staff costs levels, which were initially expected to be low, are close to that of commercial banks and the management, including that at the board level, is considered unsatisfactory (Karmakar, 1999). The failure of India’s rural banks to deliver finance to the poor may be attributed to a combination of number of factors. First, is the problem of uncertainty, as in many other countries, there is uncertainty about the repayment capacity of poor rural borrowers and the borrower’s inability to provide collateral. Also, the rural poor are perceived as “bad clients” because they typically want to borrow for consumption smoothering rather than investment purposes. Second, the transaction costs of rural lending in India are high, mainly due to the small loan size, high frequency of transactions in rural finance, large geographical spread and heterogeneity of borrowers, and widespread illiteracy. Third, the Indian Government’s policies make things worse from the bank’s perspective, creating a “financial climate” that is not
conducive to lending in general, and rural banking in particular (Basu priya & Pradeep, 2005)

4.9 Agriculture Credit

Agriculture Credit can be defined as; it is a financial facility which enables a person or business to borrow money to purchase components, raw materials, inputs and so on and to pay for them over an extended period of time. Credit is not only one of the critical inputs in agriculture but is also an effective means of rural development.

The role of credit and credit institutions in enhancing production and productivity is widely acknowledged and well documented. The basic thrust of Indian public policy with regard to rural credit in general, and agricultural credit in particular, has been to ensure that sufficient and timely credit, at reasonable rates of interest, is made available to as large segment of rural population as possible.

Due to the primary source of livelihood agriculture sector is very necessary to be developed in our country where most of the population lives in rural areas. And it is need of the hour that the living standard of our rural people should be sustainable. To achieve the noted growth of agriculture production, this sector requires more capital to be invested and farmers need much more capital than they are capable of.

Credit delivered to small farmers enables them to perform their routine tasks as well as the activities related to their agriculture production. The nature of Indian agriculture is such that there is hardly any investment which satisfies its’ all needs and this can be due to the unpredictable nature of Indian agriculture. Merely 35-40 per cent of total cropped area is formed by irrigated agriculture. So credit becomes an important input in the development of agriculture. Credit played a critical role in the Green Revolution. In the recent times the credit flow to the agriculture has been slow down as compared to its demand. Due to the introduction of new technologies, agriculture facilities require more input costs and hence it is facing crisis. The prices of fertilizers, seeds, diesel and inputs have gone up over the years. Farmers have committed suicide in various states of India due to the scarcity of funds and inability to pay loans on time. The 59th round of NSSO on the status of Indian Farmers presents a sorry picture. There has been structural changes in Indian agriculture since last few years as it geared towards small farmers. In Indian agriculture there is a large
discrimination of land and small farmers remains small as their area of cultivation
does not increase and large cultivators cultivate their large tracks. Indian agriculture
has also undergone changes in its output mix and thereby input mix. These changes
were reflected by the shift in area from food grains to non-food grains, and within
food grains from coarse cereals to finer cereals. During the nineties and thereafter, the
area under food grains has declined. It has been argued that sleeping giant was awake
now. The decline in the area under coarse cereals was sharper and widespread.
Oilseeds, cotton, tobacco and sugarcane have gained at the expense of cereals in terms
of area. These crops have strong links with the market. The credit requirement also
goes up with these changes and so does the vulnerability. Changes in cropping pattern
towards such crops influence change in input structure. The relative prices of inputs
too have changed over time. Subsidies have reduced, but were still significant. Inputs
like fertilizers, insecticides, mechanical power and improved seeds were vital parts of
the input structure. They have replaced organic manure (though getting back into
reckoning), animal power and farm-retained seeds. Farmers expend sizeable part of
their resources on purchased inputs. Hence farmers have to take recourse to credit to a
much larger extent than in the past for purchase of inputs. The flow of SAO credit in
absolute terms has improved. The crop loan from RFIs covers around a quarter of
input cost. The result was that farmers have to depend on other sources of credit
including own savings to meet more than three-fourths of the cost of material inputs.
On the other hand, as a percentage of gross value of output, credit has stagnated at
around 5-6 per cent when inputs as a percentage of value of output have been around
25 per cent. Banks dispense two types of credit viz., short-term credit for seasonal
agricultural operations and long-term credit for asset creation. Table shows flow of
credit to agriculture. The growth rate of aggregate short-term credit by all agencies
has grown at about 14 percent in all the decades with marginal variations. There has
been decline over each decade in growth rates of long term credit. Among the
financial institutions, Credit flow agriculture on both short-term and long-term hectare
basis has shown a declining growth over the decades. Cooperative sector has managed
to maintain the growth pattern with minor variations across decades.

In case of Rice and Wheat, its share in area as well as production is around 14 and 35
percent respectively due to comparable yield levels. The state has about 1/4th of the
total area under coarse cereals but its share in production is around 1/10th due to
much low Maize yield. With better yield, the state produces about 18 percent of total production of Pulses with only 12-13 percent area. It makes the highest contribution in production of Lentil followed by Pigeon pea and Gram. In country’s total stock of Oilseeds the State’s contribution is limited to just 5-6 percent due to small area under these crops in spite of comparable yield rates. However, State’s contribution in total production of Rapeseed & Mustard is higher (17-19 percent). The State is most important producer of Sugarcane and accounts for about 40 percent of total production in the country. Larger area under Sugarcane more than compensates for lower yield. (GOI, 2009)

According to the reports published by Government of India to the department of land development and water resources, Uttar Pradesh, the cropping pattern has been such that food grains dominate the state agriculture. About 80 per cent of the gross cropped area is occupied by food grains as compared to the national level share of 17/50. Within food grains, cereals occupy most of the area and pulses only occupy 10 per cent of the total cropped area. While major cereals (Rice and Wheat) are sown in 60 percent of the area, coarse cereals are cultivated in about 10 percent area. Maize and Pearl millet (bajra) are the most important coarse cereal accounting for 3/4th of the total area under coarse cereals. Non-foodgrain crops of the State, which comprise of oilseeds, vegetables, fruits, spices, flowers, sugarcane, cotton, tobacco and others, are sown in about 20 percent area. Sugarcane is the main non-foodgrain and commercial crop of the State which is cultivated in about 8 percent of the gross cropped area. Oilseeds grown in about 3.28 percent area include sesame, rapeseed & mustard, linseed, groundnut, soybean, sunflower (GOI, 2009).

One of the objectives of credit policy is to minimize the role of non-institutional sources, mainly the money lenders in the flow of agricultural credit. Several initiatives have been taken regard since independence.

Some major milestones in rural credit are:

1. Acceptance of Rural Credit Survey Committee Report (1954),


3. Establishment of Regional Rural Banks (1975),
4. Establishment of National Bank for Agriculture and Rural development (1982),

5. The ongoing reforms in the financial sectors since 1991.

Several committees have been constituted to suggest ways to increase the availability of institutional credit to the rural areas. These are:

A. The Expert Committee on Rural Credit (Chairperson: V. S. Vyas)

B. Committee on Agricultural Credit through Commercial Banks (Chairperson: R. V. Gupta)

C. Committee on Co-operatives (Chairperson: Vikhe Patil)

D. Advisory Committee on Flow of Credit to Agriculture (Chairperson: V. S. Vyas)

E. Task Force on Revival of Co-operative Credit institutions (Chairperson: A. Vaidyanathan)

The government has accepted and implemented several of their suggestions. However, inspite of these efforts and initiatives, the flow of credit to the agricultural sector remains a matter of concern.

Agriculture Credit Policy consist the main objectives to be achieved. They emphasized to deliver the agriculture credit equally. The credit supplied should be of proper amount i.e. it can be utilized properly. The transaction cost should not be much as it can lay burden on the institution, ultimately it will affect the end user. Credit Policy also interfere in reducing the flow of non-institutional credit. And is to play a key role to increase the production of agriculture.

As far as the credit taken by the farmers or rural people, they require loan for the following categories:

(i) **Consumption Loans**

Since most of the cultivators have chronically deficit budgets and have no savings to fall back on, they require loans to meet their consumption needs such as purchasing food grains, clothing or utensils, to celebrate social and religious ceremonies like birth, death and marriages, to repair the house and to meet the medical expenses. These type of loans are referred as
consumption loans as they are not productive loans. Once these loans are consumed, it is very difficult to repay them fully, and, therefore cultivators have to sell their lands or houses or cattle for their full repayment. Some other reasons are there for which consumption loans are taken like sudden accidents, deaths or failure of monsoons.

(ii) **Production Finance**

Due to the lack of finance, the agriculturists have no savings, they are forced to borrow to carry on their productive activities.

These productive loans may be classified broadly into these categories:

(a) **Short – term loans**: These loans are required by agriculturists and rural artisans for meeting current needs of production. Agriculturists take short term loans from one year to 15 months to purchase seeds, manures, for carrying goods to the market, to the market to pay land less or rent to landlord, or to pay wages agricultural labourers etc.

(b) **Medium-term loans**: Cultivators also need and take medium term loans from 15 months to five years for meeting business or occupational needs such as purchasing heavy agricultural machinery like a tractor, for purchasing additional land, or for construction of a big well or a tank etc.

(c) **Long-term loans**: Some agriculturists also require long term loans for a period of 5 to 20 or even 25 years for the purposes such as purchasing heavy agricultural machinery like a tractor, for purchasing additional land, or for construction of a big well or a tank for setting up a plantation etc.

While short term loans are generally repaid after the next harvesting season, may be in one or two years-medium-term and long-term loans are paid in number of installments spread over a fairly long period, especially in the case of long-term loans. These are paid out of the additional produce which in the result of investment in land of those medium-term or long-term loans.
4.10 Source of Agriculture Credit

Basically the agricultural sector gets its credit or loans of various types from two sources:

1. Non-institutional source (which includes money-lenders landlords, village traders, relatives etc.), and there is no intervention of the government and no any type of rules and regulations.

2. Institutional source (which includes Government, Co-operative societies, Land Development Banks, Regional Rural Banks, Farmers’ Service Societies and such other specially established financial institutions). Government controls the activities carried out by these institutions.

The All-India Rural Credit Survey Committee (1954) and The All-India Rural Debt and Investment Survey have collected details regarding the various non-institutional and institutional sources which provided agricultural credit during the years 1951-52 and 1961-62.

4.10.1 Why Non-institutional Credit

Generally farmers require loans on short-term basis and easy availability of the credit matters the most. This is why the non-institutional credit is availed by the cultivators. Also timely availability, default on earlier loans are also important reasons. In institutional credit of paper work is there and procedure becomes cumbersome so also many farmers prefer the non-institutional source.

4.10.2 Why Institutional Credit

Agriculture credit is disbursed through a multi-agency network consisting of Commercial Banks (CBs), Regional Rural Banks (RRBs) and Cooperatives. There are approximately 108,779 village-level Primary Agricultural Credit Societies (PACS), 367 District Central Cooperative Banks (DCCBs) with 12,858 branches and 31 state cooperative banks( SCBs) with 953 branches providing primarily short-term and medium-term agriculture credit in India (Jagnam and Sayani, 2013).
4.10.3 Structure of Indian Banking System

A large number of commercial and cooperative banks, specialized developmental banks for industry, agriculture, external trade and housing, social security institutions, collective investment institutions etc. included in Indian Financial System. The banking system is at heart of the financial system. The Indian Banking system has RBI at the apex. It is the central bank of the country under which there are the commercial banks including public sector banks and private sector banks, foreign banks and local area banks. It also includes NABARD comprising of regional rural banks as well as cooperative banks (Jyatsana and Nishwan, 2007).

The Indian financial system comprises of the following institutions:

Commercial Banks

(1) Public Sector Banks
- Nationalized Banks
- State Bank Groups
- State Bank of India
- Subsidiary Banks

(2) Private Sector Banks

(3) Indian Banks
- Old banks
- New Banks
- Local Area Banks
- Foreign Banks

(4) NABARAD
- Regional Rural Banks
- Cooperative Banks
- State Co-operative Banks
- District Central Co-operative Bank
- Land Development Banks
- Primary Land Development Banks
4.11 Guidelines to Commercial Banks from RBI for the Financing of Agriculture

RBI circulated among all commercial banks a circular entitled “Guidelines for the financing agriculture by commercial banks” so that the rationale, the policies and procedures for making agricultural loans might be clear to commercial banks.

1. Credit norms and scales of finance: Commercial banks should extend credit not only to already viable cultivators for further increasing their surpluses but more important to marginal and potentially viable cultivators.

2. Margins of Security: Banks were asked to be liberal in their loans to the farmers, and were asked to keep as low a margin on the loans as possible. Most commercial banks were keeping 25 per cent margin on the loans given to the cultivators.

3. Securities against loans to cultivators: As lending was production-oriented, a mere change or hypothecation of crops should be sufficient for short term loans. Besides, pledge of produce, banks could also accept such securities as hypothecation of machinery, mortage of land by deposite of title deeds, pledge of gold ornaments, guarantee of one or two solvent parties, etc. The idea was that the farmer should be able to provide the necessary security without much difficulty.

4. Recovery of defaults: Commercial Banks should evolve a suitable set of rules and procedures to determine the circumstances in which defaults might be condoned on account of crop failures and the manner in which the farmer-borrower might be given relief, as for example by the extension of the loan of its conversion from a short-term to a medium term loan. As for willful defaulters, efficient supervision and timely action alone could help to keep them in check.

5. Need for Co-ordination: In the initial stages of the entry of commercial banks in the field of rural finance, there was unavoidable duplication; it was found that more than one commercial bank as well as co-operative society had financed the same borrower for the same purpose and against the same security. Such duplication would have to be avoided.

Gupta Committee form by RBI gave some recommendations in 1998.
1. Free interest rates on farm loans: According to the Gupta's committee, commercial banks should be free to fix lending rates for loans of all amounts, like in the case of co-operative banks and RRBs. Now, interest rates on loans above Rs 2 lakhs have been freed but banks charge 12 per cent for loans below Rs 2 lakhs. However, the interest costs on these loans are passed on to the loans above that amount. Thus banks charge interest rate as high as 19 per cent for higher quantum loans. The committee refers to this disparity in interest rates “cross subsidization” and recommends complete freeing of interest rates as a solution. According to the committee, the agricultural community places more importance on timely availability of adequate credit rather than on lower interest rates.

2. Scrap 18 per cent targets for agricultural lending: Instead of fixing targets on agricultural credit, RBI should indicate the expected increase in the flow of credit in a given year over the previous year and allow individual banks to prepare appropriate credit plans.

3. Modify service area approach: RBI should modify the service area approach and allow banks to operate outside their areas and the agricultural borrowers should be free to go to any branch.

4. Device a liquid savings package: It is known that farmers tend to invest in land and gold. The banks should consider a liquid savings package for the farmers.

5. Offer farmers a composite credit package: The banks should formulate and offer a composite credit package to satisfy all their short-term credit needs.

4.12 Commercial Banks and Direct Finance

At the time of bank nationalization, it was clearly conceded that the commercial banks did not have the necessary experience/the personnel to deal with farmers directly, even then, the nationalized banks were expected to go vigorously in support of the farmers in general and small cultivators in particular. In the initial stages, for obvious reasons, the nationalized banks concentrated their attention on large cultivators and other special category farmers such as those engaged in raising high yielding varieties of food grains. At present, short-term crop loans account for nearly 46 per cent to 48 per cent of the total loans disbursed by the commercial banks.
to farmers. Term loans for varying periods for purchasing pump sets, tractors, and other agriculture machinery for construction of wells and tube-wells, for development of fruit and garden crops or levelling and development of land for the purchase of plough, animal, etc. are provided. These term loans account for about 35 per cent to 37 per cent of the total loans disbursed by commercial banks. Finally, commercial banks extend loans for such activities as dairying, poultry farming, puggery, bee keeping, fisheries and others, these loans account for the bulk of the credit disbursed by commercial banks viz. 52 per cent of the total credit extended.

4.12.1 Integrated Rural Development Programme by Commercial Banks

The IRDP is, by far, the single largest anti-poverty programme launched by the government of India since 1978. Its main object is to alleviate poverty by augmenting the incomes of the poorest families in rural areas by engaging them in gainful employment. It is basically a programme of productive asset transfer to the Below Poverty Line (BPL) households in the rural areas.

During the sixth plan period, banks sustained their efforts in providing finance under IRDP to provide assistance to families of BPL, so that they can improve their level and cross of poverty line.

The seventh plan strategy, in this context, however, emphasized two aspects,

1. Consolidation of the progress made during the sixth plan, and provision of supplementary assistance to those who have failed to cross the poverty line.

2. Selection of new beneficiaries who should be lifted above the poverty line with a single dose of assistance.

Since October 1980. The government has extended the integrated Rural Development Programme (IRDP) to all development blocks in the country and has asked the commercial banks to finance IRDP. The leading banks have to prepare banking plan, and allocate the responsibility of financing the identified beneficiaries among the participating banks. It has found that commercial banks have not implemented IRDP enthusiastically. But, commercial banks have valid reason for their lukewarm attitude. Firstly, commercial banks have been asked to finance all economically and backward people identified by the government agencies. Commercial banks have found that most of the affluent
farmers have managed to get their names inserted in the beneficiaries list through paying the government officials or through using political pressure. In other words, all the prospective borrowers are not really economically backward and banks have the responsibility to find out the eligible beneficiaries.

Small and marginal farmers are fleeced by petty govt. officials, veterinarians, local politicians and panchayat saniti members, before they could become beneficiaries of bank loans. Ultimately, it is the banks which suffer due to heavy overdues. Accordingly, banks are reluctant to finance IRDP. (Sunita and Sarala)

4.12.2 Commercial Banks and Indirect Finance

There is considerable scope for indirect financing by commercial banks. For instance, commercial banks are financing co-operative societies to enable them to expand their production credit to the farmers. More especially, they increasingly finance co-operatives engaged in the marketing and processing of agriculture produce or in activities ancillary to agriculture such as dairy farming, poultry farming, etc. Commercial Banks are providing indirect finance for the distribution of fertilizers and other inputs. Commercial banks also extend credit to manufacturing or distribution firms and agencies and co-operatives engaged in the supply of pump sets other agricultural machinery on hire-purchase basis. They finance the operations of the Food Corporation of India(FDI), the state govt. And others in the procurement, storage and distribution of foodgrains. (Sunita and Sarala)

4.12.3 Rate of Interest on Agriculture Credit

As a part of reform in the financial sector, interest rates have been deregulated. In the year 2003, public sector banks brought down the interest rate on crop loans up to Rs.50000 to 9 per cent. Subsequently, public sector banks reviewed the position and further reduced the interest rate to 8.5 per cent. Considering the cost of funds, NPA levels and transaction cost, there was little scope for further reduction in interest rates by commercial banks and it was argued that the interest rates on medium and long-term loans vary from 9 to 11.5 per cent. The cost of funds for RRBs was higher as
compared to that for commercial banks. RRBs had accepted long-term deposits by offering higher rates of interest and these deposits were yet to mature. Credit from the sponsor banks, one of the components of working funds of RRBs was available at higher rate of interest than the prevailing market rates. However, to compete successfully, RRBs need to bring down their lending rates proportionately. The rates of interest charged to the ultimate borrowers by the cooperatives have been in the range of 12 to 14 per cent. Even in Northeastern States where the two-tier cooperative structure exists, the rates of interest were in the range of 11 to 13 per cent comparable with rates prevailing in some of the states having three-tier system. Only in a few states like Andhra Pradesh where the state government was subsidizing interest to the extent of 5 per cent, the ultimate rate.

Charged to the final borrower was 7 per cent. To enable NABARD to provide direct refinance assistance to District Central Cooperative Banks (DCCBs) by-passing the State Cooperative Banks, the NABARD Act was amended in 2003. The objective was to reduce the rate of interest on crop loans by Cooperatives. The progress was slow as the State Governments have been unwilling to offer guarantees to NABARD for providing direct refinance to ineligible DCCBs.

4.13 Ratio of Agricultural Credit to Agricultural GDP and Total Credit

In seventies the ratio of agriculture credit to GDP was merely 6 per cent and it grew to almost 9 per cent in next three decades even though our country is having well-developed credit delivery structure. Agriculture Credit by Commercial Banks Under directed lending a target of 18 per cent of net bank credit has been stipulated for domestic scheduled commercial banks for lending to agriculture. Although the target for lending to agriculture has not been achieved by most of the public and private sector banks, the amount of outstanding advances to agriculture in absolute terms has increased continuously over the years.

Only five public sector banks and two private sector banks achieved the 18 per cent target of agriculture lending in the year 2002-03. Special Agricultural Credit Plans Public sector banks have been formulating Special Agricultural Credit Plans (SACP)
since 1994 with a view to achieve marked improvement in the flow of credit to agriculture. Under SACP, banks were required to fix self-set targets for disbursement during a year (April-March). Banks have been advised by the Reserve Bank to fix the targets showing an increase of about 20 to 25 per cent over the disbursement made in the previous year. With the introduction of SACP, the flow of credit to agricultural sector by public sector banks had increased considerably. The key challenge before the banking sector is to double lending to agriculture credit in three years time. In order to achieve the above objective, a target of 30 per cent growth rate was proposed for the year 2004-05. A detailed programme was worked out in consultation with NABARD and Indian Bank Association (IBA) to increase the ground level credit flow to agriculture by 30 per cent during 2004-05. Lending Targets of Commercial Banks for 2004-05 IBA prepared an action plan to achieve 30 per cent growth in disbursement, in respect of public sector and private sector commercial banks. IBA also worked out the details of achieving this target with its member banks and monitor the same. With the expected 30 per cent growth rate, disbursement from commercial banks was expected to increase from Rs.43840 crore during 2003-04 to Rs.56992 crore during 2004-05. IBA was also associated with NABARD in fixing the state-wise/ district-wise targets. As a part of commercial banks’ effort to enhance the flow of credit, the following additional steps were to be taken by the IBA and its member banks: Covering 50 Lakh Additional Farmers Under the framework of SCAP, banks were to try to bring into their fold at least 100 new farmers at each branch during the current year. With 33000 rural branches and over 15000 semi-urban branches, this effort was expected to enlarge the universe of new farmers by around 50 lakh. Kisan Credit Card Scheme Banks were to enlarge the coverage under Kisan Credit Card (KCC) Scheme to all eligible farmers and it was proposed that the Scheme should take care of full production, consumption and investment credit needs of the farmers. Promoting Investment in Agriculture Each rural branch was to take up at least one large agricultural project in the area of land rejuvenation, irrigation or micro-irrigation, sprinkler irrigation, water-shed management, village ponds development, farm ponds promotion, dry-land farming, etc. Agri-Clinics.

In every district, banks were to finance at least ten agri-clinics in 2004-05. Special Scheme for Distressed Farmers A special Scheme was to be worked out for the distressed category of farmers who had suffered production and income losses on
account of successive recurrence of natural calamities, for the districts classified as such by the State Governments. Similarly, another special arrangement was to be worked out to meet credit needs of farmers who had earlier defaulted in repayment of loans on account of genuine problems faced by them and their loan accounts were settled through compromise/write offs.

4.14 Tie-ups with Corporate Sector

Banks have come forward into increasing trends of tie-ups with corporate sector for establishing linkages for funding farmers in a cost-effective manner.

4.15 Lending Targets of RRBs

Lending by RRBs in agriculture stagnated around Rs.6000 crore during 2002-03 and 2003-04. With a view to enable RRBs to increase their credit disbursement, NABARD proposed redeployment of part of their deposits with the sponsor banks. As on 31.3.2003, the investment of the RRBs aggregated to Rs.33063 crore including their deposits with the respective sponsor banks. After accounting for their SLR requirements and leaving adequate margin, RRBs could withdraw Rs.2443 crore from deposits with their sponsor banks for on-lending to small and marginal farmers, rural artisans, etc. under specific schemes drawn up in consultation with NABARD. This initiative apart from increasing the flow of credit to the system was also to enable RRBs to realign themselves with their original mandate. NABARD has been confident that it would be possible to register a growth rate of 40 per cent in RRBs thereby achieving disbursement of Rs.8512 crore during 2004-05.

4.16 Lending Targets of Cooperative Credit Institutions

A 30 per cent growth in disbursement by cooperatives was to increase their credit flow from Rs.30080 crore to Rs.39104 crore. Of Rs.9024 crore, additional disbursement of Rs.5350 crore was to be made available by NABARD in the following manner:

Additional Resources from Cooperative Institutions: The balance gap in additional requirement of about Rs.3500 crore was to be met by credit cooperatives themselves from their own resources.
The deposit level of cooperatives was around Rs.80000 crores with average annual growth rate of 10 per cent. The expected growth in deposits during the year was about Rs.6000 crores of which about 35 per cent would be required for SLR/CRR and additional 15 per cent would be required for investing in other Government securities. It was thus expected that it would be possible to persuade cooperatives to utilize the remaining Rs.4000 crores for agriculture lending. State-wise and bank-wise details of lending by cooperatives during 2004-05 were worked out by NABARD in consultation with State Governments, State Cooperative Banks, Central Cooperative Banks, etc. To achieve this additionally, NABARD worked out action plans with State Governments/Agencies. Disbursements to Small and Marginal Farmers Small and marginal farmers constitute a part of the weaker section in the scheme of priority sector lending. According to the latest data available, landholdings of small and marginal farmers constituted nearly 80 per cent of total holdings and 36 per cent of the total area. Small and marginal farmers would need additional credit support for intensive cultivation. The share of small and marginal farmers in agricultural credit should be commensurate with their holdings and credit needs and, therefore, credit to small and marginal farmers was required to be progressively raised. As part of the extant guidelines, domestic commercial banks were required to extend not less than 10 percent of net bank credit to weaker sections, comprising small and marginal farmers, landless labourers, artisans, borrowers of government sponsored poverty alleviation programmes, etc. As on 31 March 2003, as against the mandate of 10 per cent, the public sector banks had extended credit only to the extent of 6.76 per cent of net bank credit (Rs.32304 crore) to weaker sections. Only 6 out of 27 public sector banks had achieved the 10 per cent goal for financing/weaker sections while the remaining banks had achieved between 9.4 per cent and 1.97 per cent of the targets. It was, therefore, proposed to request RBI to suitably advise public sector banks to achieve the targeted lending to weaker sections. RBI had advised banks to waive security requirements for agriculture lending up to Rs.50000 and in the case of agri-business and agri-clinics for loans up to Rs.5.00 lakh. An area of concern has been the exclusion of tenant farmers and oral lessees from access to bank credit on account of extant restrictions on recording of oral lease and other legal impediments. To make a modest beginning in addressing this situation, NABARD earmarked Rs.50 crore as a token provision for facilitating formation, linkage and financing of such groups during
2004-05. This exploratory effort was to bring over a lakh tenant farmers, oral lessees, share croppers, etc. within the banking fold.

4.17 Rural Banking Development

Farmers and rural masses are genuine and honest in utilizing the farm credit and repaying the loan promptly. The rural banking is a viable business proposition for the bankers.

There is a lot of untapped banking potential in rural areas. Country as a whole, there are more than 30,000 rural branches and about 19,000 semi-urban branches of scheduled commercial banks as of 2010. These branches constitute 65 per cent of the total 77,000 bank branches in the country by account for 23 percent of the total deposits and 16 per cent of the total branches.

The Invest India Market Solution (IIMS) survey indicates that only 14 per cent of agricultural wage labourers have bank accounts. There is a vast scope of agricultural and rural development through financial inclusion. Hence rural banking is one of the important building blocks odd our nation’s economy (Rajan, M.S, Sundara, 2009).

A revolutionary step in making the credit access is the microfinance programme. NABARD has been making continuous efforts through its microfinance programme of improving the access of the rural poor to formal institutional credit. The self-help group bank linkage programme was introduced in 1992 as a mechanism to provide the poor in their rural areas at their doorsteps, easy and self-managed access to formal financial services on a sustainable basis by enabling them to gain access to banking services on a cost effective manner. Around 547 (47 commercial banks, 158 RRBs, and 342 co-operative banks) are now actively involved in the operation of this programme. As on December 2007, 30.51 lakh self help groups availed bank loans of Rs. 20,114 crores. The average bank loan availed per SHG and per family amounted to Rs. 65,924 and Rs 4,078 respectively. During 2006-07, as against the target of 3.85 lakh new SHGs, as on December 31, 2006, as many as 2.38 lakh SHGs were credit linked and bank loans of Rs 13,522.86 crores were disbursed. There are about 498 banks( 50 commercial banks, 96 amalgamated RRBs and 352 cooperative banks) actively participating in microfinance programmes. (Nair, Anjana, 2009).
It is clear that significant progress has been made, since independence, in expanding bank branches habits in the rural areas, through a variety of institutional innovations. An impressive segment of rural economy has been brought into the ambit of formal financial intermediation, mainly through the public sector banking system, and to some extent, through cooperative and RRBs. The future of banking in rural areas would, however, depend on several factors that have been described, namely, how the current concerns are addressed taking into account the dynamics of transformation in rural economies, the new realities in credit markets, the linkages between formal and informal markets, and the impact of financial as well as technological progress on the system of financial intermediation (Reddy, 2000, RBI Bulletin). The major bottleneck is inadequate arrangements for risk mitigation, be it in regard to quality of timeliness of inputs especially seed, fertilizer, water, power or price of outputs. The risk mitigation for natural calamities or vagaries of weather is often discretionary, based on assessment and response of public policy. Risk mitigation mechanism will make credit disbursal also risky (Reddy, 2007, RBI Bulletin).

There is favourable environment in the country for banks to play an important role in the rural development in general and poverty reduction in particular. Providing ubiquitous and comprehensive financial services is critical to maintain the growth in rural areas. It is necessary to view both agriculture and other non-farm rural business as profitable commercial activity and ensure that policies and products are suitably designed to meet specific needs in rural areas. The need of the hour is to ensure financial inclusion to all eligible for a bank account and provide financial services as required in rural areas. (Ahmad Rais, 2019, P.611)

4.18 SHG Bank Linkage – A step towards Agri-banking

In India over the years various poverty alleviation programmes have been initiated by Government as well as voluntary organisations. Despite these efforts, not much difference is seen in the magnitude of poverty as discussed above. In spite of having an impressive coverage, the formal banking sector has had a limited impact on lending to the poor. Over its entire lifetime, the formal rural banking system in India has struggled to balance the dual objectives of outreach and financial performance. Because of this need was felt to put in place a new vehicle of financial intermediaries, which could be cost-effective for the banks and user-friendly for the poor. This way,
the poor could relate to banks in a better manner, and the banks, in turn, could consider banking with them as a better business proposition. The challenge, therefore, was to link a large number of economically underprivileged ones to the formal banking sector, in a sustainable and cost-effective manner.

By the late 1980s, the rural financial system had virtually collapsed amid heavy regulations, distraught market conditions, dual lines of control, and mounting arrears. The beginning of 1990 saw India face one of its worst balances of payment crises. In 1991, under the initiative of the International Monetary Fund, India undertook a liberalization of its economy. Liberalization had an important bearing on the financial sector; banks, which had turned weak, were confronted with the challenge of making themselves profitable while maintaining their prudential requirements and competing with private and foreign banks in a new liberalized milieu. At this time, the rural credit system needed a fresh approach that could induce rationalization of the processes, policy, and regulations and consequently increase returns. Around this time, Asian countries like Bangladesh, Indonesia, Sri Lanka, and Thailand and Latin American countries like Bolivia, Cambodia, and Chile were effectively adopting the new microfinance approach. One of the reasons for the universal popularity of the approach was the extraordinary repayment rate of 95% and more (Hema Bansal, 2003). The failure of different approaches to provide credit to the poor gives rise to microfinance movement in India, the adaptation of the new microfinance approach by rural financial institutions assumed the form of the “Self-Help Group–Bank Linkage Program”. Microfinance groups or self-help groups (SHGs) began to set up in India around three decades ago. These were essentially mutualities of poor people built up through their own routine savings (Nilakantha Rath, 2007). Launched by some NGOs in the 1980s, this approach gathered momentum in the 1990s. Microfinance provides an important way to balance the outreach among the rural poor while keep the cost of lending low. To the extent that the costs of credit risk assessment and monitoring can be reduced with the help of NGOs, banks can actually reach out to a large number of truly poor households without incurring heavy transactional expenses.

The SHG movement in India is basically aimed at utilizing the SHG’s as an 'intermediary' between the banks and the rural poor to help drastically reduce transaction costs for both the banks and the rural clients. In India over the last two
decades or so, National Bank for Agriculture and Rural Development (NABARD) has been working for linking Banks and SHGs. NABARD’s programme Linking Banks and Self-Help Groups aims at providing sustainable access to financial services to the rural poor, with a focus on those who had been considered un-bankable. By using the existing rural financial infrastructure of 1,50,000 banking and cooperative retail outlets and linking them to savings and credit groups with joint liability, there are economies of scale and scope, resulting in substantially lower transaction costs (Harishmumar, 2002). Self-Help Groups, usually at the behest of certain developmental non-government organizations (NGOs), have quietly mushroomed in most districts of India over the last few years. Millions of poor, predominantly women, are now members of thousands of SHGs. Till 2002 the SHG Bank Linkage Programme of NABARD has covered 461,478 SHGs with total cumulative lending of Rs 1,026 crores (US $ 218.27 million). The accumulated savings in SHGs exceeds Rs 875 crores (US $ 186.31 million) by unofficial estimates. 90% of SHGs financed were exclusive women groups. 444 Banks (121 RRBs, 209 cooperatives banks, all 27 public sector banks and 17 private banks) with a total of 17,085 branches participated in the program providing credit to about 7.8 million poor households in 488 districts Average loan sizes are Rs 22,240 (US $ 463) per SHG and 1,300 (US $27) per member(Kropp & Suran,2002). Providers of micro financial services to the poor include donor-supported, non-profit non-government organizations (NGOs), cooperatives; community-based development institutions like credit unions; commercial and state banks; insurance and credit card companies; wire services; post offices; and other points of sale. NGOs and other non-bank financial institutions have led the way in developing workable credit methodologies for the poor and reaching out to large numbers of the poor(Hansiya & Jahfer, p99).

4.18.1 SHG Movement encourage rural poor for agriculture finance

In 1987 a study team led by NABARD comprising of other Indian members of APRACA- conducted a survey of about 40 to 50 organizations of varying sizes and representing various activities and regions; one of them was MYRADA which had in place an alternate credit system owned and managed by SHGs of the poor. An action research project on SHGs was started by MYRADA in 1987 with NABARD providing the research and development grant. In the same year the Ministry of Rural
Development provided PRADAN with support to establish self-help groups in Rajasthan. Subsequently the pilot project of linking 500 SHGs to banks was started in 1992 with the objective of linking and financing existing SHGs as grassroots intermediaries to banks across the country for both savings mobilization and credit delivery (Kropp & Suran, 2002). The Pilot phase was followed by setting up of a Working Group on NGOs and SHGs by the Reserve Bank of India in 1994, which came out with wide ranging recommendations on internalization of the SHG concept as a potential intervention tool in the area of banking with the poor. The Reserve Bank of India accepted most of the major recommendations and advised the banks to consider lending to the SHGs as part of their mainstream rural credit operations.

Self Help Groups form the basic constituent unit of the microfinance movement in India. Although the term self-help group is used in different countries to describe a variety of financial and nonfinancial associations, in India SHG refers to a group of a few individuals – usually poor and often women – who pool their savings into a fund from which they can borrow as and when necessary. Such a group is linked with a bank– a rural, co-operative or commercial bank– where they maintain a group account. Over time the bank begins to lend to the group as a unit, without collateral, relying on self-monitoring and peer pressure within the group for repayment of these loans. According to NABARD, SHG is a group of about 20 people from a homogeneous class, who come together for addressing their common problems. They are encouraged to make voluntary thrift on a regular basis. They use this pooled resource to make small interest bearing loans to their members. The process helps them imbibe the essentials of financial intermediation including prioritization of needs, setting terms and conditions and accounts keeping. This gradually builds financial discipline & credit history for themselves, as the money involved in the lending operations is their own hard earned money saved over time with great difficulty. This is ‘warm money’. They also learn to handle resources of a size that is much beyond their individual capacities. The SHG members begin to appreciate that resources are limited and have a cost. Once the groups show this mature financial behavior, banks are encouraged to make loans to the SHG in certain multiples of the accumulated savings of the SHG (Puhazhendi. V and K. C. Badatya, 2002). The SHG Bank Linkage model of NABARD focuses on participation, capacity building and empowerment of members and clients. This is a process oriented model where high
emphasis is given on savings and credit activities through capacity building of the members who are organised into SHGs. Client base is built up over a period of time in a participatory manner. Creation of sustainable community basic institutions is the core component of this model. SHG bank Linkage Programme adopted by NABARD with partner agencies has emerged as a socially significant as well as commercially viable credit delivery model (NABARD, 2004).

Many self-help groups, especially in India, under NABARD’s SHG-bank-linkage program, borrow from banks once they have accumulated a base of their own capital and have established a track record of regular repayments. This model has attracted attention as a possible way of delivery microfinance services to poor populations that have been difficult to reach directly through banks or other institutions. The core of SHG bank linkage in India has been built around an important aspect of human nature-the feeling of self-worth. Over the last several years, it has come to symbolize an enduring relationship between the financially deprived and the formal financial system, forged through a socially relevant tool known as Self Help Groups (SHGs).

An amazingly large number of formal and non-formal bodies have partnered with NABARD in this unique process of socio-economic engineering. What had started off in 1992 as a modest pilot testing of linking around 500 SHGs with branches of half a dozen banks across the country with the help of a few NGOs, till 2002 involves about 20,000 rural outlets of more than 440 banks, with an advance portfolio of more than Rs 1,200 crore (around $240 m) in microfinance lending to SHGs. Financial services have reached the doorsteps of over 8 million very poor people, through 5,00,000 SHGs, hand-held by over 2,000 development partners (Wilson, 2002).

The overall strategy adopted by NABARD relies on two main planks: (a) expanding the range of formal and informal agencies that can work as SHG promoting institutions, and (b) building up capacities of the increasing number of stakeholders. The key to all such initiatives has been training and capacity building of various stakeholders including the SHG members themselves (Puthazhendi and Badatya, 2002), NABARD has been instrumental in facilitating various activities under microfinance sector, involving all possible partners in the arena. It has been encouraging the voluntary agencies, bankers, and socially spirited individuals, other formal and informal entities and also government functionaries to promote and
nurture SHGs. The focus in this direction has been on training and capacity building of partners, promotional grant assistance to Self Help Promoting Institutions (SHPIs), Revolving Fund Assistance (RFA) to MFIs, equity/capital support to MFIs to supplement their financial resources and provision of 100% refinance against bank loans provided by various banks for microfinance activities (NABARD, 2009).

4.18.2 Major Advantages of the SHG Bank Linkage Programme

- By aggregating their individual savings into a single deposit, self-help groups minimize the bank's transaction costs and generate an attractive volume of deposits.
- Through self-help groups the bank can serve small rural depositors while paying them a market rate of interest.
- An economically poor individual gains strength as part of a group. Besides, financing through SHGs reduces transaction costs for both lenders and borrowers.
- Lenders have to handle only a single SHG account instead of a large number of small-sized individual accounts.
- Borrowers as part of an SHG cut down expenses on travel (to & from the branch and other places) for completing paper work and on the loss of workdays in canvassing for loans.
- Most Indian SHG programs reach out to vulnerable and marginalized people who own little or no land are predominantly illiterate, and who lack access to formal sources of financing.

The Indian microfinance sector has played a laudable role in improving the lot of the economically disadvantaged. What's more, it has unleashed the potential of the economically challenged, propelling them up the economic ladder. The microfinance movement has channeled resources of the banking sector to the economically challenged in towns and villages (Balasubramanian, 2010).

4.18.3 The Ten Pillars of the SHG Linkage Programme:

- Self Help supplemented with mutual help can be an effective instrument for the amelioration of the economic conditions of the poor.
- Participative financial service management is more efficient and responsive.
- Poor can save and are bankable.
- The capabilities of the banking system can meet the expectations of the poor.
- Poor need credit support as well as savings and other services.
- Small cohesive group of the poor with initial outside support can effectively manage and supervise micro credit among its members.
- SHG is a pre micro enterprise stage for a majority of the poor.
- SHG as client facilitates wider outreach and lower transaction cost including risk costs.
- Empowerment of poor and especially women could be one of the major outcomes (NABARD, 2000).

4.18.4 SHGs formed and Financed by Banks

According to the SHG model, banks themselves act as Self Help Promoting Institutions i.e. engaged in forming and nurturing the groups, opening their savings accounts and providing them bank loans. Group members act as collateral security. In this model the credit is generally made available to the group and members to be financed are identified by the group itself, which takes the responsibility of loan repayment.

4.18.5 Bank Loans Disbursed to SHGs during Various Years

In terms of rupees, banks loans disbursed to SHGs increased from Rs 135.91 crores during 1999-00 to Rs 14,453.30 crore during the year 2009-10, thus showing a tremendous growth over various years. Growth of bank loan disbursed to SHGs over various years (NABARD).

4.19 Linkage of Commercial Banks to SHGs

The system adopted by commercial banks allows SHGs members to maintain a more regular financial flow support for the family and for the micro enterprise operated by the family/SHG. Microfinance stands out as a commercially viable alternative system of financial access for the poor. A highly flexible financial service structure has been made available to poor households with the introduction of “SHG-Banking”, which
allowed them to increase their income in most cases and to stabilize their irregular income flow.

It enables borrowing for the SHGs members for a variety of self-chosen purposes at irregular intervals from the SHGs.

It tunes the allocation of funds with the needs of group members at local level inside the SHG dominated financial self help system (without formal requirements). At bank branch level to the SHGs it provides a very flexible credit line from the banking system at an accepted interest rate (mostly 12 percent p.a.) and also provides small loans to the SHG members internally from the SHG-fund.

It offers deposit facilities both at the group and at the bank level that enables conduct of regular saving transactions both separately and on group saving accounts (almost 24 hours a day).

Through the SHG movement an ideal combination of “banking with poor” and “banking by the people” has been born which also includes the formal banking sectors. In the future it may also help in providing insurance services to the SHG members on large scale.

The economic impact of SHG-Banking on poor households has been captured in several studies; some evidence indicates that it:

- Enables better propensity to save.
- Permits superior net incremental income.
- Also helps in smoothening income inequalities.
- Assists reduction of indebtedness with money lenders and freedom from bondages.
- Enables additional employment (person days) generation.
- Play very important role in empowerment of women.
- The good performance of the SHG-Banking Programme is due to its strategy to mobilize underused capacities (that is particular skills and assets of low income people particularly women) of the target group.

The result achieved so far is unexpected. The formal Banking System in India has accepted the challenge of incorporating microfinance into their business policy.
Formal microfinance services are not only in theory but now they are available and accessible to low income families. An increasing number of formal financial institutions like branches of RRBs, commercial bank branches and cooperative banking institutions are offering microfinance services now. The lopsided geographical spread of SHG-Banking is on account of non-availability of suitable partners in SHG-formation. In areas (state/provinces) with potential for SHG-banking promotion like Bihar, Madhya Pradesh, Rajasthan, Uttar Pradesh, Orissa, it is non-availability of capable NGOs which cause serious constraints for a quick spread of the programme. India’s labor force has been increasing at a rapid rate because of the age composition of the population resulting from a demographic transition. This is a potential strength of the economy, but enough jobs need to be created to reap the economic gains from it. But it is almost impossible for the government to create jobs for such a large section of the population. In such a scenario availability of microfinance will help the poor people in starting the self-employment basically in the rural areas which will help in the overall growth of the Indian economy. The Indian economy at present is at a crucial juncture, on one hand, the optimists are talking of India becoming one of the top economies of the world within the few decades and on the other hand about one-fourth of Indian population is still living below poverty. The enormity of the task can be understood from the above number and if India is to stand among the league of developed nations, there is no denying the fact that poverty alleviation & reduction of income inequalities has to be the top most priority. In this backdrop, the impressive gains made by SHG-Bank linkage programme in coverage of rural population with financial services offers a ray of hope.

4.20 Technology and Rural Banking

The word today is witnessing rapid and revolutionary developments in technology. Another important advantage of the present day technology, information technology in particular, is that it can be used by even a layman.

4.20.1 ATMs

Mostly, the commercial banks users in semi-urban, urban, urban metros are using the ATMs. No ATM has been installed in rural areas, thus depriving the people there of the facility of ATM. This is due to general perception of commercial banks that
ATMs are needed for literate and high value customers in urban and metro areas only. However, the fact is that today even the agriculturists, more particularly rich farmers require instant cash not only to meet the cost of agriculture operations but also to purchase at urban centers agriculture inputs such as fertilizers, seeds, pesticides and also incidental expenses incurred in connection with marketing of their agriculture produce. If agriculturists-borrowers are provided access to networked ATMs, this need can be met effectively (Prasad, P. Siva Rama, 2005). With major banks increasingly focusing on tapping the rural markets, banks and technology solutions providers are also gearing up to develop suitable solutions for rural banking.

4.20.2 Biometric ATM

The Mumbai based company has recently deployed independent biometric solutions that can be tagged on to any ATM. The advantage of this is that the banks need to depend on a particular ATM vendor to offer vendor biometric services (The Hindu Business Line, 2007)

**Smart Card**

Another development relates to the increasing popularity of credit cards, which are bound to reach rural areas. Many Public Sector Banks are already in credit card business. In fact, multipurpose cards could be a facility that IT could usher in for rural population. The potential can be illustrated with SMART cards. SMART card-which are basically cards using computer circuits in them thereby making them intelligent can serve multi-purpose cards. SMART cards are essentially a technology improved version of credit card and debit cards and could be used also as ATM cards. They could be used for credit facilities at different locations by the holders. SMART cards could also be used for personal identification and incidentally for monitoring credit usage.

For the spread of virtual banking and SMART cards to rural areas. It is essential that electric power and telecom connectivity are continuous and supplies do not drop especially during the hours when a bank’s transactional activity is at relatively high levels. The banks could, under such assured supply conditions acquire the required banking software and also put in place the necessary networking for providing semi-urban areas also (Reddy, 1999).
Rural Bank branches generally have staff shortages, adversely affecting credit assessment and quality of service. With the exit of large number of experienced staff under the voluntary retirement schemes of the banks, the availability of expertise for credit management in rural branches has become more scarce than before. It is here that technology can be used for achieving more scientific and quicker assessment of credit risk through credit scoring models and workflow automation. It should be possible build fairly robust credit scoring models using the Indian data for the important sectors of the rural economy through rigorous research and make such models available to the bank branches for use. That would improve the quality of credit assessment by enabling each credit risk to be evaluated more systematically and objectively. (Satchidananda, et al. 2004)

The information technology application can help in reducing the delays and the documentation through workflow automation. This provides an elegant method of achieving speed and accountability and would improve the performance in rural branches.

4.20.3 Kisan Credit Cards

The Kisan Credit Card (KCC) scheme, introduced in August 1998 for short-term (ST) loans for Seasonal Agricultural Operations (SAO), with the objective of providing adequate, timely, cost effective and hassle free credit support to farmers was being implemented across the country by all public sector commercial banks, RRBs and Cooperative banks. To cater to the comprehensive credit requirements of farmers under a single window, the scope of KCC was broad-based by NABARD, from time to time. In addition to short-term credit and term loans for agriculture and allied activities, a certain component of loan through KCC also covers consumption needs (Economic Survey, 2007,08)

To provide adequate and timely support from the banking system to the farmers for their cultivation needs including purchase of all inputs in a flexible and a cost effective manner.

As on 31.3.2004, 4.14 crore Kisan Credit Cards were issued by cooperatives (243 lakh), RRBs (39 lakh) and commercial banks (132 lakh). A large number of farmers were considered ineligible to receive Kisan Credit Card for reasons such as default,
lack of clear title deeds, documentation etc. National Council for Applied Economic Research (NCAER) conducted an impact study of KCC Scheme at the behest of RBI. In the light of NCAER’s findings, the scheme was to be reviewed One Time Settlement (OTS) for Farmers:

Many farmers, especially small and marginal farmers had defaulted in the past and as such they had become ineligible for fresh credit from financial institutions. RBI was to consider introducing a fresh OTS scheme to enable such farmers to settle their accounts in a transparent manner. Based on the RBI scheme, NABARD was to take follow up action in respect of RRBs and Cooperatives. This step was expected to help farmers in settling their accounts and draw fresh credit from the financial institutions.

4.21 Raising Scale of Finance

At present the scale of finance suggested by the District Level Technical Committees, though only indicative, was adopted by banks as a benchmark. RBI/ NABARD have been requested to review the scales of finance to meet the realistic credit needs of more capital-intensive agricultural operations. Regional Offices of NABARD were being advised to organize State-level and District-level meetings for revising the scales of finance as also to emphasize that they were only ‘scale’ rather than an absolute amount as of now.

4.22 Agriculture Credit in Uttar Pradesh

It was important to know the trends in ground level credit flow to agriculture, number of loan accounts, coverage of new farmers, etc. To identify factors responsible for decrease, if any, in the number of farmers supported on a year to year basis and suggest strategies to arrest and reverse the trend. To study the existing Management Information System (MIS) used by Rural Financial Institutions (RFIs) for reporting number of farmers/new farmers covered and to suggest changes for ensuring effectiveness of the reporting system. To assess adherence to guidelines issued by RBI regarding.

Agricultural credit, especially in the post doubling of credit period. To study issues relating to investment credit with respect to the factual position in respect of farmers financed for investment purposes.6. Review implementation of KCC as a product, its effectiveness in ensuring hassle-free credit to farmers as well as to obtain feed-back
from farmers regarding the reasons for dormancy of KCCs, wherever such situation occurred.

4.23 Trend in Credit Flow, Loan Accounts and Coverage

Credit plays a very important role in enhancing agricultural production and investment. In 2003-04, total institutional credit flow to agriculture stood at Rs.86,981 crore. During 2004-05 (the first year of the programme), the figure stood at Rs.1,25,309 crore which increased to Rs.1,80,486 crore in the next year and further rose to Rs.2,03,297 crore in 2006-07 (the last year of the programme). Thus, the credit flow to farm sector doubled during two years as against the stipulated time period of three years. Though Government of India and Reserve Bank of India have initiated some steps in this direction, the public and private sector banks were also recognizing business potential of rural credit (may not be purely for crop production) and reorienting their policies accordingly. The share of commercial banks in total agricultural credit increased from 54 per cent in 2001-02 to around 69 per cent in 2004-05. It may also be noted that the share of investment credit increased from 35 per cent in 2001-02 to around 41 per cent in 2004-05, despite the negative growth achieved by the long-term cooperative credit structure. Despite these changes, there were serious quantitative and qualitative concerns. The poor outreach of the formal institutional credit structure was a serious issue that requires to be corrected expeditiously. NSSO 53rd round revealed that only 27 per cent of total number of cultivator households received credit from formal sources. The rest comprising mainly small and marginal farmers had no access to credit. Comprehensive measures aimed at financial inclusion in terms of innovation of products and services to increase access to institutional credit were urgently required. Other issues such as credit flow to tenant farmers, oral lessees and women cultivators, complex documentation processes, high transaction costs, lack of availability of quality inputs across all regions, inadequate and ineffective risk mitigation arrangements, poor extension services, weak marketing links and sectoral and regional issues in credit were also required to be addressed expeditiously.
4.24 Doubling of Credit Flow: Aggregate Level

In June 2004, Government of India announced a credit package envisaging doubling of agriculture credit over a period of three years beginning from 2004-05 and 30 per cent growth of credit flow to agriculture every year thereafter. In this chapter the attempt was to analyze the trend in credit flow to agriculture, number of loan accounts and coverage of farmers of various categories in five states since June 2004.

Data shows that in Uttar Pradesh doubling of credit was achieved by commercial banks in 2005-06 when RRBs did it in 2006-07 and cooperatives did not achieve it. At the aggregate level, doubling in credit flow was achieved in 2006-07. Except for cooperative banks, in others there has been continuous increase in flow of credit in Uttar Pradesh.

4.25 Credit Support to Agriculture

The "Farm Credit Package" announced in June 2004 stipulated among other things, doubling the flow of institutional credit for agriculture in the ensuing three years. The credit flow to the farm sector got doubled during to years as against the stipulated time period of three years (Economic Survey, 2007-08). The details regarding progress of agency-wise credit flow to agriculture and allied sectors is given in the table.

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<td>86981</td>
<td>125309</td>
<td>180456</td>
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Source: Economic Survey 2007-08
4.26 Agri-Business

The programme on agri-clinic and agri-business was launched by Ministry of Agriculture, Government of India, in association with NABARD with an objective to facilitate the farmers by extending new technologies of farming through trained agricultural graduates. In view of the policy package announced for doubling of agriculture credit, the banks had to sponsor and finance at least 10 agri-clinic/business centres in each District as per the government directives. The objectives of the agri-clinic scheme were: (i) to supplement the efforts of government extension system, (ii) to make available supplementary sources of input supply and services to needy farmers, and (iii) to provide gainful employment to agriculture graduates in new and emerging areas in agriculture sector. Thus, NABARD took the initiative of providing training to those eligible graduates and also provides capital subsidy for setting up of the unit as well as interest subsidy on the loans availed under the scheme. The units could be established for host of activities which could result in sustainable income for the graduates apart from increasing the productivity in rural areas by adopting scientific measures and protocols. Greater emphasis was being given on formation of atleast 10 ACABC units in each District. The banks have been encouraged to finance a group of entrepreneurs belonging to different disciplines. The project may be taken up by agriculture graduates individually or on joint/ group basis. The group may normally be of five, of which one could be a management graduate with qualification or experience in Business Development and Management.

4.27 Monitoring Information System (MIS)

Under the ‘Service Area Approach (SPA)’, ‘Service Area Monitoring Information System’ (SAMIS) was introduced to facilitate meaningful analysis of sectoral credit flow as well as to build up a strong and uniform data base on agricultural credit. It was envisaged that the bank branches would codify the data and submit in Lead Bank Return (LBR) format regularly and the Lead Bank would arrange to generate the reports utilizing the software supplied to them for the purpose. Although the system was in vogue for nearly one and a half decades, it could not be stabilized. Rather, it was withdrawn while dispensing with the SAA in December 2004. Subsequently, NABARD formed the Working Group and reviewed the SAMIS reporting system in
consultation with major CBs, IBA and RBI and forwarded the recommendations to RBI for its approval. Some of the recommendations of the Working Group were: SAMIS to be renamed as Priority Sector MIS, LBRs to be made statutory, SAMIS to follow BSR Coding System to facilitate integration, avoid multiple entries at branches and to ensure error free and timely reporting, supply of District-wise consolidated data to SLBC, etc. Subsequently, NABARD made some revision in the format of new MIS and again forwarded to RBI for its approval in April 2007. The new MIS would be effective only after the issue of operational guidelines by RBI.

4.28 Problems of Commercial Banks in Agricultural Credit

The annual credit needs of the agricultural sector in the next few years are estimated to rise to Rs 2,00,000 to Rs 3,00,000 crores. To meet these needs is an enormous task, and responsibility will have to be borne by commercial banks in the agricultural sector are limited, it is important that every commercial bank attempts to make optimum use of its limited resources in this sector. While financing to agriculture, the problem is not only quantitative but also coverage vis-a-vis the organization and the personnel available to the nationalized banks. The majority of the rural population consists of small farmers. There are 550000 villages spread throughout the country. To reach all of them with only about 47,000 banking branches is a difficult task. Even with the completion of the branch expansion programmes of the commercial banks now in hand or which may be undertaken during the next 5 to 10 years. Commercial Banks may not in a position to cover many of the villages. Moreover, in recent years, the rural branches of the commercial banks in general and branches of RRBs in particular have been under severe financial strain on account of higher transaction costs involved in handling of large number of small size loan accounts and lower interest income because of concessional rate of interest on small size loans. Finally, the presence of over dues, particularly after the implementation of agricultural and credit debit relief schemes, 1990 has further adversely affected the viability of rural branches of commercial banks. Under these condition, if the development of agriculture is not to suffer for want of credit and there has to be improvement in the lot of innumerable small farmers, new directions will have to to be given to schemes of financing agriculture.
4.29 Constraints in Agriculture Credit through Commercial Banks

It is a well-known fact that the commercial banks have progressed tremendously in the sphere of agriculture credit. Even though there are some problems which are faced by commercial banks. These problems may include legal, institutional, procedural, environmental, political and social. These may be classified as:

(a) Institutional Problems: Institutional problems are posing a number of difficulties. India is known as the country of the villages as most of the per cent of its population resides in the villages. Keeping constant touch with all these villages by the establishment of a comprehensive network of branches a very huge task. Besides this a lack of trained staff also a matter of concern. The staff should know the local language and also should be aware of local traditions so that people must not feel in the awkward situation and the rural people may feel at home. Finding suitable accommodation, preparing suitable and simplified forms keeping in view that huge agricultural population is still largely illiterate, making provision for security of funds have been and continue to pose serious problems which will have to be tackled successfully.

(b) Legal and Administrative Problems: There are several legal and administrative problems which may become hindrance in the smooth functioning of the commercial banks. For example, in many areas, particularly in Zamindari areas, land records have not yet been completed and would take considerable time before they are completed satisfying all the legal requirements. In the tribal areas where financial problems are very acute, complex legal problems exist because of non-transferability of land, absence of cadastral survey and variations in tribal rights from the one tribal area to another creating further complexities.

(c) Documentation Problems: Generally most of the agricultural credit borrowers have very little knowledge of any paper work or documentation because of their illiteracy and this results in very time consuming procedure of doing formalities. Even though these are considered the internal problems, the officials of the commercial banks face difficulties to solve these kind of problems. And due to the illiteracy of most of the
agriculturists, they hardly try to accept the changes in the simplification of the work.

(d) Cost Problems: It is a well-known fact that the amount provided to agriculturists is very small. Not only borrowing per agriculturists is low, but there is also required in the majority of cases follow-up action to ensure payment of interest and principal. Fluctuations in the prices of commodities are a major hindrance as this creates problems for honest agriculturists to pay on time. This pushes up cost of supplying credit to farmers by commercial banks. At present, the higher costs of agricultural credit are borne by commercial banks with the help of the cushion created by fairly higher return on borrowing by other than agricultural sector, especially in urban areas.

(e) Problems related to environment: Environment related problems are very often faced by commercial banks. As we all are aware that major part of Indian agriculture depends upon monsoon which is very unpredictable and merely one fourth of the land gets real supply of water. There is dry farming over vast areas in most of the states. Due to this the prices of agricultural products remain not a fixed rate. As a result farmers hardly save anything from their earning.

(f) Political and Social Problems: In rural areas, commercial banks are bound to work under social and political climate which is not always conducive to its successful monitoring. Most of the beneficiaries are small, marginal and landless agriculturists and possess hardly any assets. And they are very much under the supervision of money lenders as they provide instant loans to the needy people in spite of higher interest rate farmers are very much in need of the loans at a particular time. Politically also there appear to be many difficulties. This because of the cultural differences even within the same village like caste, creed, language, and territory. Panchayat level difference to the national are also play a vital role in delivering the credit.
4.30 Problems Faced by Commercial Banks in Creditng Agriculture

Providing loans to the agriculture related activities has not been a easy task for commercial banks in India. Some of the major issues are faced by the commercial banks in providing direct financed to agriculture.

(1) Problems of certificate and documents: Commercial Banks have pointed out the agricultural borrower’s difficulties in obtaining extracts from revenue records to establish their ownership or tenancy rights in land. It is the guideline of RBI that commercial banks cannot process the application without these documents. And revenue official are not so helpful and it creates problem in getting these documents. Some commercial banks consider available facilities as inadequate for creating proper mortgages.

(2) Unequal behaviour with cooperative banks: Commercial banks feel in a very awkward situation as these do not have free hand in implementing their credit schemes. According to Talwar committee Commercial banks have charged more stamp duty on them as compared to cooperative banks. Commercial banks have to pay higher fee for registering mortgages and charges payable for searching the records.

(3) Inadequate Infrastructure: Inadequate infrastructure facilities, particularly roads has been a handicap in implementing agricultural credit schemes. Particularly in the interior regions and hilly and tribal areas.

(4) Unsupportive development programmes: According to a number of commercial banks, successful implementation of credit schemes for certain purposes like minor irrigation, dairy developments, poultry and fisheries crucially depends on development programmes. In all these matters, delays in implementation of the developmental programmes by State Government have often adversely affected agricultural credit schemes undertaken by commercial banks.

(5) Behaviour of Commercial Bank staff: Some commercial Banks complain that in the matter of implementing their agricultural credit schemes, “they were handicapped by non- availability of adequate and competent staff, particularly field staff, at some of their branches.” (Desai, 1990)
Recommendations of Committee of the RBI for making Commercial Banks' lending more successful: It was recommended that the agricultural credit schemes should be critically appraised at the stage of sanctioning them. The following aspects should receive careful attention, (a) Economic Viability of loans; (b) Repayment schedule of loans; (c) Infrastructure support to and functional linkages of the purpose of loans with other activities and development programmes; (d) Scope of giving loans to the weaker sections under the scheme; and (e) staff required to implement the scheme.

The committee also recommended that "The task of presanction appraisal of schemes up to a specified amount should be decentralized up to zonal/regional levels in a phased manner in those commercial banks where this function is still carried out at the head office."
Chapter 5

Analysis of Agriculture Credit Performance in U.P. and Etawah
Chapter-5: Analysis of Agriculture Credit Performance in UP & Etawah

Analysis of Agriculture Credit Performance in
UP and Etawah

In the new century since 2000 Indian economy has faced so many challenges and opportunities. Due to the emergence of service sector as main driver of the economy Indian economy has transferred from an unsuccessful agricultural economy to a rapidly growing one since last few years. During the last two decades the economy has shown an average annual growth rate of approximately 6 to 8 per cent. Due to the growth rate of economy and per capita income the level of poverty in the country has reduced up to some much desired levels in the country and accelerated improvement in various indicators of human development. Though there is a great difference of opinions among knowledgeable people as regards growth not being inclusive and balanced. It is believed and said that there exist huge diversity and regional disparity across the economy at state level. The gap between rich and poor regions that existed even at the time of independence has widened over the years and significantly intensified during the period of reforms. (Rakesh and Reena)

And there are so many studies which have been done explaining the issue of agriculture finance in the rural areas. Most literature reviews have mentioned state as unit for measuring performance of agriculture credit and have sought to scale the impact of development policy on relative development of these rural areas. And government offices have utilized such studies’ findings to make policies to promote balanced rural development. The policies adopted by the government have not met with the level of success and also inequality among village culturists has increased due to which the economy is showing its unadoptable face. One very important factor which causes partial success to efforts of balanced developments has been the neglect of variations among the different kind of farmers in the rural areas and exclusive reliance on information relating to money lenders at the village level. In a vast country like India where some of the states are bigger than many nations of the world, it is very important to look at the inequality at the separate level. Due to differences in the state as there are so many districts which have their own culture and values the government policy on the development of the state of making it united unit is not successful. Because of the wide gap between advanced and backward district within a
state leaves those living in backward regions unsatisfied and creates an hatred towards the civic processes and raises doubt about the viability and usefulness of the government system. As a result the economy of the particular district destabilizes and creates huge imbalance within the state. The study of performance of agriculture production and the standard of living of the rural poor in the state as well as the Etawah district has been done. The study includes agriculture, industry, infrastructure, per capita net state domestic product, level of literacy, health cover and other sectors across all the districts of a Uttar Pradesh and also analyzes the respective roles of physical/natural factors vis-à-vis man-made factors in causing (or aggravating) these inequalities.

India is basically known for unity in diversity and so the Indian agriculture as there are a number of states and each state has different districts with their variety of culture and values and resource endowments, climate, topography and historical, institutional and socio economic factors. Since last ten years, changes in the technological reforms in agriculture sector due to which the equipment method of irrigation and use of fertilizers and of course policies adopted by the government has reinforced some of the variations resulting from natural factors. As a result, production performance of agriculture sector has shown an uneven path and huge gaps have been developed in productivity between different states including Uttar Pradesh as well as in Etawah. For the development of the economy of any country, the growth of agriculture sector is prerequisite condition and this naturally helps for reduction in the incidence of poverty. However, the growth of this priority sector has not been very good as far as the contribution in country’s GDP is concerned. As there are marginal and small farmers and hardly gets any financial assistance through any means, this leads to the growth of agriculture very slow. The most interesting fact is that there is wide inter-region and inter-district disparity within the Uttar Pradesh. While the districts of the Eastern and Central regions are fighting tough situation riddled with the problem of small size of land holding, farmer’s indebtedness, migration and poor access to modern technology; those located in Western region are relatively better-off. This variation in situation of agriculture is on the one hand causing lop-sided development of the state and increasing dissatisfaction and disenchantment of farmers of the backward area, on the other making policy formulation extremely difficult. Policymakers can not apply one set of policy for all the regions/districts of the state
because the nature of the ailment, level of development and complications differ. What is, therefore, required is to have firsthand detailed information of the variation among different districts of the state in agricultural development, their growth trend, strength and weaknesses, so as to formulate right mix of policy that can resurrect the agricultural sector of the State. So performance of agriculture sector in Uttar Pradesh shows up to what extent of variation among different districts of UP in the last two decades. It compares the districts at from the time period 1993 to and 2013 to see how the disparity is evolving over a period of time.

A Number of reviews of the studies reveal that the studies have highlighted major concern of agriculture credit in Uttar Pradesh. These reasons include vagaries of nature (primarily, inadequate or excessive water), lack of irrigation facilities, market related uncertainties such as increasing input costs and output price shocks, emphasis on commercial and plantation crops due to agricultural trade liberalisation, unavailability of credit from institutional sources or excessive reliance on informal sources with a greater interest burden and new technology among other. In addition, decline in the area under cultivation, which seems to be a result of expanding urbanization and industrialisation, deterioration in the terms of trade for agriculture, stagnant crop intensity, poor progress of irrigation and fertiliser have also been stressed.

The study does not highlight the inter-district or inter-region variation in agricultural development and talk mainly in terms of the overall state or just one district that is Etawah, but contribute in finding the variables that should be taken to measure level of agricultural development in different regions of Etawah district. The present study gets hints and impetus from the study done so far in identifying the appropriate variable and bridging the gap in the literature pertaining to comprehensive treatment of agricultural disparity.

There are a number of indicators of level of agricultural attainment, but the source of data for these indicators, the definition of area and variables, objectives of the exercise methodology, period (calendar year/financial year) etc. vary across these agencies making it difficult to use all the indicators jointly to develop a composite index. Further, the fact that the present study attempts to compare disparity in
agricultural attainment at different time periods cause additional problem. This is because the agencies providing the information have been frequently changing the definition and coverage making it difficult to use data across time period without involving considerable error. (Rakesh, Reena).

5.1 Performance of Agriculture in Uttar Pradesh

Since independence, Uttar Pradesh has been primarily an agricultural and food producing state of India even though the efforts have been made for its industrialization. The agriculture produce of this state are the major contributors in the states’ NSDP as well as country’s GDP and at the same time, is a major source of employment in rural areas. Despite the noticeable performance of agriculture the situation of agriculture in the state is not something to be really proud of.

Uttar Pradesh is a largest food grain producing State in India producing about 20% of the country's total food grain production. Before 6 years that is in 2006-07 contribution of Uttar Pradesh was 41.20 million tonnes in the national food grain production of 217.3 million tonnes. By the end of year 2009 food grain production in the state was expected to be at the level of 49.71 million tonnes. However, the state is also characterized by extreme dependence on agriculture. About 80% of the population in U.P. live in the rural areas. It is rich in national resources (land and water) but has a high population density and declining soil fertility. Agriculture accounts for about 32% of GSDP. The State accounts for about 17 percent of all-India food grain area and 21 percent of production. Main crop of the State is Cereal and Pulses, Oilseeds are also grown in some area with low productivity. Relatively larger share in production is obviously attributed to higher food grain yield in the state (GOI, 2009).
Table 5.1
Growth Rate of Agriculture And Allied Sector During The Plan Period

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Plan</th>
<th>Agriculture &amp; Allied Sector (%)</th>
<th>Overall Economy (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>UP</td>
<td>India</td>
</tr>
<tr>
<td>1</td>
<td>First Plan (1951-56)</td>
<td>1.86</td>
<td>2.71</td>
</tr>
<tr>
<td>2</td>
<td>Second Plan (1956-61)</td>
<td>1.48</td>
<td>3.15</td>
</tr>
<tr>
<td>3</td>
<td>Third Plan (1961-66)</td>
<td>-0.09</td>
<td>-0.73</td>
</tr>
<tr>
<td>4</td>
<td>Three Annual Plan (1966-69)</td>
<td>0.62</td>
<td>4.16</td>
</tr>
<tr>
<td>5</td>
<td>Fourth Plan (1969-74)</td>
<td>0.94</td>
<td>2.57</td>
</tr>
<tr>
<td>6</td>
<td>Fifth Plan (1974-79)</td>
<td>5.23</td>
<td>3.28</td>
</tr>
<tr>
<td>7</td>
<td>Sixth Plan (1981-85)</td>
<td>2.54</td>
<td>2.52</td>
</tr>
<tr>
<td>8</td>
<td>Seventh Plan (1985-90)</td>
<td>2.69</td>
<td>3.47</td>
</tr>
<tr>
<td>9</td>
<td>Two Annual Plan (1990-92)</td>
<td>5.42</td>
<td>1.01</td>
</tr>
<tr>
<td>10</td>
<td>Eighth Plan (1992-97)</td>
<td>2.70</td>
<td>3.90</td>
</tr>
<tr>
<td>11</td>
<td>Ninth Plan (1997-02)</td>
<td>0.80</td>
<td>1.90</td>
</tr>
<tr>
<td>12</td>
<td>Tenth Plan (2002-07)</td>
<td>2.10</td>
<td>1.10</td>
</tr>
</tbody>
</table>

Sources-Uttar Pradesh Planning Commission

Besides uneven and rather slow growth of the agricultural sector in the state, a very important factor a gap in the delivery of agricultural factors and inter-district variation in terms of almost all indicators of economic development and human development. The state, fifth largest in size and first in terms of population, UP is huge by any standard and variations in resource endowment, climate, topography and historical, institutional and socio-economic parameters, besides apathetic attitude and faulty policies of the government over a period of time, have taken together, resulted not only in perpetuation of inter-district/region disparity but even its intensification.

The main focus has been laid only on the agriculture finance in Uttar Pradesh and especially in Etawah district and the study talks about the delivery and impact of agriculture credit variations/disparity in agricultural development in the state. The state is divided into four administrative/economic zones and nine agro-climatic zones. Since, for overall policy formulation administrative division is giving credence, it has been provided explaining of variation in terms of economic zones. Table-2 provides a summary picture of different zones of the state in terms of some important indicators.
Table 5.2

Productivity of Main Crops in Different Regions of Uttar Pradesh

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Year</th>
<th>Western</th>
<th>Central</th>
<th>Eastern</th>
<th>Bundelkhand</th>
<th>UP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Average yield of food-grain</td>
<td>2008-09</td>
<td>27.83</td>
<td>23.62</td>
<td>22.58</td>
<td>14.52</td>
<td>23.63</td>
</tr>
<tr>
<td>2. Wheat</td>
<td>2008-09</td>
<td>34.04</td>
<td>30.26</td>
<td>26.91</td>
<td>23.82</td>
<td>29.97</td>
</tr>
<tr>
<td>4. Potato</td>
<td>2008-09</td>
<td>223.80</td>
<td>184.17</td>
<td>157.32</td>
<td>205.46</td>
<td>205.46</td>
</tr>
<tr>
<td>6. Oilseeds</td>
<td>2008-09</td>
<td>12.57</td>
<td>7.80</td>
<td>6.89</td>
<td>4.52</td>
<td>8.87</td>
</tr>
<tr>
<td>7. Sugarcane</td>
<td>2008-09</td>
<td>564.46</td>
<td>477.35</td>
<td>444.20</td>
<td>369.86</td>
<td>524.67</td>
</tr>
<tr>
<td>8. Monthly Returns from</td>
<td>2002-03</td>
<td>1398</td>
<td>815</td>
<td>572</td>
<td>1011</td>
<td>836</td>
</tr>
<tr>
<td>Cultivation per farmer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Households (Rs)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Average Household Size of</td>
<td>2002-03</td>
<td>6.1</td>
<td>5.6</td>
<td>6.3</td>
<td>5.7</td>
<td>6.1</td>
</tr>
<tr>
<td>Farmer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Table 5.2 shows the productivity of the main crops in Uttar Pradesh as a whole. And the table 5.3 and the figure-5.1 below indicate the performance of various crops in Etawah district. The data taken for Uttar Pradesh was considered for the year 2002-03 and 2008-09. While in case of Etawah district, last twenty years data has been used for the analysis and it can be observed that it shows a significant performance as far as Etawah is concerned.

Sometimes agriculturists do not rely on finance to be taken from financial institutions because some of them or their near and dear ones would have been the victims of the ill practices of the money lenders who charges exorbitant rate of interest, so the agriculturists might consider other institutions to be the same. Therefore, majority of farmers indulge in those agriculture activities which require less capital.
Table 5.3

Area Covered by Main Crops (taken together) In Etawah

<table>
<thead>
<tr>
<th>Year</th>
<th>Rice</th>
<th>Wheat</th>
<th>Sugarcane</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total area (in hectares)</td>
<td>Irrigated area (in hectares)</td>
<td>Total area (in hectares)</td>
</tr>
<tr>
<td>1993-94</td>
<td>77183</td>
<td>76930</td>
<td>150643</td>
</tr>
<tr>
<td>1994-95</td>
<td>82851</td>
<td>81978</td>
<td>151863</td>
</tr>
<tr>
<td>1995-96</td>
<td>82668</td>
<td>82609</td>
<td>152145</td>
</tr>
<tr>
<td>1996-97</td>
<td>41707</td>
<td>41682</td>
<td>79647</td>
</tr>
<tr>
<td>1997-98</td>
<td>41707</td>
<td>41682</td>
<td>79647</td>
</tr>
<tr>
<td>1998-99</td>
<td>41707</td>
<td>41682</td>
<td>79647</td>
</tr>
<tr>
<td>1999-00</td>
<td>45212</td>
<td>45066</td>
<td>84513</td>
</tr>
<tr>
<td>2000-01</td>
<td>47332</td>
<td>47269</td>
<td>87411</td>
</tr>
<tr>
<td>2001-02</td>
<td>48308</td>
<td>48288</td>
<td>87152</td>
</tr>
<tr>
<td>2002-03</td>
<td>38965</td>
<td>38955</td>
<td>85848</td>
</tr>
<tr>
<td>2003-04</td>
<td>42058</td>
<td>42046</td>
<td>88351</td>
</tr>
<tr>
<td>2004-05</td>
<td>44493</td>
<td>44491</td>
<td>89322</td>
</tr>
<tr>
<td>2005-06</td>
<td>46146</td>
<td>46142</td>
<td>92413</td>
</tr>
<tr>
<td>2006-07</td>
<td>47766</td>
<td>47766</td>
<td>93690</td>
</tr>
<tr>
<td>2007-08</td>
<td>47750</td>
<td>47749</td>
<td>92302</td>
</tr>
<tr>
<td>2008-09</td>
<td>48895</td>
<td>48895</td>
<td>94709</td>
</tr>
<tr>
<td>2009-10</td>
<td>42984</td>
<td>42984</td>
<td>94622</td>
</tr>
<tr>
<td>2010-11</td>
<td>46918</td>
<td>46915</td>
<td>94633</td>
</tr>
<tr>
<td>2011-12</td>
<td>48765</td>
<td>48764</td>
<td>93889</td>
</tr>
</tbody>
</table>

Sources: Uttar Pradesh Planning Commission

Figure 5.1

Area Covered By Main Crops In Etawah

Area covered by main crops

![Area covered by main crops graph](image-url)
As we all are aware that Uttar Pradesh is the largest producer of wheat in the country contributing about 33% of the national production whereas U.P. is the second largest producer of rice, which accounts for about 12% of the national production. In Uttar Pradesh 2.7% of holdings is of more than 4 hectares and accounts for 19.2% of total area. While about 75.4% of the marginal holdings accounts for 33.7% of the total area which clearly reflects severe inequities in the ownership of land holdings. Despite all odds the state contributes 33% wheat, 38% sugarcane and 38% potato produced in the country. The contribution of U.P. to national basket of agricultural produce in respect of major crops has been shown in the above table. The data has been considered for UP only for the year 2006-07 and data for the Etawah district has been considered at least for last 15 years

**Table 5.4**

**Trends Agriculture And Food Productivity in UP**

<table>
<thead>
<tr>
<th>Name of Crops</th>
<th>Production in Lakh tonnes during 2006-07</th>
<th>Contribution of U.P. %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>India</td>
<td>U.P.</td>
</tr>
<tr>
<td><strong>Total Food grain</strong></td>
<td>2172.8</td>
<td>412.0</td>
</tr>
<tr>
<td>Rice</td>
<td>933.6</td>
<td>111.2</td>
</tr>
<tr>
<td>Wheat</td>
<td>758.1</td>
<td>250.3</td>
</tr>
<tr>
<td>Jowar</td>
<td>71.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Bajra</td>
<td>84.2</td>
<td>12.9</td>
</tr>
<tr>
<td>Maize</td>
<td>151.0</td>
<td>11.6</td>
</tr>
<tr>
<td><strong>Total Pulses</strong></td>
<td>142.0</td>
<td>19.8</td>
</tr>
<tr>
<td>Gram</td>
<td>63.3</td>
<td>5.0</td>
</tr>
<tr>
<td>Arhar</td>
<td>23.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Lentil</td>
<td>9.1</td>
<td>4.3</td>
</tr>
<tr>
<td><strong>Total Oilseeds</strong></td>
<td>242.9</td>
<td>10.3</td>
</tr>
<tr>
<td>Groundnut</td>
<td>48.6</td>
<td>0.7</td>
</tr>
<tr>
<td>Rapeseed/Mustard</td>
<td>74.4</td>
<td>9.57</td>
</tr>
<tr>
<td>Sunflower</td>
<td>12.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Sugarcane</td>
<td>3555.2</td>
<td>1339.5</td>
</tr>
<tr>
<td>Potato</td>
<td>220.91</td>
<td>102.48</td>
</tr>
</tbody>
</table>

Source: state annual plan 2009-10
5.2 Institutional Finance In Etawah

As Table 5.5 and the Figure 5.2 depicts that number of nationalized banks and number of Rural banks in the district hardly gets increment as far as number of branches are concerned.

Table 5.5

<table>
<thead>
<tr>
<th>Year</th>
<th>No. Of Nationalized Banks</th>
<th>No. Of Rural Banks</th>
<th>No. of other Non-Commercial Nationalized Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-99</td>
<td>36</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>1999-00</td>
<td>36</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>2000-01</td>
<td>36</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>2001-02</td>
<td>36</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>2002-03</td>
<td>36</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>2003-04</td>
<td>36</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>2004-05</td>
<td>36</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>2005-06</td>
<td>43</td>
<td>27</td>
<td>0</td>
</tr>
<tr>
<td>2006-07</td>
<td>42</td>
<td>25</td>
<td>19</td>
</tr>
<tr>
<td>2007-08</td>
<td>42</td>
<td>26</td>
<td>19</td>
</tr>
<tr>
<td>2008-09</td>
<td>42</td>
<td>26</td>
<td>20</td>
</tr>
<tr>
<td>2009-10</td>
<td>42</td>
<td>26</td>
<td>20</td>
</tr>
<tr>
<td>2010-11</td>
<td>48</td>
<td>26</td>
<td>23</td>
</tr>
<tr>
<td>2011-12</td>
<td>49</td>
<td>31</td>
<td>24</td>
</tr>
<tr>
<td>2012-13</td>
<td>58</td>
<td>26</td>
<td>26</td>
</tr>
</tbody>
</table>

Sources-Uttar Pradesh Planning Commission
Figure 5.2

Number of Banks in Etawah

Number of commercial banks, rural banks and nationalized banks in the district of Etawah shows a very rapid growth after the 2006 and commercialized bank grew in a sustainable manner.

5.3 Compounded Annual Growth Rate

The Compounded annual growth rate has been calculated for the years 1995-2005 and the year 2005-13. AS far as number of banks in UP is considered the growth was only 0.53% in the ten year span of 1995 to 2005 and it showed the significant growth in next eight years as it grew at the rate of 5% yearly. While in the case of Etawah district, the growth rate increased at almost constant level.
Table 5.6
Trend of Disbursement of Loans in UP and Etawah

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Numbers of Banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.P</td>
<td>8953</td>
<td>9438</td>
<td>13947</td>
<td>0.53%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Etawah</td>
<td>42</td>
<td>70</td>
<td>110</td>
<td>5.24%</td>
<td>5.81%</td>
</tr>
<tr>
<td>Deposits (Rs.'000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.P</td>
<td>302596529</td>
<td>1603328978</td>
<td>5696998133</td>
<td>18.15%</td>
<td>17.17%</td>
</tr>
<tr>
<td>Etawah</td>
<td>2773564</td>
<td>10221990</td>
<td>28087500</td>
<td>13.93%</td>
<td>13.47%</td>
</tr>
<tr>
<td>Loan (Rs.'000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.P</td>
<td>114750382</td>
<td>687861077</td>
<td>2179293892</td>
<td>19.61%</td>
<td>15.51%</td>
</tr>
<tr>
<td>Etawah</td>
<td>1018500</td>
<td>1123627</td>
<td>10259300</td>
<td>0.99%</td>
<td>31.84%</td>
</tr>
<tr>
<td>CD Ratio</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.P</td>
<td>0.3792191</td>
<td>0.42902055</td>
<td>0.38253372</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Etawah</td>
<td>0.3672171</td>
<td>0.10992253</td>
<td>0.36526213</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Uttar Pradesh Planning Commission

Deposits in the banks in UP as a whole shows decrement as it gone down from 18.15% to 17.17% and in case of Etawah, it also slipped from 13.9 per cent to 13.47 per cent.

Loan provided to agriculturists decreased in case of Uttar Pradesh, while it increased rapidly in case of Etawah. CD ratio is also been calculated which indicates there is urgent need of promoting institutional finance in case of Etawah.

5.4 Credit Delivery and Five Year CAGR
The amount deposited in the year 1998-1999 was 5318400 (in thousands) and loan distributed to the needy was 1048200 (in thousands) which has been shown in Table 5.7 and the loan distributed is almost one-fifth of the total amount deposited in the district. Nearly this trend has been followed till the 2003-04 and in 2004-05 has witness a high increase in the loan deposited. The same can be said about the year 2007-08 and the years between these years has shown decline in the delivery of the credit. Annual Growth Rate of total distribution has also been computed to show the trend of the credit delivery in Etawah.
Table 5.7  
Credit Delivery In Etawah District (Amount in' 000)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount deposited</th>
<th>Total loan Distributed</th>
<th>% of loan on amount deposited</th>
<th>5 year CAGR of total deposit</th>
<th>annual growth rate of total deposit</th>
<th>5 year CAGR of total loan distributed</th>
<th>annual growth rate of amount deposited</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-99</td>
<td>5318400</td>
<td>1048200</td>
<td>19.71</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999-00</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
<td>-13.40</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000-01</td>
<td>4863223</td>
<td>1183319</td>
<td>24</td>
<td>25.24048</td>
<td>39.96</td>
<td></td>
<td></td>
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<tr>
<td>2001-02</td>
<td>6090724</td>
<td>1656136</td>
<td>27</td>
<td>0.078513</td>
<td>-13.40</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002-03</td>
<td>6095506</td>
<td>1434194</td>
<td>24</td>
<td>18.30043</td>
<td>6.47% (98-03)</td>
<td>39.58</td>
<td>2.77% (98-03)</td>
</tr>
<tr>
<td>2003-04</td>
<td>7211010</td>
<td>2001858</td>
<td>28</td>
<td>20.75822</td>
<td>-47.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004-05</td>
<td>8707887</td>
<td>1060981</td>
<td>33.89</td>
<td>17.38772</td>
<td>5.90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005-06</td>
<td>10221990</td>
<td>1123627</td>
<td>11</td>
<td>16.66765</td>
<td>44.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006-07</td>
<td>11925756</td>
<td>1618054</td>
<td>13.6</td>
<td>8.463564</td>
<td>24.66</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007-08</td>
<td>12935100</td>
<td>2017000</td>
<td>40.63</td>
<td>17.08397</td>
<td>12.89</td>
<td>0.15% (2003-08)</td>
<td>12.4% (2003-08)</td>
</tr>
<tr>
<td>2008-09</td>
<td>15144929</td>
<td>2276956</td>
<td>42</td>
<td>27.87262</td>
<td>182.11</td>
<td></td>
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<tr>
<td>2009-10</td>
<td>19366218</td>
<td>6423424</td>
<td>33.17</td>
<td>14.10503</td>
<td>12.66</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010-11</td>
<td>22097828</td>
<td>7236561</td>
<td>32.75</td>
<td>7.853636</td>
<td>15.94</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011-12</td>
<td>23833311</td>
<td>8390038</td>
<td>35.2</td>
<td>17.84976</td>
<td>22.28</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources-Uttar Pradesh Planning Commission

5.5 Trend of Loans to Agriculture Activities

As Table 5.8 tells us that 1988-99 the distributed to agriculture related activities was 467200 (in thousands) and came down to 373850 (in thousands) in 2000-01. And again it shows increase in 2001 to 2002. In 2006-07 it shows the most increase as it rose to over 1250000 (in thousands) which is the remarkable increase from the year 1998-99.
Chapter-5: Analysis of Agriculture Credit Performance in UP & Etawah

Table 5.8
Loan to Agriculture Related Works (in’000)

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture and its related works</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-99</td>
<td>467200</td>
</tr>
<tr>
<td>1999-00</td>
<td>0</td>
</tr>
<tr>
<td>2000-01</td>
<td>373850</td>
</tr>
<tr>
<td>2001-02</td>
<td>485551</td>
</tr>
<tr>
<td>2002-03</td>
<td>364803</td>
</tr>
<tr>
<td>2003-04</td>
<td>410171</td>
</tr>
<tr>
<td>2004-05</td>
<td>762598</td>
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<td>2005-06</td>
<td>807062</td>
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<td>2006-07</td>
<td>1255913</td>
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<tr>
<td>2007-08</td>
<td>1493200</td>
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<tr>
<td>2008-09</td>
<td>1821022</td>
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<tr>
<td>2009-10</td>
<td>1683037</td>
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<td>4273457</td>
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<tr>
<td>2011-12</td>
<td>5360691</td>
</tr>
<tr>
<td>2012-13</td>
<td>6456700</td>
</tr>
</tbody>
</table>

Sources-Uttar Pradesh Planning Commission

Figure 5.3
Loan To Agriculture And Related Works

Agriculture and its related works
5.6 Performance of Agricultural Implements During The Years

As far as performance of Agricultural implements due to the credit delivered in Etawah district is concerned, it has been declined from the year 1982 to 2003. Wooden implements continuously declined during every five year of time span. From 1982 to 1988 the iron implements saw an improvable increase and after that it continuously declined and same is the case with advance harrow and cultivator. Only in case of tractors, it can be said that it registered a remarkable increase during last 10 years. (Table 5.9).

Table 5.9

Agriculture Implements in Etawah District Every 5 year

<table>
<thead>
<tr>
<th>Year</th>
<th>Wooden</th>
<th>Iron</th>
<th>Advance harrow and cultivator</th>
<th>Advance thrasher machine</th>
<th>Sprayer number</th>
<th>Advance sowing instrument</th>
<th>Tractor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>123788</td>
<td>81155</td>
<td>72647</td>
<td>4256</td>
<td>607</td>
<td>27392</td>
<td>1115</td>
</tr>
<tr>
<td>1988</td>
<td>127306</td>
<td>84891</td>
<td>80768</td>
<td>7761</td>
<td>491</td>
<td>28075</td>
<td>1518</td>
</tr>
<tr>
<td>1993</td>
<td>55537</td>
<td>41794</td>
<td>40018</td>
<td>4864</td>
<td>342</td>
<td>2716</td>
<td>1422</td>
</tr>
<tr>
<td>1997</td>
<td>37668</td>
<td>18895</td>
<td>22977</td>
<td>7055</td>
<td>1005</td>
<td>9701</td>
<td>2692</td>
</tr>
<tr>
<td>2003</td>
<td>22732</td>
<td>20103</td>
<td>25092</td>
<td>2935</td>
<td>1284</td>
<td>6185</td>
<td>3896</td>
</tr>
</tbody>
</table>

Sources—Uttar Pradesh Planning Commission

Figure 5.4

Agriculture Implements in Etawah District

AGRICULTURAL IMPLEMENTS EVERY 5 YEAR

\[1982 \quad 1988 \quad 1993 \quad 1997 \quad 2003\]
5.7 Impact of Credit on Rice Irrigated Area

As it can be seen that the impact of credit delivery is more or less negligible on rice production as total area and area under irrigation remains almost same. Same is the case with wheat except 93 to 98 as area decrease due to the separation of Auraiya district from Etawah. But the case of pulses differ from the case of rice and wheat, this is due to the culture and geographical condition of the Etawah district. (Table 5.10)

Table 5.10

<table>
<thead>
<tr>
<th>Year</th>
<th>Rice</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total area(in.hec)</td>
</tr>
<tr>
<td>1993-94</td>
<td>77185</td>
</tr>
<tr>
<td>1994-95</td>
<td>82051</td>
</tr>
<tr>
<td>1995-96</td>
<td>82668</td>
</tr>
<tr>
<td>1996-97</td>
<td>41707</td>
</tr>
<tr>
<td>1997-98</td>
<td>41707</td>
</tr>
<tr>
<td>1998-99</td>
<td>41707</td>
</tr>
<tr>
<td>1999-00</td>
<td>45212</td>
</tr>
<tr>
<td>2000-01</td>
<td>47332</td>
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<tr>
<td>2001-02</td>
<td>48308</td>
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<tr>
<td>2002-03</td>
<td>38965</td>
</tr>
<tr>
<td>2003-04</td>
<td>42058</td>
</tr>
<tr>
<td>2004-05</td>
<td>44493</td>
</tr>
<tr>
<td>2005-06</td>
<td>46146</td>
</tr>
<tr>
<td>2006-07</td>
<td>47766</td>
</tr>
<tr>
<td>2007-08</td>
<td>47750</td>
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<tr>
<td>2008-09</td>
<td>48895</td>
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<tr>
<td>2009-10</td>
<td>42984</td>
</tr>
<tr>
<td>2010-11</td>
<td>46918</td>
</tr>
<tr>
<td>2011-12</td>
<td>48765</td>
</tr>
</tbody>
</table>

Sources-Uttar Pradesh Planning Commission
5.8 Area Covered By Wheat

In 1993 The total area available for wheat was 150643 hectare in Etawah and the irrigated was not much less than that. This is due to the reason that wheat is the main crop of this region and this trend is showing all over the years up to 2013

Table 5.11
Area Covered by Wheat in Etawah District

<table>
<thead>
<tr>
<th>Year</th>
<th>Total area (in hec.)</th>
<th>Irrigated area (in hec.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-94</td>
<td>150643</td>
<td>149678</td>
</tr>
<tr>
<td>1994-95</td>
<td>151863</td>
<td>151071</td>
</tr>
<tr>
<td>1995-96</td>
<td>152145</td>
<td>151360</td>
</tr>
<tr>
<td>1996-97</td>
<td>79647</td>
<td>78991</td>
</tr>
<tr>
<td>1997-98</td>
<td>79647</td>
<td>78991</td>
</tr>
<tr>
<td>1998-99</td>
<td>79647</td>
<td>78991</td>
</tr>
<tr>
<td>1999-00</td>
<td>84513</td>
<td>84513</td>
</tr>
<tr>
<td>2000-01</td>
<td>87411</td>
<td>86800</td>
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<td>2001-02</td>
<td>87152</td>
<td>86591</td>
</tr>
<tr>
<td>2002-03</td>
<td>85848</td>
<td>85279</td>
</tr>
<tr>
<td>2003-04</td>
<td>88351</td>
<td>87819</td>
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<tr>
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<td>89322</td>
<td>88762</td>
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<td>92413</td>
<td>92020</td>
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<tr>
<td>2006-07</td>
<td>93690</td>
<td>93316</td>
</tr>
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<td>2007-08</td>
<td>92302</td>
<td>91979</td>
</tr>
<tr>
<td>2008-09</td>
<td>94709</td>
<td>94401</td>
</tr>
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<td>94622</td>
<td>94373</td>
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<td>94633</td>
<td>94456</td>
</tr>
<tr>
<td>2011-12</td>
<td>93889</td>
<td>93714</td>
</tr>
</tbody>
</table>

Sources-Uttar Pradesh Planning Commission
5.9 Impact of Agriculture Credit on The Production Of the Pulses

As pulses are very important source of earning the living of the village people and the area available for this crop is most important but the utilized irrigated area is near 50 per or less than it. (Table 5.12)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total area (in. h.e.)</th>
<th>Irrigated area (in. h.e.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-94</td>
<td>51956</td>
<td>20179</td>
</tr>
<tr>
<td>1994-95</td>
<td>51480</td>
<td>22528</td>
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<tr>
<td>1995-96</td>
<td>52005</td>
<td>22654</td>
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<td>1996-97</td>
<td>27084</td>
<td>13212</td>
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<tr>
<td>1997-98</td>
<td>27084</td>
<td>13212</td>
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<tr>
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<td>17549</td>
<td>7682</td>
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<td>16456</td>
<td>6161</td>
</tr>
<tr>
<td>2001-02</td>
<td>17753</td>
<td>6164</td>
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<tr>
<td>2002-03</td>
<td>17122</td>
<td>6163</td>
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<td>2003-04</td>
<td>15781</td>
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<td>15072</td>
<td>4472</td>
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<td>13218</td>
<td>4732</td>
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<td>11054</td>
<td>6022</td>
</tr>
<tr>
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<td>10367</td>
<td>6274</td>
</tr>
</tbody>
</table>

Sources: Uttar Pradesh Planning Commission
5.10 Agri-Credit To Sugarcane

Agriculture credit could not do much in case of sugarcane even though it is the main crop of Uttar Pradesh. Some very fertile area of sugarcane has been transferred to Auraiya district which used to be the part of Etawah before 1998. (Table 5.13)

Table 5.13

<table>
<thead>
<tr>
<th>Year</th>
<th>Sugarcane</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total area[n.hec]</td>
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<tr>
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<td>3280</td>
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<td>1994-95</td>
<td>3355</td>
</tr>
<tr>
<td>1995-96</td>
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<td>2000-01</td>
<td>973</td>
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<td>818</td>
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<tr>
<td>2010-11</td>
<td>413</td>
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</tbody>
</table>

Sources: Uttar Pradesh Planning Commission
5.11 Average Production of Wheat, Rice And Pulses

In 1993-94 the average production of the rice was 21.58 quintal per hectare and the production of wheat was 26.64 quintal per hectare and the production of pulses was less than the half of the production of the wheat during the same year. In 2011-12 the production of wheat was 37.32 quintal per hectare and the production for the pulses remains almost the same and it was only 33 per cent of the production wheat in the district (Table 5.14)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total rice</th>
<th>Wheat</th>
<th>Total pulses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-94</td>
<td>21.58</td>
<td>26.64</td>
<td>12.88</td>
</tr>
<tr>
<td>1994-95</td>
<td>21.29</td>
<td>28.85</td>
<td>13.05</td>
</tr>
<tr>
<td>1995-96</td>
<td>20.05</td>
<td>27.03</td>
<td>9.56</td>
</tr>
<tr>
<td>1996-97</td>
<td>22.27</td>
<td>31.74</td>
<td>13.38</td>
</tr>
<tr>
<td>1997-98</td>
<td>26.91</td>
<td>23.82</td>
<td>13.5</td>
</tr>
<tr>
<td>1998-99</td>
<td>22.31</td>
<td>31.69</td>
<td>13.52</td>
</tr>
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<td>1999-00</td>
<td>25.21</td>
<td>30.92</td>
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<td>12.28</td>
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<td>25.78</td>
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<td>32.77</td>
<td>8.63</td>
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<td>27.73</td>
<td>8.01</td>
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<td>29.12</td>
<td>10.76</td>
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<td>25.25</td>
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<td>10.74</td>
</tr>
<tr>
<td>2011-12</td>
<td>27.14</td>
<td>37.32</td>
<td>12.27</td>
</tr>
</tbody>
</table>

Sources-Uttar Pradesh Planning Commission
5.12 Impact of Credit on fertilizer Distribution

The fertilizer distribution in metric tonnes in the year 2000-2001 was 22283 and 23178 in the year 2001-02. In the year it came down to 21672 which could only increase in the year 2005-2007.

<table>
<thead>
<tr>
<th>Year</th>
<th>Fertilizer distribution (in metric tonnes) in Etawah</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>22283</td>
</tr>
<tr>
<td>2001-02</td>
<td>23178</td>
</tr>
<tr>
<td>2002-03</td>
<td>21672</td>
</tr>
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<td>2003-04</td>
<td>22891</td>
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</tr>
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<td>49926</td>
</tr>
<tr>
<td>2011-12</td>
<td>49926</td>
</tr>
</tbody>
</table>

Sources-Uttar Pradesh Planning Commission
5.13 Use of Land in Etawah District

The Barren and uncultivated land in the district was 12314 hectares which came down to 7869 hectare in the year 2008-09. This means during the span of eight years the district has utilized the uncultivated land to for the purpose of use. And land for non-agriculture produce has seen in increase just opposite of the barren land. Farther this land which is on hold not being used for agricultural purpose can be the future prospect to many farmers.

Table 5.16
Land Uses In Hectare In Etawah District

<table>
<thead>
<tr>
<th>Year</th>
<th>Barren &amp; uncult. land</th>
<th>Land put to non-agri. use</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>12314</td>
<td>20302</td>
</tr>
<tr>
<td>2001-02</td>
<td>12101</td>
<td>20362</td>
</tr>
<tr>
<td>2002-03</td>
<td>11383</td>
<td>22168</td>
</tr>
<tr>
<td>2003-04</td>
<td>13058</td>
<td>25097</td>
</tr>
<tr>
<td>2004-05</td>
<td>10944</td>
<td>22839</td>
</tr>
<tr>
<td>2005-06</td>
<td>10918</td>
<td>23151</td>
</tr>
<tr>
<td>2006-07</td>
<td>10654</td>
<td>23884</td>
</tr>
<tr>
<td>2007-08</td>
<td>10942</td>
<td>23949</td>
</tr>
<tr>
<td>2008-09</td>
<td>7869</td>
<td>24029</td>
</tr>
<tr>
<td>2009-10</td>
<td>23812</td>
<td>34620</td>
</tr>
<tr>
<td>2010-11</td>
<td>7021</td>
<td>24645</td>
</tr>
<tr>
<td>2011-12</td>
<td>7416</td>
<td>24922</td>
</tr>
</tbody>
</table>

Sources-Uttar Pradesh Planning Commission
Figure 5.11
Land Usage in Etawah

LAND USAGE IN (IN HECTARES) IN ETAWAH

Table 5.17
Total Area Irrigated By Different Sources in Etawah District

<table>
<thead>
<tr>
<th>Year</th>
<th>Total area (hect.) irrigated by different sources in the district</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>115390</td>
</tr>
<tr>
<td>2001-02</td>
<td>118288</td>
</tr>
<tr>
<td>2002-03</td>
<td>117553</td>
</tr>
<tr>
<td>2003-04</td>
<td>129554</td>
</tr>
<tr>
<td>2004-05</td>
<td>120433</td>
</tr>
<tr>
<td>2005-06</td>
<td>123220</td>
</tr>
<tr>
<td>2006-07</td>
<td>122252</td>
</tr>
<tr>
<td>2007-08</td>
<td>125407</td>
</tr>
<tr>
<td>2008-09</td>
<td>128343</td>
</tr>
<tr>
<td>2009-10</td>
<td>218753</td>
</tr>
<tr>
<td>2010-11</td>
<td>127457</td>
</tr>
<tr>
<td>2011-12</td>
<td>129073</td>
</tr>
</tbody>
</table>

Sources-Uttar Pradesh Planning Commission
5.14 Relation of Agriculture Credit to Different Parameters.

There is positive correlation between the agriculture credit delivered and the total rice production, means the agriculture credit has the positive impact on the production of the rice. Same is the case with the total irrigated area in the district. Total irrigated area for wheat is highly correlated with the delivered agriculture credit. This means the loan got by the agriculturists has noticeably been utilized for the wheat production purpose. Total area of pulses, total area sugarcane and the area irrigated sugarcane are negatively correlated as compare to the rice and wheat.

Table 5.18

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Total rice area</th>
<th>Total irrigated area rice</th>
<th>Total area wheat</th>
<th>Total irrigated area wheat</th>
<th>Total area pulses</th>
<th>Total irrigated area pulses</th>
<th>Total area sugarcane</th>
<th>Total irrigated area sugarcane</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>0.413</td>
<td>0.416</td>
<td>.661*</td>
<td>.572*</td>
<td>-.684*</td>
<td>0.246</td>
<td>-.727**</td>
<td>-.727**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.182</td>
<td>0.179</td>
<td>0.019</td>
<td>0.017</td>
<td>0.014</td>
<td>0.441</td>
<td>0.007</td>
<td>0.007</td>
</tr>
</tbody>
</table>
5.15 Relation Between Average Production Of Crops And Credit
As in the previous case the irrigated area for the rice was positively correlated, the average production of the rice is also showing positive correlation as far as the delivery of agriculture credit is concerned. But production of sugarcane is positively correlated as compared to the area of irrigation for the sugarcane. And pulsed also improved the average production as far as the delivery of credit is noticed.

Table 5.19
Correlation Analysis Result Between Production And Agricultural Credit In Etawah District

<table>
<thead>
<tr>
<th></th>
<th>Rice_Production (Avg Production Quantal/Hec)</th>
<th>Wheat_Production (Avg Production Quantal/Hec)</th>
<th>Pulse_Production (Avg Production Quantal/Hec)</th>
<th>Sugarcane_Production (Avg Production Quantal/Hec)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>0.465</td>
<td>.748**</td>
<td>0.002</td>
<td>0.563</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.128</td>
<td>0.005</td>
<td>0.995</td>
<td>0.057</td>
</tr>
</tbody>
</table>

5.16 Relation Between Fertilizer And Credit
The of the fertilizers like nitrogen, phosphorus, Potash and total fertilizers used showing significant relation with the agriculture credit delivery. This means Over the time the farmers are becoming aware of the importance of the institutional finance and taking the benefits of the schemes provide by these schemes.

Table 5.20
Correlation Analysis Result Of Between Fertilizer Used And Agricultural Credit In Etawah District

<table>
<thead>
<tr>
<th></th>
<th>Nitrogen (In Metric Tn)</th>
<th>Phasporas (In Metric Tn)</th>
<th>Potash (In Metric Tn)</th>
<th>Total_Fertilizer (In Metric Tn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>.962**</td>
<td>.918**</td>
<td>.951**</td>
<td>.953**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Now a days a healthy competition with established commercial banks in the district also makes to resist commercial banks to operate in the rural areas which are dominated by a number of money lenders. Increment in the number of branches of various commercial banks is a recent phenomenon, there are activities like by fertilizers, new instruments, seeds and many other agriculture related works etc. The area where number of money lenders dominate the lending, such commercial banks require sturdiness of the many bank staff as it involves public dealing, supervising labour very keenly and is a 24x7 job for the manager of the bank.

Non accessibility of agriculture credit by the agriculturists is also a area of concern where commercial banks have to choose different types of schemes which are really attracted to the rural people. For small farmers, it is difficult to get easy entry in those banks or cooperative banks where some of the large farmers are approaching in bulk. A farmer producing in bulk requires agriculture material in large quantity and the supplier of this kind of material also prefer to supply to those farmers first as they are capable of paying high rates because of the easily availability of loan to them. So for small farmers’ entry as a loan seeker also acts as a barrier to indulge in the activity related to agriculture. As a result they hardly become able to earn their living comfortably and the situation for them remains as miserable as in the past.

Market linkage is an important factor for the success of the commercial in the field of providing agriculture credit. Lack of market linkage forces the commercial banks to lessen their active participation in the priority sector. So this can also be the reason for the difference in the loans provided to urban and rural areas. The sectors and industries where commercial banks feel that there is a huge scope of getting the business on high point, try to have better relationships to the owner of those enterprises.

So, all these can be the probable reasons for the difference in the amount of sanctioning loan to urban and to the priority sector by the commercial banks.
Chapter 6

Conclusions & Recommendations
Conclusions and Recommendations

The concept and practice of providing credit through institutional finance has now developed deep roots in many parts of the country because of the initiatives taken by the central government. Despite several studies it is hard to measure and quantify the effect that this Indian agriculture credit experience so far has had on the poverty situation in India. Without doubt a lot needs to be accomplished in terms of outreach of agriculture credit to make a serious dent on poverty. However, the logic and rationale of commercial banks based agriculture finance have been established firmly enough that credit has effectively graduated from an “experiment” to a widely-accepted paradigm of rural and developmental financing in India. This is no mean achievement.

Though several studies are available on how agriculturists live in the rural areas but there is dearth of study on the impact of government policies in the farming sector. The present study is an attempt in this direction. The impact of agriculture credit through commercial banks farming sector is discussed in detail in the previous chapters through the study of agriculture performance in the Etawah District. Based on this and through the general observation in the field and also through the analysis of various secondary data available, an attempt has been made in this chapter to provide some useful suggestion for further improvement in the priority sector through the availability of finance, especially in the rural areas.

NABARD has been playing a key role in the growth and development of agriculture in India. Through various means of providing and helping the priority sector. The RBI and NABARD have tried to encourage relationship banking, i.e., improving the existing relationship between the poor and bankers with the social intermediation of NGOs. Various credit delivery innovations such as Grameen Bank Replications, NGO networking, credit unions, and SHG federations have been encouraged by NABARD for increasing the outreach.

Since 1992, Institutional finance has become a regular element of the Indian financial system. Financing through LDBs, Cooperative societies, District Development Banks ensure several benefits such as: (1) an economically poor individual gains strength as
part of a group; (b) because of the group a poor get access to the required amount of appropriate credit at a relatively low interest rate which he might not got, if he is working as an individual; (c) financing through DDBs reduces transaction costs both for lenders and borrowers; (d) tremendous improvement in recovery (in some case recovery is recorded to be as high as above 90 per cent); and (e) remarkable empowerment of poor women (both socially and economically).

The study indicates that the availability of loans through commercial banks have helped the growth and development of non-farming activities in the surveyed groups. But these nonfarm activities are generally of traditional type and provide low returns. Findings of the study also indicate that Cooperatives in the rural areas has also helped the rural poor to achieve social rights. Responses from the beneficiaries suggests that social empowerment of agriculturists has increased over time since taking the help of banks in terms of credit. The study also found that the participation of agriculturists in agriculture related activities and decision making processes have considerably improved. One has to understand that the progress of any nation is inevitably linked with social and economical condition of farmers in rural areas that particular country.

Rural population; due to the involvement in agriculture play a significant role in the domestic and socio-economic life of the society and therefore, holistic national development is not possible without developing this segment of the society. Empowerment by way of taking loans rather than money lenders can bring enviable changes and enhancement in the living conditions of rural poor and developing nations. What a small farmer cannot achieve as an individual because of scarcity of fund can be accomplished as an account holder in the banking institutions with sufficient understanding about his own rights, privileges, roles and responsibilities as a dignified member of his native village. When he becomes financially strong, his sense of public participation, enlarged horizon of social activities, high self-esteem, self-respect and fulfillment in life expands and enhances the quality of work done by him, decision makers and beneficiaries in the democratic, economic, social and cultural spheres of life. After examining growth and aspects of agriculture credit in Etawah District, various aspects come up. These are briefly summed up below:
6.1 Conclusions

- Loan requests are considered by groups and loans (usually small in amount) are provided for short duration and are mainly for conventional purposes. The rates of interest vary from group to group and it is generally higher than that of banks but lower than that of moneylenders.

- The role of credit is very important in livelihood promotion, as the viable economic activities require simultaneous expansion of the supply of quality credit. The commercial banks have proved to be successful in this aspect as it is found that the rate of growth of credit absorption of commercial banks is much higher than individual borrowers under the priority sector. Also bank’s transaction cost of dealing with rural people is obviously lower.

- Banks have also been able to reduce the operating cost of forming and financing of agricultural activities through the involvement of NGO’s and youths for their formation and nurturing, as found out during the visits to lead banks in Etawah District.

- With the help of cooperative banks an attempt has been made to evolve supplementary credit strategies for meeting the credit needs of the poor by combining the flexibility, sensitivity and responsiveness of the informal credit system with the technical and administrative capabilities and financial resources of formal financial institutions. An attempt has also been made to build mutual trust and confidence between bankers and the rural poor and to encourage banking activity in a segment of the population which is generally ignored by the formal financial institutions.

- The banking institutions develop their own management system and accountability for handling the problems faced by the rural poor at the time of account opening. The interaction among the office bearers and the village member is based on participatory mechanism in terms of decision-making.
• The banking institutions provide bank credit on the basis of savings of the agriculturists. Small savings of rural peoples can generate the required resources, which can wean the people away from the exploitation of moneylenders. Thus, these voluntary small savings can constitute the key for economic progress.

• Through the funding by commercial banks rural poor’s ability to save and access credit would give them an economic role, not only within the household but also outside it as well. Investment in the economic activities in agricultural related activities would improve their employment opportunities.

• Institution credit through various media can ensure wider coverage of poor families through bank credit, as it is very difficult for the banks to reach each and every poor.

• Commercial banks if properly governed by its higher institutions like NABARD and RBI and nurtured in a proper manner can go a long way in creating a unique, alternative need based credit delivery mechanism for poor by pooling their paltry resources for catering to their consumption and production requirements.

6.1.1 Key Findings

The data gathered from the office of the planning commission, Uttar Pradesh covers 8 blocks of Etawah District. The data including other blocks have sometime been eliminated for the purpose getting accurate results. The impact of agriculture credit on the social condition of rural poor about the various non-farm activities in which they are involved is based on the assessment of the detailed information obtained from secondary data. The people living in blocks of the district for the study are indulged in the number of activities other than farming like dairy works, small kirana shops, tailoring, pickle manufacturing, candle manufacturing, carpet weaving, vegetable selling and leaf plates manufacturing.
6.1.2 Key Findings of the accessibility of loans

- The average distance of the rural people from the link bank is around 3.5 kms. The average distance of the villages from the market to sell product is about 3.8 kms and the average distance is nearly 15.2 kms from the district.

- The study revealed that commercial banks provided loans to members for initiating various IGAs (Income Generating Activities), consumption purposes, settlement of old debt taken from money lenders and contingency purposes such as health related expenditure and other social functions like, marriage ceremonies and funeral, etc.

- As far as performance of Agricultural implements due to the credit delivered in Etawah district is concerned, it has been declined from the year 1982 to 2003.

- Wooden implements continuously declined during every five year of time span. From 1982 to 1988 the iron implements saw an improvable increase and after that it continuously declined and same is the case with advance harrow and cultivator.

- Only in case of tractors, it can be said that it registered a remarkable increase during last 10 years.

- As it can be seen that the impact of credit delivery is more or less negligible on rice production as total area and area under irrigation remains almost same.

- Same is the case with wheat except 93 to 98 as area decrease due to the separation of Auraiya district from Etawah.

- But the case of pulses differ from the case of rice and wheat, this is due to the culture and geographical condition of the Etawah district.

- Agriculture credit could not do much in case of sugarcane even though it is the main crop of Uttar Pradesh. Some very fertile area of sugarcane has been transferred to Auraiya district which used to be the part of Etawah before 1998.
As wheat is the main food Etawah district, it can be observed that the role of commercial banks in wheat production have shown a significant result in comparison of the other main crops.

- Farmers utilized the credit given by the commercial banks in using fertilizers, as a result the production has gone up and this is the good sign for future.

- As far as the use of land for agricultural purpose is concerned, it is lacking behind as most of the farmers are small and marginal and they are not aware of the schemes provided by the banks.

- Increment in the number of banks its branches in UP and Etawah has been shown by the compounded annual growth rate. And shows significant improvement as far as the Uttar Pradesh state as a whole is concerned; in case of Etawah it shows a marginal improvement from the period 1995-2005 to 2005-2013.

- Bank deposits do not show any noticeable improvement but still it has been maintained by the commercial banks very well.

- The farmers and agriculturists in Etawah district have been very enthusiastic and keen to go for the agriculture related activities which is shown by the CAGR.

- Credit delivery ratio has also been calculated.

- Number of banks in Etawah district has shown rapid increase in the year 2006-07 and after 2012.

- After the UPA government got second tenure, loans towards the agricultural related activities gone very high.

- Correlation analysis of agriculture credit shows that it is positively correlated with all the main crops (irrigated area) except pulses. And sugarcane shows highly negative trend.

- The analysis with crop production also shows positive relationship except pulses.

- Agriculture Credit delivery highly and positively related with the use of fertilizers.
To a certain extent, the commercial banks have helped rural people to obtain loans. However, office bearer of the commercial banks are of the view that they require technical, financial and marketing skills particularly related to nonfarm activity in which they are hardly providing any assistance to the agriculturists.

The commercial banks in Etawah district have come up with suggestions for changes in the activities of agriculturists to make them more independent. For instance, more time may possibly be fixed for training and group discussions. Moreover, only a very small percentage of villagers reportedly received support from financial institutions (FIs)/Banks in book keeping, as well as for financial activities. They are also not satisfied with the frequency of visits from the personnel of FIs/Banks.

The data analysis on performance indicators of the various types of CBs suggest that all rural people seem to be performing better if they get timely and adequate assistance.

6.1.3 Findings on the Level of rural people and their Households

According to the data available in the office of the lead bank in Etawah district generally the agriculturists were the ordinary members of their groups and they were motivated mostly by NGO workers and by other people from the same village. According to the official income generation, to get credit support, self-employment and to improve quality of life are the most important reasons for the loan asked.

Before coming to the commercial banks for taking financial assistance the small farmers mainly used to depend upon the money lenders for their credit needs which have reduced up to a large extent after linkage with the commercial banks. Now majority of the rural poor depend upon their nearest financial institution for their credit needs.

Most of the beneficiaries avail both internal loaning as well credit from the bank. Most of the beneficiaries reported that they used to take the loan both for personal and occupational use.
• The commercial banks realized that radio, TV ads, newspapers and magazines were the most influential sources for providing information regarding agricultural and non-farm loans. Generally family/relatives, friends and panchayat members were the most important people who help in taking the decision regarding the loan products.

• Rural people feel that low interest rate and easily availability of loan are the most important reasons which they thought about while deciding about a particular credit source.

• During the study of available data it was observed that the non-availability of easily availability of loans for the agriculture oriented activities initiated by small farmers was not satisfactory.

• No institutional arrangements for marketing of products were available in the case of selected areas of the village engaged in diverse activities.

6.2. Constraints and Problems in Non-Farming Activities

• The major constraints in the agriculture credit delivery activities according to analysis were fear of crops destruction and fear of getting into debt, lack of institutions for necessary training, lack of technical knowledge and illiteracy/poor education.

• Respondents pointed out that lack of capital/money and high interest rates are the biggest obstacles in starting a small business. Besides that lack of credit institutions, rigid banking process and non availability of timely credit are the other important financial constraints in starting a viable non-farm activity.

6.3 Recommendations

• Government related institutions need to recognize the potential of agricultural financial services to maintain investment and expansion in key economic sectors and hence to add significantly to national economic growth.
• As a matter of fact poor do intensely use the limited knowledge and experience at their command without a sufficient return. If we want to bring about the significant change in the lives of the poor than we have to bring in significant inputs of a kind that the poor want but they don’t have. For this it is important to find out what they do know and have. It is only then, that schemes can be devised that can give right inputs in right quantities.

• A good regulatory framework for agricultural services is necessary to reduce the transaction costs and also to bring in much needed transparency and accountability. This will also helps in bringing long-term sustainability. The safety of small savers, ensuring proper terms of credit, instilling financial discipline and having a proper reporting and supervision system should be put in place.

• Through proper guideline and supervision it must be ensured that financial institutions are run prudently and must help the poor people in increasing their income through the proper livelihood activities.

• Institutions which are involved in managing the functioning of commercial banks in the country like RBI, SIDBI (Small Industries Development Bank of India), NABARD and others must evolve proper means for monitoring, managing, directing and controlling of credit. State Government and Central Government agencies must also ensure proper monitoring of these fund providing agencies.

• Mass media must be used widely for the spread of functioning of commercial banks in rural areas. Through the mass media potential and benefits of banks can reach to a large section of people and subsequently it will help in further increase in the number of branches of these banks in the villages.

• In particular, the success and sustainability of commercial banks in the studies area depends significantly upon greater clarity about who is to play the key role of maintaining quality, and how the costs of doing so are to be met.

• The awareness of the Bank staff with the local issues and the local people will help in the success of commercial banks in a long way. For
the success of commercial banks close association of Bank staff with the agriculturists is necessary, right from identification of the viable non-farm economic activity to planning for all the elements of this non-farm economic activity. Post credit monitoring and loan recovery is also very much important for the success of commercial banks.

- The procedure for applying, seeking and releasing of credit from the banks must be simplified further. During the study it is observed that the procedural difficulties are one of the major stumbling block, which has denied rural people from taking the financial benefits of the banks.

- Efforts should be made to motivate banks to take active interest in the farming and the activities related to agriculture and rural people to spread the information of various schemes and financial needs of poor.

- The bank functionaries who deal with agriculture credit branch managers should be exposed to the local people's language and culture. Motivational training programmes should be organized for bank functionaries to generate in them a sense of cooperation and positive orientation towards rural people.

- Beside the agricultural related activities institutional credit must also be made available for consumption needs arising out of emergencies, crisis, as also for housing, sanitation and for provision of other basic amenities.

- Efforts must also be put in for the quick release of funds and its channelization to the related departments and agencies so that it can reach the targeted small farmers.

- Encouragement must be provided to commercial banks to work in an organized manner, as this will help in reaping economies of large scale production.

- Some random surveys can be done in the area of agriculture finance to the clearer picture of the rural poor of Etawah District

- This type of study can be done on primary data in Etawah as well as other districts of UP state.
• Comparative studies can be done on the performance of commercial banks of different districts as well as different states.

• Studies regarding other aspects of commercial banks like loan to other industries can also be highlighted.

• Similar studies can be done on the agriculturists to highlight the purpose of getting institutional credit.

• Studies can be undertaken on the factors which motivate the farmers to get the benefits of different commercial banks.

• Studies can be done to analyze the role of government in promoting the agriculture credit through financial institutions.

The above mentioned interventions will help the commercial banks towards their evolution and growth and long term sustainability. Implementing the above recommendations will help the commercial banks in rising into sustainable financial institutions.
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Appendices
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Date: 05/07/2014

Sub: Acceptance of Research Paper

Sir,

Your paper entitled "Agriculture Credit and Commercial Banks" has been accepted to publish in International Journal of Commerce & Social Sciences (ISSN:2231-5888) January-June,2014. After publication a specimen copy will be sent to you.

Dr. G.K. Sinha
Managing Editor-IJCSS
Agriculture Credit And Commercial Banks

ABSTRACT

This paper tries to cover issues faced by farmers for getting agriculture credit specially in Uttar Pradesh and role played by Commercial Banks to resolve the issue. Even today the Banks are not coming forward whole heartedly as far as providing credit to farmers is concerned. This paper cover the trends in credit delivery in respect of agriculture growth, cultivation patterns and institutional support to the needy farmers to earn their living by growing sufficient crops. India has been one of the fastest-growing economies in the world in after 1990s. But this has been accompanied by widening social inequality. India’s economic growth has been unevenly distributed socially and spatially, with almost 30% of its population lives under poverty line. A huge part of the population still lacks basic access to affordable and quality services in health care, education, housing, energy, water and sanitation. As a result we must try to achieve more growth is an important goal. Agriculture credit to the needy farmers can play a crucial role in getting the above goals.

Key Words: Agriculture Credit, Commercial Banks, growth

Introduction

In earlier time money lenders used to be monitoring institutions of finance as they were the key factors who lend money to the farmers. As the time changed, the priority sector needed more attention as the requirement of agriculture products increased with the passage of time. So the government has recognized that agriculture credit must be considered as of its priorities and commercial banks should play a very important role in achieving the results.

Agriculture in India has always been a way of life rather than a business and has suffered from stagnation due to low productivity arising from inadequate investment. The green revolution, which taken roots in the country over the last decade has opened up new possibilities for the speedy development of agriculture. There is a growing tendency among the farmers to replace the traditional farming practices with scientific and modern practices, which include the use of improved seeds and intensive use of agriculture inputs. This requires heavy financial investment which
majority of farmers cannot afford from their own savings. Therefore, farmers have to depend to a large extent on borrowed funds which has naturally increased the demand for providing credit to a large numbers of farmers. The increase importance of capital in making agriculture a powerful engine for growth has been stated by Schultz as follows: “Once there are investments opportunities and efficient incentives, farmers will turn sand into gold.” The credit avenues open to farmers can broadly classified into two types i) formal credit channeled through institutional agencies, comprising co-operative societies central and state Govt. agencies, commercial banks and ii) informal credit flow through non-institutional agencies comprising the money lenders, traders, landlord and relatives. Till recently the latter group in particular the money lenders were the major financial agents both for production and consumption purposes.

There is a great difference between credit supplied by the moneylenders and that supplied to the farmers by credit institutions like co-operatives and other commercial banks in a country like India where majority of the farmers have meager saving, the role of institutional credit to supplement their investment capacity more importantly in modern capital intensive agriculture cannot be overstressed. The Govt. has assigned the responsibility of farm development to these agencies namely co-operatives, commercial banks and regional rural banks forming the three components of the multiagency approach extending agricultural credit to the farmers for various farming and allied activities. RRBs today are virtually paralyzed with heavy losses. Co-operative institutions roughly account for something like 50%. In some states up to 70%. The various financial institutions act as catalyst agent to accelerate socio-economic development through various innovative agricultural development programmes. Agriculture development to a large extend depends on the supply of finance which is described as the life blood of enterprises. Various commercial banks and development banks have been set up for accelerating the agriculture development in India. Commercial banks provide only short term financial assistance. The Govt. decided to set up special institutions called development banks to cater to the need of industries. The development banks (IFCI, IDBI, ICICI, LIC, SIDC) have been set up for accelerating the development of large medium and small industries by providing financial and various other development assistance required. In the field of agriculture credit, commercial banks are required to follow a policy of mutual substitutability with co-operative institutions because the agriculture credit policy envisages that
where co-operatives are weak, commercial banks would strengthen the supply of credit. Thus total credit supplied by co-operative institutions is included as an independent variable in the supply function to test the relationship that exits between lending behavior of commercial and co-operative institutions. Agricultural credit could be traced back to the enactment of the Cooperative Societies Act in 1904. The establishment of the RBI in 1935 reinforced the process of institutional development for agricultural credit. The RBI is perhaps the first central bank in the world to have taken interest in the matters related to agriculture and agricultural credit, and it continues to do so (Reddy, 2001). The demand for agricultural credit arises due to i) lack of Simultaneity between the realisation of income and act of expenditure; ii) Lumpiness of investment in fixed capital formation; and iii) Stochastic surges in capital needs and saving that accompany Technological innovations. Credit, as one of the critical non-land inputs, has two-dimensions from the viewpoint of its contribution to the augmentation of agricultural growth viz., availability of credit (the quantum) and the distribution of credit.

**Agriculture Credit**

Agriculture and related activities accounts more than 12 per cent GDP of the country every year. But since last few years it has been declining. Growth in agriculture and related works demand a necessary attention for inclusive growth. Agricultural growth is mainly contributed by three main factors which can be classified as agricultural inputs, technological change and technical efficiency. Since small and marginal farmers have very negligible savings, agricultural credit needs to appear an essential input along with modern technology for higher productivity. Agriculture credit has now become very important tool for large farmers as it had been for small and marginal farmers since last few decades. Hence, since independence, credit has been occupying an important place in the strategy for development of agriculture. The agricultural credit system of India consists of informal and formal sources of credit supply. The informal sources include friends, relatives, commission agents, traders, private moneylenders, etc. Three major channels for disbursement of formal credit include commercial banks, cooperatives and micro-finance institutions (MFI) covering the whole length and breadth of the country. The overall thrust of the current policy regime assumes that credit is a critical input that affects agricultural/ rural productivity and is important enough to establish causality with productivity.
Therefore, impulses in the agricultural operations are sought through intervention in credit. The policy-makers of our country have recognized that economic development and natural-resource management are interdependent and that with economic growth, resource depletion will intensify. India has some of the most fragile ecosystems in the world; they are extremely vulnerable to the impacts of environmental changes, including climate change. In a country like India where most of the population lives in rural areas and excessively depend on natural capital and its sustainable utilization for socio-economic development and growth. Yet rapid industrialization is responsible for a substantial rise in emission levels over the years, and India’s dependence on fossil fuels for energy generation has contributed significantly to air pollution. Although regulatory measures have been introduced, to restrict environmental degradation from resource extraction, the impact of these measures has been minimal.

NEED OF THE STUDY

Like other industries, agriculture also requires capital. Small farmers and marginal farmers need credit since their capital is locked up in their loans and stock. They need funds to meet their operational expenses. Their credit need is high at the time of crop season. Millions of farmers are depending upon marginal and subsistence farming. Due to low yield, they are not in a position either to have ‘surplus’ for distribution or at times even to continue the production process successfully and economically. Due to these reasons they depend mostly on credit even for normal agriculture operations and have to pay a part of their income by way of interest later. Recognising the importance of agriculture sector in India’s development, the Government and the Reserve Bank of India (RBI) have played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector. Agricultural policies in India have been reviewed from time to time to maintain pace with the changing requirements of the agriculture sector, which forms an important segment of the priority sector lending of scheduled commercial banks (SCBs) and target of 18 per cent of net bank credit has been stipulated for the sector. The Approach Paper to the Eleventh Five Year Plan has set a target of 4 per cent for the agriculture sector within the overall GDP growth target of 9 per cent. In this context, the need for affordable, sufficient and timely supply of institutional credit to agriculture has assumed critical importance.
The evolution of institutional credit to agriculture could be broadly classified into four distinct phases - 1904-1969 (predominance of co-operatives and setting up of RBI), 1969-1975 [nationalisation of commercial banks and setting up of Regional Rural Banks (RRBs)], 1975-1990 (setting up of NABARD) and from 1991 onwards (financial sector reforms).

The study will propose to highlight the agricultural credit extended by the commercial banks in Etawah District of U.P. State and analyse the repayment performance of the borrowers. The commercial Banks generally aim at intensive coverage of selected areas for meeting the priority sector credit needs, especially the agricultural credit requirements and ensuring effective supervision over the use of loans.

OBJECTIVES OF THE STUDY

The main objectives of the study are as follows:

To assess the agricultural credit requirements of cultivators in U.P. state
To study the disbursement of loans in the region for agricultural development.
To examine whether credit are properly used or misused.
To investigate the pattern of utilization and repayment of such credit and problems of farmers.
To study a relationship between the flow of institutional credit and agricultural growth in U.P.
To examine the deficiencies of the pattern of institutional credit and suggest remedial measures to strengthen the institutional credit structure in the state.

To evaluate the role of institutional finance for agricultural development of UP.
To assess the group financing for agricultural development.

Progress in U.P.

The following table shows how number of banks, commercialized banks and gramin banks increased or decreased in U.P.
<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Nationalised Banks</th>
<th>No. of Rural Gramin Banks</th>
<th>No. of other Non-Commercial Nationalised Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>3927</td>
<td>2478</td>
<td>482</td>
</tr>
<tr>
<td>1993-94</td>
<td>4368</td>
<td>2915</td>
<td>520</td>
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<tr>
<td>1994-95</td>
<td>5157</td>
<td>3232</td>
<td>611</td>
</tr>
<tr>
<td>1995-96</td>
<td>5160</td>
<td>3181</td>
<td>612</td>
</tr>
<tr>
<td>1996-97</td>
<td>5415</td>
<td>3300</td>
<td>666</td>
</tr>
<tr>
<td>1997-98</td>
<td>4532</td>
<td>2493</td>
<td>554</td>
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<tr>
<td>1998-99</td>
<td>4596</td>
<td>2520</td>
<td>571</td>
</tr>
<tr>
<td>1999-00</td>
<td>4612</td>
<td>2508</td>
<td>593</td>
</tr>
<tr>
<td>2000-01</td>
<td>4670</td>
<td>2468</td>
<td>580</td>
</tr>
<tr>
<td>2001-02</td>
<td>4593</td>
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<tr>
<td>2002-03</td>
<td>4629</td>
<td>2458</td>
<td>629</td>
</tr>
<tr>
<td>2003-04</td>
<td>4636</td>
<td>2449</td>
<td>664</td>
</tr>
<tr>
<td>2004-05</td>
<td>4691</td>
<td>2452</td>
<td>780</td>
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<tr>
<td>2005-06</td>
<td>5427</td>
<td>2910</td>
<td>896</td>
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<tr>
<td>2005-06</td>
<td>5427</td>
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<td>896</td>
</tr>
<tr>
<td>2006-07</td>
<td>5795</td>
<td>3054</td>
<td>977</td>
</tr>
<tr>
<td>2007-08</td>
<td>6046</td>
<td>3099</td>
<td>948</td>
</tr>
<tr>
<td>2008-09</td>
<td>6202</td>
<td>3013</td>
<td>1091</td>
</tr>
<tr>
<td>2009-10</td>
<td>6816</td>
<td>3101</td>
<td>1320</td>
</tr>
<tr>
<td>2010-11</td>
<td>7645</td>
<td>3434</td>
<td>1668</td>
</tr>
<tr>
<td>2011-12</td>
<td>7838</td>
<td>3346</td>
<td>1694</td>
</tr>
<tr>
<td>2012-13</td>
<td>8596</td>
<td>3524</td>
<td>1827</td>
</tr>
</tbody>
</table>

Source: Planning Commission, Uttar Pradesh
As the table and graph shows that number of nationalized banks, rural gramin banks and other non commercial nationalized banks has been increased rapidly during the years 2009 to 2013. The growing trends in recent times with many number of commercial banks are closely related to the changes in government policy in the state. Which is in favour of capital-intensive and loan disbursement in the state.

Table 2:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Amount deposited (in Rs. '000)</th>
<th>Total loan distributed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>184366870</td>
<td>76358059</td>
</tr>
<tr>
<td>1993-94</td>
<td>353775476</td>
<td>103693084</td>
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<tr>
<td>1994-95</td>
<td>325880884</td>
<td>116171138</td>
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<td>1995-96</td>
<td>470778299</td>
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<tr>
<td>1996-97</td>
<td>451204883</td>
<td>150062098</td>
</tr>
<tr>
<td>1997-98</td>
<td>442234646</td>
<td>152705400</td>
</tr>
<tr>
<td>1998-99</td>
<td>510533846</td>
<td>158071596</td>
</tr>
<tr>
<td>1999-00</td>
<td>1279111419</td>
<td>368817922</td>
</tr>
<tr>
<td>2000-01</td>
<td>663802860</td>
<td>204431450</td>
</tr>
<tr>
<td>2001-02</td>
<td>741981566</td>
<td>243830216</td>
</tr>
<tr>
<td>2002-03</td>
<td>835169317</td>
<td>306853141</td>
</tr>
<tr>
<td>2003-04</td>
<td>1035467070</td>
<td>408960643</td>
</tr>
<tr>
<td>2004-05</td>
<td>1043339002</td>
<td>429506227</td>
</tr>
<tr>
<td>2005-06</td>
<td>1481891288</td>
<td>651708094</td>
</tr>
<tr>
<td>2006-07</td>
<td>1438342675</td>
<td>764567384</td>
</tr>
<tr>
<td>2007-08</td>
<td>1895371053</td>
<td>893689839</td>
</tr>
<tr>
<td>2008-09</td>
<td>2117480408</td>
<td>1006569539</td>
</tr>
<tr>
<td>2009-10</td>
<td>2977535596</td>
<td>1445941679</td>
</tr>
<tr>
<td>2010-11</td>
<td>3309067446</td>
<td>1649811019</td>
</tr>
<tr>
<td>2011-12</td>
<td>5136507309</td>
<td>1874742867</td>
</tr>
<tr>
<td>2012-13</td>
<td>5696998133</td>
<td>2179293892</td>
</tr>
</tbody>
</table>

Source: Planning Commission, Uttar Pradesh
There was increase in agricultural credit from banks in the rural areas during the recent five years. While the share of agricultural credit in rural areas where the activities which are more related to agriculture was very few in 1990s. The changes in the agriculture credit in recent years are the indicators of disconnection between the credit and investment in the agriculture. Agricultural credit and total deposit in the state was not significantly increasing nature in early 90s. From 2009-10 onwards, agricultural credit grew rapidly compared to capital formation in agriculture, and the difference between the amounts of agricultural credit and agricultural capital formation grew. In other words, only an increasingly smaller portion of credit supplied to agriculture was transformed into capital investment in agriculture in the 2000s.

Conclusion

It has been observed that cultivators have access to get institutional credit since last few years and hence the role of commercial banks has significantly increased and role of moneylenders has declined. The data provided by planning commission of Uttar Pradesh has suggested that the credit to priority sector has definitely been rising both the values of inputs and value of outputs. The are some regional disparities shown by the commercial banks as far as disbursement of loans to cultivators is concerned. The analysis suggests that the direct finance to agriculture has a positive effect on agriculture output. The number of accounts, amount deposited and amount distributed to the farmers has also significant impact on agriculture output. Even though this it is derived that there are many gaps as far as agriculture credit delivery is concerned. Small and medium farmers still face difficulties to get the desired loans. As suggested by Mohan (2006) the role of agriculture finance can be enhanced by inclusion of region specific market participants.

REFERENCES


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