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Rural Credit in Karnataka: Systemic Weaknesses and Corrections

B. Jayaraman, B.N. Kulkarni and R.S. Deshpande*

Rural credit system in India has come under review in three different contexts. First, the review was taken in the context of liberalisation wherein, it was felt necessary to streamline the operations of financial market in the economy. The development of credit market operated as the main driving force for such review. More or less at the same time, many studies brought out clearly that the trends in capital formation in the rural economy are becoming adverse and therefore, in order to boost up the capital formation, it was felt necessary to provide new impetus to rural credit structure. The third provocation for reforms in credit market came from the severe distress experienced by the farmers in various parts of the country and especially the culmination of such distress into farmers' suicides. Two important questions are addressed in this paper viz., (i) what kind of financial environment prevails in a state that faces the most critical situation? and (ii) which are the important guidelines as reflected from the reform process that would be useful in this context? Rural credit structure in Karnataka has been developed over the years and it displays a good number of variations. The study analyses in detail the developments in rural credit structure in the State and its growth during recent past. The study is based on the findings of various committees starting from All India Rural Credit Survey headed by Gorewala to the Expert Committee on Rural Credit and Advisory Committee on Flow of Agricultural Credit headed by Professor Vyas. The analysis brings out a few important factors. First, it clearly brings out that the policy for collateral and the process of judging the bankability of the project needs to be reviewed. Pledge financing, credit for marketing, introduction of negotiable warehousing system are now essential to be included in the formulation of credit policy. The financial health of credit institutions is a matter of concern. The non-receipt of interest, consequent to the loan waiver in *kharif* 2002, affected the level of non-performing assets due to a decline in the aggregate recovery rates. This has caused losses for many District Central Co-operative Banks. The number of PACSs making profits shrunk from 1,915 to 1,719 adversely impacting the credit structure. Micro irrigation, sprinkler and watershed development should attract larger credit than what it has done up to now. In Karnataka, the budget provides cover to the loss in interest of banks when the co-operative sector charges 6 per cent instead of the prevailing rate of interest. But, subsidisation of one institution as against others may create imbalances in the rural credit structure. It was also noted that in the state Self-

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Help Groups have worked hand in hand with Watershed Development Committees and that has proved exceptionally successful both in credit management as well as natural resource conservation. It is necessary to highlight the success of these experiments and boost them up to achieve better results.

Rural Credit Delivery in Maharashtra: Experiences with Formal and Informal Lending Institutions

K. G. Kshirsagar[†]

The rural credit sector in Maharashtra not only encompasses the traditional formal and informal but also the new generation lending institutions. The present paper specifically focuses on the credit experiences of various categories of farmers and landless households with these lending institutions with the objective of suggesting the policy measures for ensuring smooth flow of credit to them. The study provides two differing views about the functioning of various lending institutions in Maharashtra. While new generation lending institutions such as Self-Help Groups (SHGs) have shown high rates of interest on loan advances, the traditional lending institutions such as co-operatives and commercial banks are seen to be beset with other deficiencies such as high transaction cost, delay in credit delivery and absence of human capital investment and consumption loans, especially for illness, marriage, and other contingencies. The study has emphasised upon the need for formal credit agencies to have simplified lending procedures to improve the overall operational efficiency with a major focus on extension of sufficient and low-cost credit facilities at the right time to the poorer sections of the rural society. Other suggestions of this study include efficient use of Kisan Credit Cards and group lending through SHGs. Further, as the credit delivery through commercial and co-operative banks invariably depends on ownership of land, the landless households are adversely affected in terms of access to credit. It is, therefore, suggested that ownership of land as the criterion for distribution of credit should be relaxed and group responsibility be introduced by formal credit institutions to safeguard the interest of the most neglected section of the rural society. Despite a vast network of formal and informal credit institutions, co-operatives emerged as the dominant force in rural credit markets. However, in order to maintain this status, the co-operatives need to be restructured and strengthened to meet the emerging challenges. Identification of poorer groups within the landholding categories is another suggestion of this study for providing them timely, adequate and cheaper credit with a view to help them rise above the poverty line and for achieving the sustainable and higher growth of Indian agriculture.

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Borrowing Behaviour of Hill Farmers – A Study of Himachal Pradesh

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An attempt is made in the paper to study the extent of borrowing and repayments, cost of borrowings, overdues and the determinants affecting borrowing behaviour in Himachal Pradesh. All the four zones of Himachal Pradesh have been selected. The study is based on data collected from a sample of 360 farmers drawn from two blocks in each zone and from each block of the district, four villages were randomly selected. Tabular and percentages were worked out to meet out the objectives of the study. Logit analysis was applied to study the determinants of the borrowing behaviour of the households. The results showed that institutional sources of credit were very popular among the farmers. In non-institutional sources, friends/relatives were important because they charged no interest and were risk free but had little role to play due to their inability to advance large amount of loan. House construction was the main purpose of borrowing followed by crop production activity etc. The investment on farm machinery was nil due to its negligible use in the hilly terrains. The maximum borrowings were found in the case of Zone II. The farmers availed loan for the purposes like sickness, social ceremonies, purchase of animals; the borrowings were mainly done from the friends/relatives. The rate of interest was found to be high in case of traders/commission agents due to high risk of production under rainfed agriculture. The cost of borrowing was found to be the highest in case of non-institutional sources whereas, the banks had minimum (hidden) cost of borrowing per farm. The overdues with the farmers were found to be large because of low income and more consumption. The percentage of overdues to the total loan borrowed was found to be highest in case of banks. The overdues were the highest in case of social ceremonies and house construction. During the survey it was observed that only those farmers who were in regular service, were able to repay on time. The overdues were also the highest in case of irrigation structure and farm implements whereas these were lowest in case of crop production. Regression analysis showed that the age of head of family did not have much effect on the probability of being a borrower. This was mainly due to small holdings in the hilly areas. The results further showed that the probability of being a borrower increased with increase in non-farm income of the farmer. This may be due to the fact that the lending agencies were ready to advance the loans because of 'almost assured repayments' and secondly higher non-farm income indicated higher education and thus better access to the financial institutions. The findings of the study suggest the need to develop the co-operative sector in the hilly areas for input supply as well as for credit facilities. Further, small farmers will be much more benefited if emphasis on lending is given on 'number of borrowers' rather than 'amount of lending' because in the latter case banks are able to achieve their targets by advancing loans to the large farmers only.

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Problems of Overdues in the Tribal Area of Jharkhand

Sanjay Kumar[†]

In this paper an attempt is made to identify the important socio-economic factors responsible for the non-repayment behaviour of the borrower farmers. For the purpose of the study 140 households spread over eight villages of four development blocks of Ranchi district were interviewed through a specially designed questionnaire. Proportional sampling method was used for selection of the respondents such as defaulters and non-defaulters. The results based on discriminant function analysis indicated that characteristics like literacy, percentage of income from other sources, percentage of cash expenditure for production purpose to the total expense, number of visits to the officials, percentage of borrowing from different institutions to the total production credit, percentage of borrowings for production credit from the financial institutions, percentage of productive utilisation of credit to the total production credit, irrigation potential and cropping intensity all these helped in differentiating the borrowers into the defaulters and non-defaulters. Similarly, the defaulters could be classified into wilful and non-wilful on the basis of factors like literacy, percentage of income from other sources and the size of holdings.

A Study of the Impact of Farm Credit on Production and Indebtedness Among Farmers in Morang District of Nepal

Ramesh Prasad Adhikari*

The paper attempts to study the impact of short-term farm credit on production of crops based on a sample of 84 farms selected from nine village development committees in Morang district of Nepal. It was found that there was positive impact of credit on production of paddy and wheat in all the sampled areas of Morang district. Paired t-test was used to examine the difference between the production before credit use and after credit use. All the t-ratios calculated were found to be significant for all farmers in all the areas. The farmers were not using the required amount of inputs as recommended by the agri-technicians. As a result the actual production level of crops was lower than what it would be if recommended level of inputs are applied. The reason was that they did not use all the credit borrowed for production purpose. The marginal farmers were using only 59.65 per cent of the total credit borrowed, small farmers were using 60.53 per cent and medium and large farmers were using 76.56 per cent. The remaining amount of credit was used for family expenditure. As regards indebtedness, the study indicated that the level of

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indebtedness also depends on the level of development of the area in which the farmers reside. The proportion of indebted families decreased from low developed area to developed area. One of the main reasons for relatively high burden of debt among marginal farmers was due to their inability to use all the borrowed credit in production to realise the potential level of output. On the basis of the study it was concluded that the marginal and small farmers should be encouraged to diversify their production by not only engaging in farm production but also in non-farm income generating activities in order to generate extra income that can be used to purchase inputs and meet family expenditure; this would help reduce the burden of debt.

Indebtedness of Rural Farmer Households: A Profile of Major States in India

Jagannath Lenka[†]

The study seeks to highlight the incidence of debt of the rural farmer households and the relative role of the institutional and non-institutional agencies in financing the rural indebtedness across major states of India. The study is based on secondary data. Nearly half of the rural farmer households in the country are indebted in various degrees. The agriculturally prosperous states are found to have become home to a large number of indebted farmer households compared to their number in less prosperous ones. Most of the indebted farmer households belong to the category of marginal and small farmers and they are concentrated in the disadvantaged social groups such as scheduled tribe (ST), and scheduled caste (SC) and other backward classes. (OBC). In spite of the fact that about 60 per cent of the indebted households have borrowed for agricultural pursuits, as high as 40 per cent of them have availed loans for unproductive purposes. The most important finding is that even after a decade of economic reforms, the professional money lenders were the predominant source of lending for the rural farmers.

Since large-scale indebtedness has constrained some rural farmers to commit suicide in recent years, the Government must gear up the machineries to protect them from the clutches of the professional money lenders. At the same time, provision for adequate finance may be made to instill confidence in the mind of these poor farmers who constitute the real strength of the economy. What is important at the moment is not only a farmer friendly policy but also its implementation within a given time framework which is lacking. Policy backed by strong political will would enormously help a large number of poor farmers.

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Credit-Financing of Regional Rural Banks in Agricultural Sector in Hoshangabad District of Madhya Pradesh

A.M. Rajput and A.R. Verma*

The paper seeks to examine the credit financing of Regional Rural Banks in agricultural sector in Hoshangabad district of Madhya Pradesh. The study is based on an intensive inquiry of 100 farmers – 50 borrowers and 50 non-borrowers selected randomly from 7 villages in the Hoshangabad tehsil of Hoshangabad district, conducted during the year 2000-01. The farmers were grouped into three size-groups, viz., small (0-2 ha), medium (2-4 ha) and large (4 ha and above) farms. It is found that the average intensity of cropping on borrowers' farms was higher at 157.92 per cent as against 127.46 per cent on non-borrowers' farms. The average input, output and net income per hectare worked out to Rs. 6,345, Rs. 9,500 and Rs.3,155 on borrowers' farms as compared to Rs. 5,820, Rs. 8,060 and Rs.2,240, respectively on non-borrowers farms. The input, output and net income per hectare of small, medium and large farms were significantly higher on the farms of borrowers than on the non-borrowers' farms. The average cost-benefit ratio was calculated as 1:1.49 to borrowers as compared to 1:1.44 on non-borrowers farms. Similarly, the cost-benefit ratio on the farms of borrowers was higher than on the farms of non-borrowers. The higher use of modern farm inputs like high-yielding varieties, manures and fertilisers, irrigation and adoption of intensive farming by borrowers contributed to a significant additional profit over those of the non-borrowers. On an average, the credit supply from Regional Rural Bank on the sample farms was of the order of Rs. 593 for crop loan, Rs. 3,730 for term loan and Rs. 4,343 for total loan per hectare. On an average, per hectare credit requirement worked out to Rs. 839 for crop loan, Rs. 5,387 for term loan and Rs. 6,226 for total credit requirement. The average credit gap per hectare was calculated at Rs. 246 for crop loan, Rs. 1,771 for term loan and Rs. 2,017 for total credit gap, sharing 29.32 per cent as crop loan, 32.87 per cent as term loan and 32.40 per cent as total credit gap. The study noted that the credit supply from the Regional Rural Bank for the sample farms for crop loan, term loan and total loan per hectare was not adequate to meet the credit requirements in respect of these components. The credit intensity on small and marginal farms was estimated to be higher than that on medium and large farms. However, the gap in the availability of credit among these two classes narrowed down over time. There is therefore the need that the policy makers and credit planners should look at the present credit policy and redefine it in the context of modern day high tech agriculture requirements of the state.

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The main constraints faced by the borrowers in obtaining credit in the study area were the security formalities in availing credit, inadequate credit and its unplanned disbursement, lack of proper guidance and delay in the disbursement of credit. Non-availability of essential inputs at the village level and poor electricity supply posed serious problems to the farmers in the effective utilisation of credit. Higher cost of loan, high level of overdues, absence of effective credit planning, lack of technical guidance and supervision about the use of credit are the other problems encountered by the farmers in the rural areas. Such guidance will be possible only when there is proper co-ordination between the financing agencies and concerned development department. The Government has to evolve a proper structure to provide credit to the agricultural sector to promote rural development. Besides, specific policy measures like simplification of the procedures, easier terms for security, production-oriented timely availability of credit, adequacy of credit at reasonable interest rates are suggested to promote the development of agriculture.

Impact of Institutional Finance on Farm Income and Productivity: A Case Study of Orissa

R.K. Mishra[†]

Diversion of credit for consumption purpose has become a common phenomenon in recent years. In order to make an investment productive and to keep up the viability of institutional agencies in future, both the lender and borrower should exercise care in seeing that there is no wasteful expenditure. The study aims to examine the impact of institutional finance on farm income and productivity in selected farms in Baliana block of Khurda district of Orissa. Specifically, it aims (a) to study the sources of borrowing among different categories of farmers, (b) to study the nature of utilisation of borrowed funds and (c) to study the impact of agricultural finance on agricultural income and productivity of sample farms. Using two-stage random sampling method a sample of 40 borrowers and 40 non-borrowers were selected for the purpose of study. Multiple regression analysis was employed to study the impact of institutional credit for increasing output at the farmer's level. The results revealed that among all the institutional agencies the role of co-operatives was quite commendable having the share of 39.53 per cent followed by commercial banks (19.83 per cent) and regional rural banks with 6.91 per cent. The small and large farmers were relatively the most important outlets borrowing about 75 and 81 per cent of the total finance. Further, it is evident that out of the total borrowings crop loan constituted 68 per cent as against 32 per cent by term loan. The per hectare borrowings of marginal, small and large farmers for crop loan were Rs. 2,251, Rs.2,066 and Rs. 1,788, respectively and for long term credit it was Rs. 859, Rs. 952

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and Rs. 986 respectively. Thus large farmers borrowed less short term and more long term credit per ha as compared to the marginal farmers who borrowed more short term credit. It was observed that 20.38 per cent of the short-term credit and 20.55 per cent of long term credit were diverted for unproductive purposes. The results of the regression analysis revealed that the credit financed inputs and percentage of area were statistically significant at the aggregate levels for borrowers and self-financed variable inputs and percentage of area under high-yielding varieties in case of non-borrowers. The study further revealed that the increase in yield of borrowing farms was due to use of credit financed inputs.

Mapping Strategies for Efficient Rural Credit Delivery System through Co-operatives in Maharashtra

Deepak Shah*

This paper attempts to assess the performance of various credit co-operatives operating in different districts and regions of Maharashtra and to evaluate the viability of these institutions in forward and backward regions of the states during the period between 1980-81 and 2002-03. In this study, the credit co-operatives operating in Maharashtra have not only shown slower growth in their institutional finance coupled with much slower growth in their membership but also faster growth in outstanding loans as against their loan advances during the reform period. The reason for this dismal scenario is traced in the adverse environment created by the financial sector reforms, which have reduced the entire rural credit delivery through co-operatives to a moribund state. Since the financial sector reforms accorded greater flexibility to co-operatives to invest in non-target avenues like shares and debentures of corporates, units of mutual funds, bonds of public sector undertakings, etc., this has adversely affected the credit flow from these major institutions operating in rural Maharashtra as most of their loans meant for farm finance are diverted to investments. The credit co-operatives are also found to be beset with several other deficiencies, which mainly relate to their low operational efficiency, high incidence of overdues, low level of recovery, distributional aspects of their loan advances, coverage of scheduled caste/scheduled tribe (SC/ST) members, etc. The findings of this study clearly show lackadaisical approach of Primary Agricultural Co-operative Credit Societies (PACS) towards SC/ST members, particularly in terms of their coverage, pattern of loan advances to them and recovery pattern. The deficiencies are not confined to this but extend to other concurrent issues. Wide variation in total and crop loan advances across various districts and regions is another important issue that need to be taken cognizance of in ensuring effective rural credit delivery through

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PACS operating in Maharashtra. Although decline in their loan advances with rise in gross cropped area is another issue, the most important one among all is the mounting overdues and non-performing assets (NPAs) of co-operatives operating in both forward and backward regions of Maharashtra. Due to substantially high NPAs, while Buldana District Central Co-operative Bank (BDCCB) operating in the backward region has shown gross inefficiency in its functioning during the reform period, the Sangli District Central Co-operative Bank (SDCCB) operating in the forward region is marked with deterioration in its financial health during this period. In order to rejuvenate rural credit delivery system through co-operatives, the major problems facing the system, viz., high transaction cost, poor repayment performance, mounting NPAs, distributional aspect of credit, coverage of SC/ST members, etc., need to be tackled with more fiscal jurisprudence reserving exemplary punishment for wilful defaulters, particularly large farmers.

Institutional Credit to Agriculture in India: Emerging Trends and Future Prospects

Ramesh Golait and Narayan Chandra Pradhan[†]

The paper examines some important institutional aspects of agricultural credit post-liberalisation in 1991 with the aim of drawing some lessons and delineating prospects for the future. A comparative analysis of direct institutional credit to agriculture and allied activities in the eighties and nineties revealed that the growth of long-term credit has decelerated, while the short-term credit flow has stagnated. This phenomenon has even continued in later years and has reached an alarming proportion in 2000-01 and 2001-02, which has a dampening effect on the agricultural investment for future growth process. The farmers seem to borrow more short term credit in order to meet input needs to maintain continuity in agricultural operations without much worrying about long term capital formation. It might be the case with supply side that, short-term credit bears low credit risk, lower supervision and monitoring costs, and a better asset liability management. The paper concludes that the possible constraints causing slow growth in agricultural credit disbursement in the nineties could have been countered by the way of availability of timely credit to the farmers at lower interest rate, providing relief at the time of natural calamity and liquidity smoothening process, linking credit supply to input use; and broadening organisational empathy, i.e., matters relating to morals of debt repayment.

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Rural Credit Delivery System in India: Performance Appraisal of Scheduled Commercial Banks

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The present study attempts made to project certain characteristic features of rural credit delivery system in India with particular reference to scheduled commercial banks (SCBs). The study is based on secondary sources of data. The results indicate that before the nationalisation of banks, co-operatives have been the sole players in the rural credit delivery system. After nationalisation of banks and setting up of Regional Rural Banks (RRBs) in 1975, the commercial banks and RRBs joined the co-operatives in the pursuit of India's rural development. The increasing importance of scheduled commercial banks, over other rural credit sources, is highlighted by comparing the contribution of different sources to agricultural credit over time. It is the major economic reforms of the 1990s, which gave an impetus to the rural credit delivery system of commercial banks. The share of commercial banks in 2002-03 stood at 57 per cent of total credit flow to agriculture and the amount outstanding being 1.7 times as that of co-operatives. An effort has been made to study the performance of agricultural credit, state-wise and over time, in relation to India's agricultural growth. There is no denial of the fact that scheduled commercial banks have picked up momentum especially in the post-economic reforms period. Therefore a fresh thinking on the issues of equity and adequacy of credit is required on an urgent basis. Apart from this, an all out effort is required on the part of banks to reorient their policies in order to surmount the obstacles in the way of achievement of 18 per cent to agriculture.

An Economic Analysis of Agricultural Credit and Overdues in Different Regions of Uttar Pradesh

L.D. Hatai, H.P. Singh, C. Sen and R.S. Dixit[†]

Agricultural credit has always been an important input in the production process. An attempt has been made in this paper to analyse the availability and utilisation of credit by farmers and to identify the major causes and determinants of overdues. Multi stage random sampling technique was used to examine the relative influence of various factors responsible for overdues across different categories of farms. It was observed that the share of commercial banks in the total availability of credit per hectare is the highest followed by the regional rural banks, primary agricultural credit societies (PACs) and land development banks (LDB) for all the categories of farmers

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in both west and east zones. Out of total borrowings on marginal farms, the crop loan shared about 61 to 74 per cent in the west and east zones, respectively. Crop loan had inverse relationship with the size of holdings, where as a positive relationship was observed between the term loan and the size of holdings. More than 80 per cent of credit was used for productive purposes and the rest for unproductive purposes. Overall, the major reasons identified for wilful default were slackness in timely recovery by banks, followed by diversion of income for purchasing land and other property and uncertainty about fresh loans in both the zones. On the other hand, low crop yield and failure of crop due to natural calamities, inadequate finance were the main reasons of non-wilful default in both east and west zones. The analysis further revealed that the amount of loan borrowed, and unproductive use of loan have been the important factors responsible for overdues in both the zones in all farm sizes. It is felt that financial institutions should advance the loan after assessment of the credit requirements to ensure proper use of advanced loan. Efforts should also be made to check the unproductive use of loan to tackle the problem of overdues in agriculture.

All-India and State-Level Analysis of the Indebtedness and Economic Conditions of Rural Farmer Households

Arvind Awasthi*

An attempt is made in the paper to provide a detailed analysis of the extent of institutional credit available to farmer households owning land in different size classes upto 2 hectares and their degree of incidence of their indebtedness at the all-India and state level with a view to analyse the economic conditions of rural cultivator households. All India and state-level analysis of cultivator households reveals that the economic reforms programme initiated by the Government of India since 1991 for improving profitability and viability of banking institutions through restructuring of regional rural banks, modernisation of commercial banks and enhancement of efficiency of co-operative banks have adversely affected the flow of institutional credit to farmer households in India. Moreover, the economic condition of the cultivator households owning land of less than 0.01 hectares and between 0.01 hectares to 0.40 hectares is miserable as they owe a high short term debt to non-institutional sources and a relatively low annual per capita expenditure. At the state level the dominance of non-institutional sources is visible in many states even for the farmer households in higher categories of land size too. These states are Andhra Pradesh, Punjab, Haryana, Tamil Nadu and Rajasthan. Of all the states in the country, the economic condition of farmer households is most vulnerable in the state of Andhra Pradesh irrespective of the size of land possessed by these marginal category of farmer households. Moreover, incidence of indebtedness in this state is as high as 82 per cent which reflects that bulk of the cultivator households are living

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in miserable conditions. Suicides by farmers in this state substantiate our observations. The study suggests the need to provide financial assistance by the government to all such cultivator households whose economic condition is miserable and efforts should be made to strengthen institutional lending and make available Kisan Credit Cards to all cultivator households especially for the marginal farmers.

**Agricultural Credit Utilisation Pattern and Its Repayment
Performance of Borrowers' of Regional Rural Banks in Karnataka –
A Case Study of Chitradurga Gramina Bank**

H. Shivappa[†]

Based on both secondary and primary data the study examines credit utilisation pattern and its repayment performance of the borrowers' in Chitradurga Gramina Bank of Pallagatti branch in Davangere district of Karnataka. Primary data has been collected by personal interviews from 60 sample borrowers selected randomly in 2004-05 using survey method. The Pallagatti branch is purposively selected due to accessibility to data and familiarity with its service area and the bank personnel. The analysis of data revealed that in 2001-02 the bank had advanced Rs. 1.32 crores which increased to Rs. 1.89 crores in 2004-05. About 75 per cent of the sample borrowers have borrowed funds from Gramina Bank as well as from private agencies. The remaining 25 per cent have borrowed only from Gramin Bank. The delay in renewal of loan under lending, and non-availability of loan for domestic purpose forced the farmers to depend on private sources. About 28 per cent of the total sample beneficiaries have used the whole credit in farm expenditure while the remaining 72 per cent have partly used in farm expenditure and diverted partly for other purposes. The credit recovery of the bank was 85 per cent in 2001-02, which decreased to 73 per cent in 2003-04. Failure of crop due to drought has reduced the credit recovery and increased the overdue. Only about 78 per cent of the total respondents have repaid loan in time. Desire for getting enhanced loan in future, legal and moral duty to repay loan, persuasion by bank personnel, minimisation of loan burden, better yield etc., are the major factors responsible for regular repayment. Non-repayment of loan in time were due to crop failure, low yield, low income, difficult to repay the whole loan and interest at a time, heavy domestic expenditure and unremunerative prices. Since agriculture is the mainstay of Indian economy its development is to be accorded top priority. Majority of the farmers being economically weak, need institutional credit. Therefore, the regional rural bank which is one of the institutional agencies should supply cheap, adequate and timely credit to the needy farmers, so that the agriculture can be developed at the desired rate and the repayment of loan can be ensured and peasants can be kept away from the clutches of private money lenders.

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Agricultural Credit Flow Needs Further Acceleration

K.U. Viswanathan*

Institutional arrangement for agricultural credit is the result of more than a century old efforts. They accounted for 66.3 per cent of the cash debt of cultivators in 1991. Agricultural credit was growing at around 15 per cent per annum, showed a quantum increase to 32 per cent during 2004-05 due to the vigorous expansion measures undertaken to double the credit flow in three years. Structural weaknesses like financially weak co-operative banks, urban bias of commercial banks, etc, however, continue to persist. The paper presents a critical review of the credit flow to agriculture from institutional sources during 1991-2005. It was noted that the share of co-operatives in credit flow to agriculture declined from 49 per cent in 1991 to 27 per cent in 2004-05. The growth in credit flow had decelerated for commercial banks in respect of production credit, investment credit and total credit during the 1990s compared to the previous two decades. The share of production credit in value of inputs used in agriculture had gone up from 41.1 per cent in 1993-94 to 58.9 per cent during 1999-2000 due to the faster growth in production credit. Private sector capital formation in agriculture accounted for three-fourth of the total capital formation and more than two-third of this was made by investment credit. Considering good branch network and strong resource base, commercial banks have to play a larger role in stepping up flow of credit of agriculture. On account of several reasons, there seems to be some reluctance as reflected when only 8 out of 26 major commercial banks in the country achieved the target of 18 per cent of net bank credit to agriculture while some of them achieved only 12 per cent. As against widely held perception that agricultural lending lead to non-performing assets (NPAs), only 13.87 per cent of the NPAs of public sector banks was in the agriculture sector while more than 50 per cent was in non-priority sector. Credit needs of agriculture were increasing due to shift in cropping pattern, increase in cropping intensity, adoption of hi-tech practices, etc. as also due to increase in demand for credit for post-harvest handling, processing, etc. Therefore, credit institutions, especially commercial banks, will have to focus on enhancing flow of credit to production, investment and marketing credit needs of the agricultural sector.

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Determinants of Borrowings from the Primary Agricultural Co-operative Credit Societies

V.A. Thorat, S.N. Tilekar and S.R. Bagade[†]

An attempt has been made in this paper to evaluate the factors which influence the borrowings from the co-operatives. Dapoli tahsil of the Ratnagiri district were purposively selected and the three co-operative credit societies, viz., Asud, Mhalunge and Matwan, were randomly selected. The sample comprises 30 borrowers and 30 non-borrowers. The tabular and functional analysis was carried out to arrive at specific findings. It is observed that the percentage of irrigated area and farm income of borrowers was higher than that of non borrowers. The reason for low amount of borrowings is that loans are only taken for rice production in the region. The area under perennial crops and productivity of various crops is slightly higher on borrowers' farms compared to their counterparts. The input utilisation on borrowers' farms seems to be higher than non-borrowers except family labour. As expected, the experience in farming has shown non-linear relationship with borrowing. There was positive and direct relationship between amount borrowed and the economic factors viz., size of land holding, proportion of irrigated area and farm income. From amongst the demographic factors, age is the main determinant, while from amongst the economic factors, actual irrigated area is the most influencing significant determinant of borrowing. Joint ownership and overdues emerged as the major causes of non-borrowings.

Credit Requirements for Improved Dairying and Cost of Credit: A Case Study of Jharkhand

Smita Sirohi*

The paper assesses the credit requirements for adopting improved dairy practices in Ranchi district of Jharkhand, highlights the gap between credit needs and loan advanced for dairying in the district and works out the intrinsic cost of dairy loans in the study area. The study is based on the primary data collected during 1999-2000, from 120 borrowers, who took dairy loans during 1995 to 1998 from Ranchi Kshetriya Gramin Bank or Bank of India in Kanke in Ormanjhi and Ratu blocks of Ranchi district. The sample borrowers comprised the economically weaker sections of the society. The analysis of credit requirement indicated that the average medium

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term credit requirement was Rs. 9,265.33 for purchasing a crossbred cow and the same declined with the size of land holding. The short term credit requirement for improved dairying ranged from Rs. 4,382 on the small farm-size category to Rs.4,751 on marginal households. The total credit requirement for purchasing a crossbred cow and rearing it according to the recommended improved dairy farming practices was about Rs. 14,112, of which approximately 66 per cent was required by the farmers as medium term loan. However, the financial institutions, on an average, advanced a medium term loan of Rs. 8,435 only to the borrowers in the study area. Further, due to the intrinsic cost of credit, the net loan received was about 11 per cent lower than the sanctioned amount. In negotiating and transacting the loan, the borrowers had to incur additional expenses (besides the interest rate), which are hidden costs. The study revealed that out of the total intrinsic cost incurred in getting the loan, about 67 per cent was spent on different functionaries in the processing of the dairy loan application. This calls for stringent measures to increase the efficiency and thereby decrease the cost of loan disbursement to the rural poor. Further, concerted efforts are required to reinforce the credit structure in the region with the new entities such as micro-finance institutions and Self-Help Groups which can be instrumental in meeting the working capital requirement of the dairy farmers and in increasing the income of the producers.

Evaluation of Integrated Co-operative Credit Structure in Andhra Pradesh

V.M. Rao[†]

The paper aims at analysing the impact of integrated credit in Andhra Pradesh. Secondary data collected from annual reports of Andhra Pradesh Co-operative Bank, published and unpublished records, and various committees associated with integration formed the basis for the paper. The study noted that historically, two parallel structures of co-operative credit institutions have come into existence, one for providing short-term and medium-term credit and the other for dispensing long-term credit. A number of committees, however, suggested either integration of both the structures or functional co-ordination between the two. A desire to provide multi-term credit and multi-functional services motivated the government of Andhra Pradesh to integrate both the structures. Accordingly, the process of integration at primary level was implemented in 1987, and at the apex level in 1994. To begin with the results in terms of membership, share capital, credit off-take, etc. seem impressive but failed to maintain momentum. With addition of long-term credit, work load at delivery point, i.e., Primary Agricultural Co-operative Societies (PACSs) has gone up leading to decline in advances, lapses in supervision, and poor recovery. In the restructured organisation, lot of attention was given to providing loans and recovery

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of short-term credit, thus neglecting the recovery of old loans provided under long-term credit. Further, not many PACSs are involved in extending services like processing, marketing, and consumer goods. Lukewarm financial support from state government, application of prudential norms, ban on promotions, internal bickering among employees, adhoc changes in recruitment and service conditions of secretaries of PACSs, etc., contributed their share for their dismal performance. However, the farmers indicated that the time required, money and efforts spent in getting loan declined considerably after integration, and hence they were happy with the integrated credit delivery system. Based on the above analysis it is suggested to retain both credit structures for the benefit of farming community.

Credit Portfolio and Viability of Regional Rural Banks in Gujarat

R. L. Shiyani and B. L. Dudhat*

Liberalisation and deregulation process started in 1991-92 has made a sea change in the banking system. From a totally regulated environment, it has moved into a market-driven competitive system. The pace of changes gained momentum in the last few years. An important change is the phenomenal growth of Regional Rural Banks (RRBs). The RRBs were originally established to drive the money lenders “out of business” and bridge the credit gap unfilled by the rural co-operatives and commercial banks. This paper provides an insight into the functioning of RRBs in Gujarat. Out of nine, three RRBs of Gujarat, viz., Junagadh Amreli Gramin Bank (JAGB), Sabarkantha Gandhinagar Gramin Bank (SGGB) and Panchmahal Vadodara Gramin Bank (PVGB) sponsored by different lead banks were selected for the study. The time series data of various parameters on the performance of banks were collected and compiled from the annual reports of the banks for the period from 1984 to 2005. The compound growth rates of all the parameters were computed. To examine the economies of scale in all the selected RRBs log-log function was finally found better fit among the five different functions tried. The major findings emerged from the study indicated that the growth performance of JAGB in relation to various types of credit disbursed, branch expansion, income, asset and refinance from National Bank for Agriculture and Rural Development was found relatively better as compared to the other two RRBs. A quantum jump in the consumption credit at the cost of production credit over the years was noticed in the case of SGGB whereas the PVGB had not provided consumption credit at all. A drastic decline in the proportion of small and marginal farmers in the total borrowers over a period of time was noticed in the case of SGGB. The proportion of small and marginal farmers was the highest in the case of PVGB (68.82 per cent), followed by JAGB (53.35 per cent) and SGGB (31.74 per cent). Despite the impressive coverage and growth performance, the RRBs are facing the problem of mounting overdues. The proportion of overdues

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in production credit was relatively higher than the overdues in consumption credit. This suggests that circumstantial defaulters should be dealt with separately from wilful defaulters because the poor recovery performance often sends a signal to the community that non-repayment will be pardoned. Rephasement of the old loans in face of three consecutive droughts and one time settlement scheme are also suggested to compromise settlement in old dues.

A drastic decline in the saving deposit and increase in the fixed deposits was observed in all the three RRBs. The results of cost function revealed that the asset has positive and significant impact on the total cost of the banks. In case of JAGB, there prevails scale diseconomy which suggests restriction of their branch expansion and strengthening of the existing branches. On the other hand, there exists economies of scale in case of SGGB and PVGB. It is suggested that the RRBs should be freed from the local area limits which will help in improving business as well as profitability.

Agricultural Credit in India – Doings and Undoings

Kailash C. Sharma[†]

The paper highlights the agricultural credit scenario in India and focuses on the role of formal financial institutions in delivery of agricultural credit. The study notes that both formal and informal sources of credit are important in the India context. However, the significance of formal credit institutions in terms of credit delivery for the agricultural sector has increased over time. The main formal financial institutions involved in the delivery of agricultural credit are commercial banks, co-operative banks and Regional Rural Banks. It is noteworthy that the share of co-operative credit institutions in total agricultural credit has declined in the last decade whereas the share of commercial banks and Regional Rural Banks have increased during the same period. Therefore the structural changes taking place in the Indian banking system after the financial sector reforms have worked against the agricultural sector. The study further states that the policy announcement by the Finance Minister regarding doubling of agricultural credit by March 2007 is timely but that alone may not serve the purpose of augmenting capital formation in Indian agriculture. The data available for March 2005 show that the targets have been achieved by all banks except co-operative credit institutions. However, the ground level studies at district level in Uttar Pradesh, Madhya Pradesh and West Bengal reveal that the major achievements have been through Kisan Credit Card Scheme, i.e., short-term loans. Thus the question of capital formation in agriculture remains unanswered. There is a need for public investment in rural infrastructure and strengthening of alternative credit delivery mechanisms for correcting the situation pertaining to low investment credit dispensation in the agriculture sector.

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Institutional Credit Flow to Agriculture and Farm Indebtedness in Uttar Pradesh

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The Uttar Pradesh state contributes over 20 per cent of India's agricultural production. The 59th Round of NSS found that about 40.3 per cent of the farmers in Uttar Pradesh were indebted. An attempt has been made in the study to analyse the credit flow to agriculture in Uttar Pradesh and identify the reasons for farmers' indebtedness in Jhansi district of Uttar Pradesh. Secondary data were compiled from the offices of Reserve Bank of India, National Bank for Agriculture and Rural Development, and Lead Bank to analyse the growth, correlation coefficient and debt burden ratio. The bank branches in Uttar Pradesh and Jhansi have to cover a larger agricultural area per branch as compared to the all India average. The flow of credit to agriculture was Rs. 2,741 per ha in Uttar Pradesh compared to Rs. 3,650 on an all India basis during 2001-02. As the per capita consumption expenditure of farmers increased, the loan outstanding increased as indicated by a significant correlation coefficient. Capital expenditure and crop loans accounted for 60.9 per cent of the indebted amount by the farmers. Among the major reasons for indebtedness and default, vagaries of weather and diversion of funds for non-productive uses were prominent. It is felt that measures to widen the crop insurance coverage and post-finance guidance would probably help to ensure proper use of credit and prompt repayment, which will pave way for smooth credit flow to agriculture.

Gaps in Requirement, Availability and Repayment of Agricultural Credit in Western Maharashtra

Y.C. Sale, V.G. Pokharkar and D.B. Yadav[†]

This paper attempts to estimate the credit requirement of the farmers and the availability of credit in Western Maharashtra, and to examine the utilisation and repayment pattern of credit borrowers and the major constraints inhibiting the lenders and the borrowers. The data on the list of villages was obtained from the District Central Co-operative Bank and the offices of the co-operative societies. The analysis of data revealed that the average per hectare crop loan requirement estimated on the basis of working capital, i.e., cost A of various crops was much higher than the credit limit or scale of finance fixed by Pune District Central Co-operative Bank. It is observed that the per hectare requirement of loan went on increasing with increase in the size of holding. The average per family borrowing increased with the increase in

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the size of holdings. Misutilisation of crop loan was more, i.e., 30 per cent especially among the small and medium group of farmers.

The average repayment of crop loan was to the extent of 63 per cent. Among the size groups of holdings, the proportion of amount repaid was the highest in medium size group followed by small and large holders. The large holders had repaid lower amount of loan as compared to other groups. The important reasons for non-repayment reported by the farmers were low income, non-remunerative prices and crop failures due to natural calamities. It is felt that there is need for increasing the credit supply or scale of finance of crops by co-operative banks. There should be proper appraisal of loan proposal, follow-up and supervision after the disbursement. The willful defaulters should be forced to repay the loans through proper legal action. Timely and adequate finance should be provided by linking it with crop insurance scheme.

Utilisation of Credit of Self-Help Groups in Midnapur (West) District, West Bengal – An Empirical Study

Debabrata Lahiri*

Following the introduction of Swarnajayanti Gram Swarajgar Yojana (SGSY), all the programmes under Integrated Rural Development Programme (IRDP) have been dovetailed into one programme. Financing under the present programme had been made group based rather than individual-based. It has been envisaged that at least half of the self-help groups should be of women only. The individual direct subsidy had been substituted with back-ended one. Further, the groups would have to go through the process of gradation in order to qualify for Grade-I and Grade-II. After obtaining Grade-I the SHGs qualifies for getting revolving fund and loan. While after Grade-II it qualifies for finance on project basis.

In Midnapur (West) district of West Bengal though a number of groups has been formed but there have been only four federation Community Development Blocks. In this context the study tries to evaluate the extent of utilisation revolving funds and loan in four Community Development Blocks, namely Kharagpur-I, Chandrakona-I, Garbeta-I and Jharagram. The results indicate that hardly 10 per cent of the SHGs function as group after being Grade-I. Generally, the total amount of Rs.25,000 had been allocated equally among the Swarajgaris which have been utilised by them for as many as 21 economic activities of various types, both farm and non-farm in nature. But the guidelines of the SGSY envisaged that only 4-5 key non-farm activities, as micro-enterprise would be encouraged. The main reasons for such division of revolving fund and loan were due to distrust among the members themselves followed by the desire to start individual business by each of the Swarajgaris.

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Innovative Loan Products and Agricultural Credit: A Study of Kisan Credit Card Scheme with Special Reference to Maharashtra

S.S. Sangwan[†]

The paper examines the macro impact of the pioneering Kisan Credit Card (KCC) scheme in terms of increasing participation of commercial banks, regional outreach over states, acceleration in the growth rate of production credit, awareness about bank credit among farmers and its efficiency in terms of sanction and operations. The study is based on data collected from a few districts of Maharashtra. For the purpose aggregate national and state level data on progress under KCC scheme was collected from various records and publications of National Bank for Agriculture and Rural Development and Reserve Bank of India. Primary data relating to operational aspects like coverage of crops and operated area in fixing the credit limit, time taken in processing the loan application, mode of operation on the limit were collected from 46 KCC holders randomly selected by survey method from the districts of Beed, Kolhapur, Ratnagiri, Solapur and Nagpur during March to June 2005. The trend in KCCs issued by different agencies during 1998-99 to 2004-05 denotes more involvement of relatively more efficient commercial banks (CBs) in the production credit which was earlier dominated by the co-operatives and Regional Rural Banks (RRBs). It can also be inferred from the progress of the KCC scheme that good credit products can be used as an alternative to target-oriented policies. The regional outreach of the scheme in terms of percentage of land holding covered under KCCs showed that among the various states Punjab ranked the highest with more than 100 per cent coverage for the holdings followed by Haryana, Andhra Pradesh, Orissa and Rajasthan. The operational efficiency of the KCC Scheme as per the feedback from the sample KCC holders in Maharashtra revealed that KCC limits were not fixed on the basis of total operational holdings and one or two main crops were considered while sanctioning the limit. Among the banks, CBs were relatively more liberal than the District Central Co-operative Banks and RRBs in fixing higher KCC limits. The banks have used to the latest scale of finance in working out the limits for KCC and term loan was not included by any of the sample branches though CBs are issuing other cards to good KCC holders for their term loan requirements. Rate of interest charged by CBs and RRBs was about 3 per cent less than the co-operative banks/primary agricultural credit societies (PACS). It has resulted in shifting of borrowers of PACS to CBs and RRBs. As regards the mode of operation of KCC holders, about 50 per cent in CBs and 16 to 25 per cent in RRBs were repeatedly using the limit as cash credit while others have made one time withdrawal only. All the sample branches have allowed operations from the issuing branches only and the branch managers opined that it should be continued at present because of limited awareness of the farmers.

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Credit Disbursement under Different Schemes and Its Impact on Rural Poverty Alleviation in Hisar District of Haryana

Baljit Singh, R.K. Patel and Kanwar Singh Suhag*

The study aims to examine the credit disbursement pattern followed by different banks under various schemes/programmes and its impact on rural poverty alleviation. For the purpose of study two blocks, viz., Hisar-I and Hisar-II were selected randomly and from each selected block three villages, i.e., one nucleus and two nearby villages of nucleus village were selected. The data were collected for a sample size of 150 respondents for the period of 1999-2000 to 2000-2003 and tabular analysis, simple averages and percentages were worked out for achieving the objectives. The analysis of data revealed that the number of borrowers as well as amount of loan disbursed had been decreasing in both the selected blocks during all the years except in 2000-01. The commercial banks contributed the maximum to the total amount disbursed followed by RRBs during the year 2001-02. Higher number of borrowers/beneficiaries were observed under buffalo loan activities in both the blocks because it is a traditional activity and there was a large scope for consumption of milk and milk products in the rural areas and nearby cities. Kariyana shop is also a better source of immediate income for the beneficiaries by daily sale of goods. Among all categories, landless labourers were provided higher amount of loan to larger number of beneficiaries followed by rural artisans and others. Higher subsidy was given for house construction activity followed by loan advanced for purchase of buffalo. About 24 and 29 per cent of rural poor in Hisar-I and Hisar-II blocks could comfortably cross the poverty line. In all, 54.67 and 46.67 per cent beneficiaries remained below poverty line in Hisar-I and Hisar-II blocks, respectively. Among different schemes, the percentage of beneficiaries who comfortably managed to cross the poverty line were found to be highest in sheep and bullock cart/camel cart/khachar rehra activity in Hisar-I and Hisar-II blocks, respectively.

Livelihoods, Incomes and Indebtedness of Villagers in Six Villages of Andhra Pradesh

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The study relating to micro level data collected from 495 farm households from six villages of Andhra Pradesh attempts to assess the level of income and indebtedness, nutrition status and living standards of the sample households and

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estimate the levels of poverty and unemployment during the agricultural year 2001-2002. The six study villages from the rainfed areas of Andhra Pradesh present a dismal picture. The paper brings out that about 42 per cent of the sample households live below the poverty line and that both the income as well as the consumption standards are very low, approximating to less than \$0.50 per day person. None of these six villages have the benefit of surface irrigation. Successive droughts and growing population have accentuated water scarcity and poverty. The quantity and quality of resources are depleting due to increased demands from the given population. However better integration of labour markets are noted with the surplus labour force migrating to urban centers and distant places in search of employment. The decline of agriculture due to inadequate investments and unfavourable policies require the attention of policy makers to implement effective policies and programmes backed up by adequate investments and incentives for agricultural and rural development.

Indebtedness of Farmers: Can Contract Farming Be a Solution?

S.R. Asokan and Anita Arya*

The study highlights the importance of contract farming in enhancing income and employment in agriculture by exploring the various issues like technology transfer, capital or institutional credit flow to the small and medium farmers and assured market for crops. Contract farming is explained as an institutional response to missing markets for credit, insurance, information, factors of production in an environment of pervasive risks. It brings producers and processors closer on mutually beneficial terms. The firm is assured of quality raw materials. The farmers are insulated against volatility of the market and assured of a steady income. In many cases the firm supplied the inputs to the farmers and provided extension services. As the profit of the company is linked to the outcome at the farm the quality of inputs and services is assured. Apparently contract farming is an ideal solution to the ills plaguing the agrarian economy. There are several agricultural and horticulture crops for which contract farming is followed in the country. Many big corporate houses and several small players are involved in the arrangement. Though most of them are bilateral agreements between the firm and the farmer there are tripartite agreements as well. Banks are the other party in the arrangement to ensure credit supply. However, banks' experience with the contract farming arrangement has not been good as is evident from many banks pulling out of such relationship. The major constraint in contract farming is the ex-post opportunistic behaviour of one party. Farmers tend to divert the produce to the open market when the prices are higher than

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the contract price and supplied to the firm when it is lower. Similarly there are instances in which firms renege on their obligation. From the available literature it is evident that asset-specificity plays a crucial role in the success of a contract arrangement. If the firm and the farmer are locked in asset-specific investment whose alternative uses are limited or not cost effective the contract relationship is fairly smooth. For instance, production of certified seed, gherkin and certain medicinal plants under contract has been successful. Asset-specific and investment by the firm and no market for these crops outside the contract ensures its success. Therefore, banks should identify such contract arrangement where there is a high degree to asset specificity for both parties. Financing such activities while ensuring funds flow to agriculture also guarantees the recovery of the loans without jeopardising the financial health of banks.

Inefficient Functioning of Financial Institutions: A Major Constraint on Agricultural Credit Flow

S. K. Srivastava and L. R. Singh[†]

An attempt has been made to discuss the financial constraints operating in technology adoption in agriculture across different farm size groups. The western region of Uttar Pradesh, being an important economic region of Uttar Pradesh, the agricultural development is not responding up to the mark. Therefore, western region of Uttar Pradesh has been selected for this study. A total of 232 sample farmers were selected, across different farm size groups using stratified random sampling technique. The study made use of farm level cross-sectional data of the mid-nineties. To examine the financial constraint operating in the adoption of new farm technologies, views of the sample farmers were obtained through response study. The results of the study indicate that at optimum adoption of most of the components of new farm technology, the financial constraint also emerged as a major factor on almost all the farm size groups, though its magnitude is relatively high on marginal and small farms despite the availability of various financial institutions. The study revealed that on marginal and small farms more than 30 per cent (around one-third) of the respondents felt that the requirement of completion of more formalities and time consumption as the major constraints besides consuming around one-third of borrowed money in the completion of different formalities. Less return from agriculture, non-co-operative attitude of officials, inefficient functioning of Government and financial institutions, unduly high interest rate by private moneylenders emerged as the main causal factors which refrained them from

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borrowing. Hence, the findings suggest the need for formulating appropriate policy measures to promote smooth financing with minimum formalities therein. A system is required to be developed with no cost of borrowing, except interest, to attract the farmers, especially the marginal and small farmers to bridge the gap between used and optimum levels of new farm technology in view to vertical enhancement of agricultural production level in the Western Uttar Pradesh. Access of institutional credit to more farmers in required quantity at low cost is crucial for realising the full potential of agriculture as a profitable activity through complete adoption of new agricultural technologies.

Financing of Borewells with Submersible Pumpsets in Belgaum District of Karnataka – An Impact Analysis

S.R.S. Murthy and S.L. Kumbhare*

The study attempts to assess the impact of investment in borewell irrigation system including construction of borewells, installation of submersible irrigation pumpsets and laying of pipelines on crop production as well as income and employment generation on farms in Belgaum district of Karnataka. The Karnataka State Co-operative Agriculture and Rural Development Bank Limited, Belgaum and the Belgaum District Central Co-operative Bank Limited were selected for the study. The study covered 30 beneficiaries selected at random from 21 villages of four taluks. To represent 'without project' situation, five farmers raising crops under rainfed situation were also selected purposively. The study pertained to the year 2000-01. The benefited area of 6.04 acres, accounted for 49 per cent of the net cultivated holding of an average sample beneficiary. The net income from crop production per acre increased from Rs. 4,178 under 'without project' situation to Rs. 5,210 under 'with project' situation. The net income from crop production per acre under borewell irrigation varied from (-) Rs. 2,749 in case of loss-incurring farms (due to decline in water table on account of drought-like situation and non-observance of spacing norms, adversely affecting the productivity of crops) to Rs. 7,968 in the case of profit-making farms, thus revealing the possibility of securing substantially higher net income from crop production under borewell irrigation facility. The financial rate of return on investment was 27 per cent for profit-making units. Additional employment created per sample farm due to the investment was estimated at 237 person days. In view of the failure of borewell compensation scheme, the study suggests the need to increase the awareness of farmers about the benefits of sprinkler and drip irrigation which would help them to improve the financial soundness of investments.

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Analysis of Credit Use by Farmers in Rainfed Areas of Coastal Orissa

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A survey in the coastal rainfed areas of Orissa was done covering 193 farmers to study the use of credit in different activities. The main objective of the study is to draw strategies for future lending by institutional agencies to improve the rural livelihoods in rainfed coastal Orissa. The study revealed that out of 193 farmers 68 per cent were borrowers. On an average, the farm households borrowed Rs.6,129 from all type of sources. The amounts of borrowing by marginal and small farmers were Rs. 4,549 and Rs. 7,541 respectively. Maximum amount of borrowing was made from co-operatives followed by banks, moneylenders and friends/relatives. The rural livelihood in coastal Orissa was analysed and it was found that out of average 25 per cent income from on-farm activities, rice contributed 21 per cent. The income of marginal farmers from other non-farm activities and remittances accounted for 35 per cent and 19 per cent and that of small farmers 25 per cent and 29 per cent respectively. In general, it was observed that the earnings from non-farm income were three times more than on-farm income of smaller group of farmers and twice within the larger group of farmers.

The constraint analysis revealed that the loans from institutional sources were not available in time and in desired amount. The distress sale of paddy, which is the main crop of the rainfed area, is widely prevalent in the study area and it was about Rs. 60 to Rs. 210 lower than the support price. Besides the access to regulated markets by farmers was very poor. Some of the suggestions given are as follows: (i) Greater coverage of marginal and small farmers in coastal rainfed areas with less stringent terms of lending is required from institutional sources, which will liberate them from the clutches of money lenders, (ii) More number of regulated markets should be established in the rainfed coastal areas and government should purchase paddy directly from the farmers, (iii) Financing should be done to construct go-downs and cold storages in the area for storage of agricultural products and (iv) Financing non-farm activities like processing units of vegetables, fish and rice, and input dealers of fertilisers, pesticides and custom service units.

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Agricultural Credit for Seed Processing Sectors in South Tamil Nadu

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An attempt has been made in the paper to analyse the potential for credit flow in the seed processing industries in Dindigul district of Tamil Nadu. The study covered private seed companies, agencies and farmer-producer of seeds. Secondary data were collected from the records and reports and various published sources. A total of 5 private seed companies, 5 seed processing agencies and 20 farmer-producers of seeds were interviewed for the purpose. A pre-tested questionnaire was administered to collect the data regarding the financial requirements and credit availability of the seed processing companies, agencies and the farmer-producers of seeds. Of the five sample companies, two companies had not availed any credit from banks or financial institutions. The reason for such a policy is to avoid the outside influence on the functioning of the company. However, the remaining three companies secured a limit of Rs. 25 lakhs from a nationalised bank for financing its working capital needs. The company feels that the banks and other financial institution do not fully appreciate the special needs of the seed industry and there is often delay in sanctioning the loan. The average cost incurred in a company was Rs. 1,46,412 which consisted of the storage cost (15.39 per cent), transport and handling charges (71.61 per cent), sales promotion and overhead cost (1.45 per cent) and the processing cost (10.53 per cent).

The processing capacity of the private seed companies indicate that most of the companies were interested in producing/processing paddy seeds followed by crops like pulses and cotton. Analysing the working capital requirements for the seed processing agencies it was noted that the average financial requirements for working capital by the seed agencies was around Rs. 10 lakhs. There is a need is to take suitable steps on the part of financial sector and regulatory agencies to help the seed processing industry to overcome the financial constraints.

Analysis of Flow of Credit to Different Categories of Farmers – A Study in Nalanda District of Bihar

R.P. Sinha[†], S.P. Gupta[†] and U.K. Singh[‡]

A study was undertaken in Hilsa block of Nalanda district of Bihar with a view to examine the flow of rural credit to different categories of farmers. Data were collected from a random sample of 75 farmers consisting of 37 marginal, 25 small and 13 large farmers pertaining to the year 2002-03. The findings of the study

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revealed that the marginal farms constituted 49.33 per cent of the total sample households and owned 22.95 per cent of the total land. The small and large size farms constituted about 33.33 and 17.4 per cent of the total sample farms and owned nearly 38 and 39 per cent of the total land respectively. The loan advanced by the institutional and non-institutional agencies accounted for about 77 and 23 per cent of the total loan respectively. Despite their higher share in the total land the marginal and small farms together accounted for only about 31 per cent of the total loan advanced indicating thereby more preference for security-oriented credit especially by commercial banks to large farms. Commercial banks provided the highest loan (50.68 per cent) followed by Regional Rural Banks (RRBs) and co-operative banks when all the farms are considered together. The marginal and small farmers were provided more loans by RRBs and co-operative banks. The highest loan was given for purchase of farm implements and machineries especially to large farms. But the small and marginal farmers obtained more loans for crop production. The results suggest the need of effective measures like proper providing technical and financial guidance to the farmers to increase their income for prompt repayment as well as easy availability of credit to the farmers.

**Analysis of Repayment Behaviour and Indebtedness of Farmers of Watershed Area in Mahasamund District of Chhattisgarh State:
An Empirical Analysis**

Satyendra Prakash Gupta*

A study was conducted in Bagbahara block of Mahasamund district in Chhattisgarh state under the National Agricultural Technology Project (NATP) with a view to examine the extent of credit borrowed by farmers from different financial institutions, utilisation of borrowed money by different categories of farmers for various purposes and the repayment performance against the amount borrowed and indebtedness with the farmers. The study is based on 194 and 199 respondents selected from watershed and control area separately. The required information collected from these farmers pertain to two crop years 2000-2001 and 2001-2002. The findings of the study indicated that the average holding is 2.57 ha and 2.10 ha of which 28.02 per cent and 13.33 per cent area is under irrigation in watershed and control area respectively. More than 90 per cent area during *kharif* season is allocated by farmers under different varieties of paddy crop but the area under *rabi* crop is negligible mainly because of lack of assured irrigation. The cropping intensity is about 103 per cent and 99 per cent on these two farms, respectively. About 58 per cent of the respondents have adopted agriculture as their main occupation in control area as against 69 per cent in the watershed area. The literacy

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rate is 60.72 per cent in control area which is slightly higher than 56.45 per cent in the watershed area. The average amount of money borrowed by farmers of watershed and control area is estimated as Rs. 10,378 and Rs. 12,596 per farm respectively of which about 75 per cent to 90 per cent is borrowed from various commercial and co-operative banks by these farmers. The money is used by the farmers for various purposes like land improvement, purchasing the animals and various inputs used in agriculture to produce the crop. Besides a small portion of the money borrowed is used for home consumption and social functions. It was found that farmers of watershed area are relatively more liable to repay the money as compared to farmers of control area. The average indebtedness is observed to be Rs. 8,234 and Rs. 10,878 per farm in the watershed and control area which constitute 79.34 per cent and 86.36 per cent in these two areas respectively. It is evident from the study that farmers of watershed area are directly benefited from the projects but farmers of control area remained untouched from these benefits due to horizontal diffusion of agricultural technology in the study area. The study concludes that the farmer of watershed area are in better position in terms of irrigation, crop production, cropping intensity, annual income, credit taken from financial institutions, repayment and indebtedness.

Rural Indebtedness and Institutional Credit in Assam

Saundarjya Borbora and Ratul Mahanta[†]

The paper tries to assess the extent of rural indebtedness and flow of institutional credit among rural households in Assam. It has been found that in Assam, even though the incidence of indebtedness is less in comparison to other major states in India, the use of credit for productive purposes was found to be as low at 7.8 per cent. As a result, there is not much improvement in farm productivity. Again, institutional credit to agriculture in the state is not satisfactory and has been declining over the years, which needs further analysis and calls for remedial measures. Co-operative banks play an important role compared to commercial banks. Because of heavy incidence of overdues, most of institutional financiers find it difficult to provide credit to agricultural sector. But the micro-finance through SHGs has an important role in providing credit to the rural sector and in the poverty alleviation. With the poor growth of SHGs and flow of funds is poor in the state compared to other states of the country, some innovative measures need to be taken at the institutional level and there is need for development of efficient and non-governmental organisations (NGOs) in the region which may help in the growth of micro-finance thereby increasing the credit delivery to the state and the North-Eastern region.

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Growth of Microfinance in Himalayan States with Special Reference to Himachal Pradesh

Virender Kumar*

The recent policy prescriptions seeking to double agricultural credit in the next three years has been necessitated, *inter alia*, by slow agricultural growth leading to accentuated agrarian distress and poverty. At the same time, the growth of microfinancing in India has appeared as a silver lining for the indigent peasantry. The micro finance movement in India has shown impressive growth amidst glaring regional imbalances in favour of the southern region. These imbalances exist even within regions and states. The present study is an attempt to examine the growth of microfinance activities and highlight the regional disparities in the spread of microfinance activities in the Himalayan states, viz., Jammu and Kashmir, Uttaranchal and the north eastern region (NER) using the secondary information. The results revealed that while in terms of the number of self-help groups (SHGs) linked to banks there has been a small increase in the share of the hill states, the share in total disbursements, however, remained static. Among these states, Himachal Pradesh accounted for the largest share in the number of SHGs whereas Uttaranchal accounted for the highest loan disbursements. Within the north-eastern region (NER), Assam dominated the micro finance activities. These states did not experience a noticeable change in loan per SHG. Except Himachal Pradesh, the SHG intensity was quite low in these states. Uneven growth in terms of credit per SHG was quite common in Assam and J&K districts. In terms of number of SHGs, nearly two-thirds of the microfinance operations were confined to three districts in these states. In terms of credit disbursement, the inter-district inequalities were quite high in the study area. This clearly calls for the strengthening of the NABARD-led programme in the poverty stricken districts. As regards the SGSY scheme, it was found that in the tribal and relatively backward districts where women SHGs were fewer in number, a lower proportion of SHGs undertook economic activities. Also, there were substantial inequalities noted with respect to credit per SHG across various districts even under SGSY.

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Financing of Agriculture by Commercial Banks in Dharwad District: Emerging Issues

P.S. Mundinamani[†]

The present study attempts to evaluate the performance of commercial banks in agricultural development; to assess the credit by commercial banks to various agricultural activities and to suggest measures for overcoming the problems relating to agricultural financing by commercial banks operating in the study area. The scope of the study is confined to analysis of credit flow from the commercial banks for different agricultural operations such as, crop loans, minor irrigation, land development, farm mechanisation and also the allied activities in agriculture, such as dairy farming, poultry farming, fisheries and forestry. On the basis of secondary data pertaining to the years 1997-98 to 2001-02 collected from the commercial banks operating in Dharwad district of Karnataka state, it was observed that the total credit for agriculture and allied activities extended by the commercial banks has witnessed an increasing trend in absolute terms over the study period. The credit expanded at an annual growth rate of 35.5 per cent which had declined to only 5 per cent in 2001-2002. The major portion of the total credit provided by the banks is accounted for by the credit for agriculture. For all the years of study, the relative share of agricultural credit has been more than 91 per cent. The percentage of credit for minor irrigation has declined substantially, i.e., from 4.42 per cent in 1997-98 to 1.64 per cent in 2001-2002. The share of credit for land development and other farm activities is relatively lower. The credit for dairy farming constitutes the major share in the total credit provided by the commercial banks for allied activities to agriculture. A heavy decline in the volume of credit was noted in the case of forestry, poultry farming, sheep and goat rearing activities. The findings of the study suggest that commercial banks have to divert their credit to dairy poultry, forestry land development, minor irrigation and other allied activities. Efficient credit planning by professional band of experts coupled with efficient credit follow up and recovery would go a long way in streamlining the financial aspects of agriculture by commercial banks in Karnataka in general and in Dharwad district in particular.

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Indebtedness in Farm Business in India

B.R. Atteri, Amit Kar and Alka Singh*

The study analyses the indebtedness of Indian farmers in various regions in the country by income sources, farm holding size and purpose-wise distribution of outstanding loan. The data used for the study were obtained from Central Statistical Organisation, Ministry of Statistics and Programme Implementation. Regression analysis was carried out to study the relationship between amount of loan and size of holding in various regions. The study revealed that the principal source of income of above 50 per cent farmers in most of the regions in the country is from the cultivation of field crops. Above 45 per cent of the farmers pursuing cultivation activity are indebted. Only a relatively lower number of farmers avail loan for the purpose of animal husbandry related activities and plantation/orchards. Above 80 per cent of the farmers in most of the regions in the country, having land less than 2 ha, are indebted. The average amount of loan per farm in India was Rs. 12,585 while it was the highest, at Rs. 17,000 and Rs. 25,000, in the southern and western region respectively. The average amount of loan taken by the farmers increased by Rs.7,100 with the increase in farm size by one hectare. Today, farmers take more loans from banks compared to any other agency unlike earlier period. However, money lenders and traders, still remain the important sources of borrowing among the farmers.

Credit Needs, Utilisation Pattern and Factors Causing Overdues in Varanasi District

Anand Kumar Singh[†], Anil Kumar Singh[†] and V.K. Singh[‡]

The present study has been undertaken to examine the credit needs, utilisation pattern and factors causing overdues for farmers in Varanasi district of Uttar Pradesh. Seventy farmers were interviewed for the purpose. It was observed that majority of the farmers had taken short term and medium term loan. The proportion of farmers with short term loans is extremely high on marginal farms and it decreased with the increase in size of farms. It indicates that majority of the marginal farmers solely depend on the institutions to meet the recurring expenses of farms. More than fifty per cent farmers of small and large size groups availed medium term loan to purchase small equipment and machinery as working assets. Borrowed funds were properly utilised by the large farms and its proportion decreased with the decrease in size of farms. Partial utilisation and misutilisation of borrowed funds was higher on lower size groups of farms indicating the diversion of borrowed funds from the productive

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to unproductive use. Several factors were responsible for overdue performance in the repayments of borrowed funds. The farmers borrowed the most for emergent family needs followed by low profit due to higher input cost and lower output prices, crop failure due to natural hazards, lack of supplementary source of income, poor resource conditions and fragmented holdings.

Rural Finance in India: Interface with Micro Finance

Gursharan Singh Kainth*

Rural India has not been getting as much attention as warranted from the banking sector. The flow of credit from the banking sector has grown with the banks only in the recent years after a phase of stagnation. Rural credit has suffered from high level of non-performing assets. The number of formal sector outlets that were catering to the rural people has declined due to the closure or relocation of the Regional Rural Banks which were mandated to work in these areas. The phase in which the mainstream banking services have flowed down has seen an aggressive growth of the micro finance sector comprising two distinct strands – Self Help Groups (SHGs) and Micro Finance Institutions (MFIs). The study has highlighted the performance of the micro finance movement in India. It is noted that the micro finance movement has penetrated into the client groups that a mainstream agency had not been able to reach effectively in the past. It has added a new set of clients not only the poor, but also, to a large extent, women. It has worked under a credit culture, which bore a legacy of write-offs and political intervention and has till now proved to be an insular system with very high repayments rates. It has worked under a paradigm of social collateral, trust and local systems thereby reducing significant amount of transaction cost. It has looked at activities other than of agriculture helping people to diversify their source of livelihoods. But the progress of micro-finance sector is in the segment termed as small, short, unsecured. This implies that the loans are really small amounts given for a short duration without any security. Therefore it is unlikely that micro finance would compete with the Indian banking system. Rather, these two segments are playing complementary roles. More importantly the movement has promoted participative-decision making, saving, a diversity of loan products for consumption, production and in some cases insurance and social security. An important lesson from micro finance movement is that peer pressure can be used effectively for recovery. All these need to be considered in the context of extending to scheme to the formal sector.

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Requirement and Repayment of Credit in Punjab Agriculture

A.S. Joshi, H.S. Kingra and V.K. Sharma[†]

Credit is one of the most important factors having a greater impact on the growth and development of an economy. With the introduction of new farm technology consisting of biological and mechanical innovations, the agriculture in Punjab became capital intensive leading to increase in the demand for more capital. The liberalisation of institutional finance through opening of branches in the rural areas served as an impetus leading to substantial increase in production and productivity. The present study estimates the loan position and magnitude of various categories of farmers in the State. It also tries to work out the gap in requirement and availability of finance for crop production in the Punjab state. The data relate to the agricultural year 1999-2000, collected from 220 farm households in the State pertaining to different farm size groups. The study reveals that the major component of the total loan comprised crop loan covering about three-fourth of the total loans taken in Punjab agriculture. Commercial banks played a major role in financing loan, which was followed by co-operative banks and moneylenders. So far as the gap between requirement and loan availability is concerned, about 29 per cent of the amount falls short of loan requirements. There is a direct relationship between loan required and the farm size. The farmers were unable to repay loan increasing the farmers' indebtedness over time. The study concludes that there is a need to redirect the commercial banks to extend loan facilities liberally to the small farmers. This would pave the way for lessening the role of non-institutional agencies and thus help the farmers to escape from the clutches of the moneylenders.

Borrower's Behaviour and Indebtedness in Rural Hisar, Haryana

U.K. Pandey, Veena Manocha, Nirmal Kumar and Dinesh Kumar Sharma*

Based on cross section data of 70 borrowers of co-operative Mini Banks and Hisar Sirsa Kshetriya Gramin Banks of Hisar district, a case study was done with the following objectives: (i) To study purposewise the share of institutional and non-institutional loans borrowed, (ii) To examine the loans outstanding, overdues and extent of loan diversion across categories of borrowers/defaulters, and (iii) To ascertain the social factors responsible for borrowing of institutional and non-institutional credit. The results obtained from the analysis of data revealed that a great majority of borrowers/defaulters were non-chronic defaulters of general category, literate with earning adults in the family, irrigated land and small farmers of 183 per

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cent cropping intensity. These defaulters had greater proportion of institutional loans from Kshetriya Gramin Bank. The borrowers made different combinations for borrowing from the institutional and non-institutional sources. The non-institutional loans were costlier followed by co-operatives and Kshetriya Gramin Bank. However, the real cost of credit relatively declined as size of operational land holding increased. Loans overdue were highest in Kshetriya Gramin Bank due to larger sizes of medium and long term loans followed by co-operatives. Both small and large farmers diverted the production loans for non-productive purpose. Lastly non-institutional sources of loans are still prevalent in the region inspite of the fact that institutional sources are cheaper.

Agricultural Credit Financing: A Case Study of District Co-operative Central Bank, Raipur, Chhattisgarh

Hulas Pathak[†]

Much of the demand for agricultural credit in Chhattisgarh is met through co-operative credit disbursal system comprising the primary agricultural co-operative societies (PACS), the district co-operative central banks (DCCBs) and the state level apex bank. Taking cognizance of the relevance of co-operative banks in agricultural credit supply, this paper examines the role of co-operative banks in agricultural credit financing in the purposively selected District Central Co-operative Bank (DCCB), Raipur, which fairly well represents the agricultural credit co-operative lending hierarchical system. Data relating to the year 2004-05 was analysed in terms of operational scale and size, membership, affiliated societies, working capital, credit financing and recovery to demand. It was observed that DCCB, Raipur played an important role in financing agricultural credit needs of the farmers of Chhattisgarh, in particular Raipur district by way of short term, medium term and long term loans for a variety of credit purposes including crop husbandry, purchase of milch and draught animals, agri-inputs, farm machinery and equipment, wells and tubewells, housing and consumption expenditure. There were 340 affiliated agriculture credit co-operative institutions with a total membership of 5.73 lakh out of which 2.94 lakh members comprised the borrower group. Despite large borrower group and multifarious activities and since its existence for almost a century the DCCB, Raipur operated on low working capital of Rs. 31,158 lakh, an increase of 132.94 per cent over a period of five years preceding 1998-99. The DCCB, Raipur maintained a stable and steady average rate of recovery to demand at 83 per cent. Looking to the impressive credit recovery performance and large clientele there is a need to substantially increase the capital base in accordance with contemporary rural finance

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realities and rising credit demands of capital intensive modern agriculture. Access, affordability, cost effective agricultural credit along with procedural simplification, timely and assured availability of low cost credit to a large number of farmers should receive the highest priority in agricultural credit policy. Efforts should also be made to step up deposit mobilisation especially in the rural sector by introducing innovative schemes and incentives based on specific credit needs of the people.

An Estimation of Credit Needs, Its Supply and Utilisation in the Context of Modern Farm Technology in Kanpur District of Uttar Pradesh

R.N. Yadav, T.R. Singh, Keshav Prasad, Rajesh Kumar and Jag Mohan Singh[†]

A study has been undertaken in Jaunpur, one of the agriculturally backward districts of Uttar Pradesh, to estimate the credit needs of the farms of different size groups, to examine the productivity of different forms of investment including farm credit and to examine the efficiency of different farm financing institutions. A sample of 10 cultivators each were drawn from ten selected villages of Buksha block of the study district using survey method. For measuring the efficiency of resource use the functional and conventional tools of business analysis were used. The results of the analysis indicated that the technological improvements carried through the flow of investible funds increase the efficiency of farm resources resulting in the net income and saving as rejected by the estimation of production function. The study suggests that timely and adequate supply of credit by farm financing institutions on one hand and post-investment extension services on the other, would go a long way in raising the level of production, productivity and income on the farms. Besides cheap and supervised credit would effectively contribute to increase the efficiency of farm credit.

Role of Institutional Credit for Growth and Development of Agriculture in Bikaner District of Rajasthan

P.S. Rao* and D.P. Singh**

Credit is said to be the life blood of agriculture and thus, the need for timely and adequate farm finance is obvious. Unfortunately, various research studies and Reserve Bank of India Reports have shown that a sizable percentage of loan remains outstanding. Under such circumstances it becomes imperative to estimate the growth for institutional credit and repayment performance of the existing borrowers. Bikaner district was selected randomly with State Bank of Bikaner and Jaipur as being the

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lead bank among the nationalised and scheduled commercial banks. Two tehsil level rural branches of lead bank (SBBJ) were selected purposively, namely, Bikaner and Nokha and three villages from each tehsil were selected randomly. A sample of 90 borrowers and 70 non-borrower farmers were randomly selected for data collection. The study reveals that crop loan followed by farm mechanisation and minor irrigation has been most important. The compound growth rates for crop loan, minor irrigation, land development, farm machinery and animal husbandry and dairy development was found to be highly significant at one per cent level of significance. The compound growth rates was found to be the highest for minor irrigation followed by animal husbandry and dairy development. Since Nokha tehsil is dry tehsil which indicates that crop loan followed by farm mechanisation and minor irrigation has been most important. The recovery performance of the sources reflect the soundness of the loan granted, usually high proportions of overdues grow due to grant of loans for unproductive purposes, their diversion owing to inadequate supervision, political influences etc. The percentage of collection to demand increased from June 1990 to June 1997 from 12 to 45 per cent except in the year 1993. There is no visible trend observed among the banks in respect of demand, collection and overdues. It is also clear that the amount of overdues from all the lending institutions was more than the amount collected.

Institutional Credit and the Agricultural Sector: A Case Study of the North-East India

K.C. Borah and D.K. Chakraborty*

In this paper an attempt has been made to study the spatial and temporal variations in the growth of Scheduled Commercial Banks (SCBs) credit to agricultural sector of the North-Eastern Region (NER). It also aims to examine the relative shares of different states out of the total SCBs credit to agricultural sector during 1990-91 to 2000-01. The study is based on secondary sources of data. Simple statistical tools are used to find out the growth rates. Chow test is applied to see whether there is a structural change in the credit flow to the agricultural sector of the NER between 1990-91 to 1994-95 and 1995-96 to 2000-01. The study found that the growth rate of SCBs credit to rural sector is lowest in Mizoram and highest in Assam. There is significant evidence of structural difference or temporal variation in the percentage share of agriculture in total SCBs credit (outstanding) for NER between the time periods from 1990-91 to 1994-95 and from 1995-96 to 2000-01. The study express concern over the low percentage share of agriculture to statewide SCBs credit and emphasises on particular focus to priority sector advances to strengthen the credit portfolio of the states in the NER.

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Repayment Performance Analysis of Small Holder Tribal Dairy Farmers: A Discriminating Approach

Mukesh Kr. Sinha and J.P. Dhaka[†]

The study examined the socio economic factors influencing the repayment performance by smallholder dairy loan beneficiaries in the tribal belts of Ranchi district. A multi-stage random sampling technique was followed to select the ultimate unit of the sample. A total of 240 sample farmers were selected covering 120 beneficiaries and 120 non-beneficiaries from three clustered villages spread over three blocks in the study district. Discriminant function was fitted to predict whether the prospective borrower would be a defaulter or non-defaulter. The study revealed that the borrower with high expenditure, low per capita income and lower percentage of earning adults in the family contributed towards defaulters. The mean score to discriminate the defaulters and non-defaulters was -0.503 . On testing, it was found that 68.33 percent respondent classification was correct in prediction, which justified the use of the model to precisely assess the unknown borrowers likely to be a defaulter or non-defaulter.

Institutional Credit and Factors Influencing Its Flow to Agriculture in Orissa

H.N. Atibudhi*

An attempt has been made in this paper to study the institutional credit flow to agriculture in Orissa, to compare the state credit scenario in the context of all-India situation and to identify the factors influencing agriculture credit flow in the state. The study is based on secondary data collected from state level bankers' committee Orissa proceedings, and various issues of *Economic Survey of Orissa* and Reserve Bank of India *Report on Currency and Finance*. To identify the factors influencing agricultural credit flow in the state a log linear type regression analysis has been used. It emerges from the analysis of the data that even if there was decline in agricultural credit flow by the institutional agencies in the state during early nineties, i.e., during banking reform period it increased three-fold in 2002-03. But in percentage terms it steadily declined from 5.65 per cent in 1993-94 to 1.5 per cent in 2002-03. Among the agencies the negative growth rate was more prominent in case of commercial banks and regional rural banks than co-operatives. As regards the agency-wise credit disbursement, co-operatives are still the leading institutional sources followed by commercial banks and regional rural banks. The per hectare agricultural credit

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disbursement in the state indicate a very dismal picture of 36.59 per cent of the amount disbursed in all India level. The disparity in credit disbursal by the commercial banks for the eastern region in general and Orissa in particular is thus obvious. On the basis of district wise analysis it may be said that the agricultural credit flow has been inadequate in Orissa. Further the commercialisation of agriculture, increase in per hectare fertiliser consumption and increase in cropping intensity had positive and significant influence on agricultural credit flow. Hence, it may be concluded that efforts to change the traditional agriculture for adoption of more commercial crops, adoption of modern crop production technology by use of more fertilisers per hectare and increasing cropping intensity will help in increasing the agricultural credit flow in Orissa.

Role of Micro Credit Institutions (SHGs) and their Linkage to Banks: A Study in Hoshangabad District of Madhya Pradesh

S.K. Gupta and A.M. Mishra[†]

The paper attempts to examine the role of micro-credit institutions (SHGs) and their linkage to banks in Daudi and Junkar villages of Hoshangabad district, Madhya Pradesh. The selection of the district is based on discussion held with the officials of National Bank for Agriculture and Rural Development at Hoshangabad. Kesla block of the district was selected and data were collected from the branches of Regional Rural Bank of Suktawa in the same village. In Hoshangabad district, 216 SHGs have savings bank accounts with the branches of different banks. Of the different banks, Regional Rural Bank, Suktawa, has the maximum number of 168 SHGs. The formation of SHGs in such a large number is possible due to the non-governmental organisations. On the linkage of SHGs with bank branches, banks advance loan at an interest rate of 13.5 per cent per annum. The SHGs charge interest at the rate of Rs. 3 per Rs. 100 per month. The difference between the rates of interest is accumulated as saving of the Mahila Samiti.

It was noted that the 4 SHGs, 3 were initiated in early 1999 and one was initiated in late 1998. The number of members ranged between 11 and 20. The total saving amounted to Rs. 39,012 or Rs. 9,735 per SHG. The lowest loan sanction limit varied from Rs. 10,000 to Rs. 40,000. The amount of loan disbursed varied from Rs. 5,000 to Rs. 30,000. The average recovery percentage was 47.31. It varied from 20 per cent to 77.33 per cent in different SHGs. It was reported that the State Government wanted to adopt the programme of SHG formation on a very large scale and fix targets of forming SHGs to all the Mahila Bal Vikas Officials and wanted to add an element of subsidy on loans from banks which should be avoided.

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Targets and Achievements of Institutional Credit through Lead Bank of Akola District in Vidarbha Region of Maharashtra

M.K. Borse, K.S. Birari and V.N. Autkar*

The paper attempts to examine the targets and achievements of the institutional credit provided through lead bank plans to the various sectors of the economic development of Akola district in general and agriculture and allied sectors in particular by the commercial and co-operative banks operating under Lead Bank Scheme. The Central Bank of India, the designated Lead Bank for Akola district was purposively selected for study. The data relating to deposits, disbursement of credit to different sectors with their targets and achievements, recovery, overdues, etc., were collected from the annual action plans available with the Lead Bank for the period from 1998-99 to 2002-03. The results of the study indicated that the ratio of advance with deposits termed as credit deposit ratio (CDR) expressed the mobilisation of deposits of the financing institutions. The highest CDR of commercial banks in the year 1999-2000 and co-operative banks in the year 2001-02 indicated that much of the proportion of deposits were mobilised by the respective categories of banks. The share of crop loan in the total agriculture and allied sector lending was comparatively higher in case of co-operative banks than the commercial banks. The proportionate share of credit for minor irrigation, farm mechanisation and others was relatively more in case of commercial banks than co-operative banks. The achievement in disbursement of credit over the target was observed to be quite significant. The recovery percentage was gradually increased in the case of commercial banks whereas the recovery of advances in the case of co-operative banks was low. Both the institutions could recover upto 58.55 and 56.03 per cent of their lending at the end of 2002-03. The poor performance of recovery resulted in accumulation of overdues, which not only increase the burden of interest to the borrowers but also affect the subsequent lending of the financing institutions. The study concludes that even though, the Lead Bank performed well, efforts are needed to improve the recovery performance to reduce the quantum of overdues by financing institutions.

Role of Kisan Credit Cards and Self-Help Groups in Rural Financing in Haryana

R.K.Khatkar, V.K.Singh, V.P.Luhach and S.K.Kharinta[†]

The paper attempts to examine the role of Kisan Credit Cards (KCC) and Self-Help Groups (SHGs) in rural financing in Haryana. On the basis of primary data

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pertaining to the year 2004-05 collected from the seven SHGs operating in the three selected villages of Hisar district in Haryana state and one Gramin Kshetriya Bank and Punjab National Bank as Lead Bank in the study district, it was observed that the rate of interest varies between 8.50 to 10.75 per cent per annum as per the amount of loan sanctioned and it is chargeable from the date the amount is drawn from the bank depending upon the requirement of the borrower rather than the day from loan sanctioned. The loan is financed for production and consumption purposes through KCC. Kisan Credit Card can be renewed at least one month before expiry and it can also be renewed after depositing interest of the previous year and the same principal amount can be borrowed for the next year on the same day. The repayment period is 12 months but in case of sugarcane crop loan it is 18 months. The transaction cost is Rs. 25 per transaction and service charges are Rs. 50. The farmer has to bear the 2 per cent stamp duty for mortgaging the land if the amount of loan exceeds Rs. 2 lakh. KCC holder is benefited through the insurance of crop in case of any eventuality by paying a nominal amount of Rs. 5 per annum as premium. The recovery percentage varies between 90 to 99 which is a very healthy sign for the bankers. All the SHGs were found to be self-administered and all groups were having cash credit limit of Rs.2.50 lakh. They provide the loan to the most needy member on the simple security of two members by passing a resolution. The scale of financing is Rs. 10,000 or lesser amount. The SHGs provided loan to their members for purchase of animals, to start small business, to solemnise the marriage of their dependents, to meet out the expenses on treatment of any family members expenses on education and other social obligations. Owing to the belongingness to the funds, the recovery percentage was found to be 100 per cent in all seven SHGs. Thus, micro-financing helped in enhancing the income and gainful employment of rural poor and inculcated the habit of saving as well as entrepreneurial capability. The schemes must be encouraged through suitable measures by the financial institutions and governmental agencies.

Role of Haryana Kshetriya Gramin Banks in Financing Small Farmers of Rohtak District

Satish Nara, Rai Singh and Kanwar Singh*

A study was conducted of Haryana Kshetriya Gramin Banks in two branches, viz., Kalanaur and Sampla of Rohtak district, Haryana with a view to assess the loan disbursement by Kshetriya Gramin Banks for crops, dairy and shop activities and their recovery performance, and to examine the impact of these loans on income generation of the small farmers. A total sample of 80 farmers were randomly selected from these branches. The secondary data pertain to the period 1993-2003, while the primary data relate to 2000-03. Simple tabular analysis was done to work

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out the amount of loan advanced by banks for different purposes over the period, repayment of loan instalments, loan overdues and impact of loan on farmer's income. Compound growth rates were calculated to study the growth of the banks over the study period. Among the three types of loans advanced, the maximum loan was provided as crop loan by these Kshetriya Gramin Banks and in both the banks/blocks the amount of this crop loan was found to be increasing over the years. Regarding the recovery of crop loan it was found in both the blocks the overall average recovery for a decade was more than 92 per cent. This shows that the recovery of loan advanced was quite significant which could be attributed to increased income of the farmers obtained through loans which they utilised for purchasing the farm inputs which in turn helped them in increasing their agricultural production and hence their repayment capacity.

In Kalanaur block the recovery for dairy loan was 72 per cent, while in Sampla block it was quite high, i.e., 93.46 per cent because Sampla block is a wet zone which has larger irrigated facilities and as a result farmers have more income and more capacity to repay the loan, whereas Kalanaur block is a dry zone and the farmers have less income and are unable to return the loan on time. In the case of shop loan there was not much difference observed in the recovery performance across the blocks. In short, the net farm income of all the selected respondents of all the four villages in both the blocks increased between 20 to 33 per cent. This clearly indicates the positive impact of loans on the income of the farmers.

Role and Performance of Yavatmal Gramin Bank in Maharashtra

A.K. Vitonde, S.S. Naik and R.M. Sarode[†]

An attempt has been made in the paper to examine the role and performance of the Yavatmal Gramin Bank (YGB) a lead bank of the Central Bank of India, Yavatmal in Maharashtra state, and to assess its progress and recovery position. The data pertained to the years 1986 to 1993. The results of the analysis highlighted the fact that lending of medium terms loans for non-agriculture business is not economical for the bank since the recovery from this sector is only 30 per cent to the overall loan disbursement. Hence the bank should step up its activity to advance more loans for crop production purpose and intensive recovery measures should be initiated for better recovery of all types of loans. Moreover, the bank should initiate special drive for defaulters in loans served for non-agriculture business and also lend assured and secured finance to the borrowers.

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**Impact of Kisan Credit Card on Flow of Credit and Repayment
Rate in a Backward Region: A Case of Agricultural Development
Bank of Shorapur Taluka, Gulbarga District, Karnataka State**

M.S. Kallur*

The introduction of Kisan Credit Card (KCC) scheme in the year 1998-99 has been one among the recent innovations in loan products. The purpose of the KCC scheme is to facilitate short-term credit to farmers. In Karnataka alone, one hundred and fifteen bank branches of the State Bank of Hyderabad are handling these cards. The objectives of the study are to explain the working of Kisan Credit Card (KCC) scheme with reference to the farmers belonging to the 25 villages served by the Agricultural Development Bank of State Bank of Hyderabad located in Shorapur taluka of Gulbarga district to analyse the causes of defaults, if any, in repayment of loans by 150 respondent beneficiaries spread over 7 villages using conventional analysis. The study pertained to the year 2004-05. The study showed that the amounts of finance of KCC holders vary depending upon the crops raised by them and their size of land holdings. Further, as size of land holding of a farmer increased, his eligibility to borrow higher amount of loan was enhanced. In the study area, the actual loan amount varied from a minimum amount of Rs. 5,000 to maximum of Rs.3 lakhs. Consumption needs, to the extent of 20 per cent, are also considered in the scheme. It was observed that though the amount of loan was sanctioned to every farmer immediately there was no prompt repayment involved. The bank officials reported that the extent of repayment is up to 35 per cent only. They attributed the non-remunerative price for their produce as the main cause for non-repayment of the entire loan amount. In all, KCC was found to be better scheme compared to the traditional ones. The scheme needs to be supported by the measures, which are oriented to the reforms in market structure so that the intermediaries have less chances of manipulating prices against the interest of the farming community. This in turn would enhance the percentage of repayment.

**Repayment Performance of Borrowers with Respect to Agricultural
Loan of Ranchi Kshetriya Gramin Bank: A Micro Analysis**

R.P. Singh and A.K. Sah[†]

The paper seeks to examine the repayment performance of borrowers with respect to agricultural loan of Kanke Branch of R.K.G.B., Ranchi, Jharkhand. A total of 100 borrowers consisting of 55 marginal farmers, 37 small farmers and 8 medium

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farmers from four villages were selected randomly for the agricultural year 2001-02. The analysis revealed that the average annual increase in the amount of agricultural loans was 21 per cent between 1996-2001 which was maximum in the case of marginal farmers followed by scheduled tribe farmers and small farmers. The share of production and investment loans was 45 and 55 per cent in the total loan. The amount of production loan increased as size of farm holding decreased and vice-versa in case of investment loan. The average amount of loan per farm and per hectare was Rs. 6,870 and Rs. 4,872, respectively. It was further observed that the outstanding loan per farm was Rs. 6,510 which increased with decrease in the size of farm holding. The average amount of outstanding loan on marginal and small farmers was observed to be Rs. 8,712 and Rs. 6,648, respectively. The magnitude of overdues in loan outstanding was high for the marginal, small and medium farmers. The proportion of defaulters and non-defaulters in total borrowers was around 70 and 30 per cent. The number of defaulter borrowers was negatively associated with size of farm holdings. The repayment capacity analysis clearly indicates that nearly 30 per cent defaulter borrowers were wilful defaulters. The non-repayment of loan was very much affected by psychological feeling of waiving off loan by the government from time to time, followed by performance of neighbours in repayment of loan (performance of other borrowers in repayment of loan), poor saving and lack of other source of income except crop farming. The analysis suggests that government should provide similar benefits to the borrowers who have already paid all loan amount before implementing loan waiver scheme. This process will certainly help in improving loan repayment amount and necessary action needs to be taken against defaulters particularly wilful defaulters. This process will further help in neutralising demonstration effect of neighbours belonging to defaulter group.

Problems and Prospects of Institutional Sources of Agricultural Credit

Brahm Prakash, D.K. Sharma and A.P. Khare*

Credit has always been an important component in the production process for resource scarce small and marginal farmers. Considering its important role, an attempt has been made to study the sources of institutional credit in India, to review their progress, to identify constraints and to suggest measures for their better prospects. The study is based on the secondary data. The study revealed that there were 45,434 rural and semi urban branches of commercial banks and 14,454 branches of Regional Rural Banks (RRBs), 91,720 Primary Agriculture Credit Societies (PACs), 364 District Central Cooperative Banks (DCCBs), 28 State Cooperative Banks and 2,337 branches of 19 State Land Development Banks. The Kisan Credit Card Scheme initiated during 1998-99 for timely and sufficient short-term credit to

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the farmers immensely benefited the farmers. There has been a substantial increase in institutional credit to agriculture. Commercial banks provide the maximum credit followed by co-operative banks and regional rural banks. An increase in the aggregate loan amount disbursed by the scheduled commercial banks was observed between 1980s and 1990s. But it is disappointing to note that no significant changes were observed over the years in terms of average share of loan outstanding. The dependence on DCCBs, high level of overdues, restricted access of small farmers, regional disparities and poor management are the major constraints of co-operative banking system while poor quality of lending, inadequate staff in rural branches, establishment of a large number of rural branches without adequate business potential, unsatisfactory recovery position and regional imbalances in the credit disbursed by the banks are the major bottlenecks of commercial banks. Multi-agency control, restricted area of operation, unplanned growth, inefficient staff, high incidence of overdues hampers the growth of RRBs. The study suggests that these problems should be addressed immediately for revamping of the agricultural credit.

Regional Distribution of Agricultural Credit by Primary Agricultural Co-operative Societies (PACs) in Karnataka

P.M. Honakeri[†]

This paper examines the role of Primary Agricultural Co-operative Societies (PACs) in financing agricultural activities across four revenue divisions in Karnataka during 1999-2000 to 2001-2002. Four revenue divisions namely, Bangalore, Belgaum, Gulbarga and Mysore were selected purposively. The study is based on the secondary data pertaining to total cropped area and availability of credit per hectare collected across the divisions during the study period. Though an increasing trend has been observed in the flow of credit by PACs during 1999-2000 to 2001-2002 yet the differences in credit availability largely emerge due to differences in total cropped area, loan amount per hectare and mismanagement of the PACs especially in Gulbarga division. Consequently, the study suggests that there is a need to inculcate the spirit of co-operation and its benefits in respect of raising agricultural productivity and reducing rural indebtedness. It is also suggested that Government should take initiative in supervising the affairs of PACs in a non-partisan way so as to enable them to reduce an element of exploitative character in credit availability in the rural areas of the state.

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Investment Behaviour of Farm Households and Flow of Institutional Credit – A Study in Orissa

R.K. Panda*

A attempt is made in the paper to analyse the investment behaviour of the farm households, availability of institutional credit (term loan) and the emerging issues thereof. Both primary and secondary data are used in the study. A multistage random sampling technique is used to collect primary data. After dividing the state into three homogeneous regions on the basis of agro-climatic and infrastructure conditions, one district from each region, one community development block from each district and two villages from each block are selected at random. Accordingly, 102 (70-marginal, 17-small, 15-large) farms from Region-I, 97 (64-marginal, 19-small and 14-large) farms from Region-II and 104 (55-marginal, 25-small and 24-large) farms from Region-III were selected and the study pertained to the year 1998-99. The findings of the study indicated variation in the investment behaviour among the farm households across regions and farm sizes. While the farmers of the relatively developed region have a greater preference towards non-farm investment over farm investment, the farm households of relatively less developed and backward regions invest more in agriculture. In relation to farm sizes there lies negative relation between farm size and level of farm investment and positive relation between farm size and non-farm investment. Efficiency of investment is higher in agriculture as compared to other sectors. This is irrespective of the development of the region. Efficiency of investment in relation to farm sizes does not reveal any conclusive results. In case of allied and non-farm sectors the marginal farms are found more efficient in realising higher returns from their investment as compared to small and large farms. Efficiency of investment in agriculture in relation to farm size is found to be region-specific. Growth in the term credit deployment for agriculture by the institutional agencies is less as compared to crop loan and loan for other purposes in the state. Besides there is also high instability in the annual term loan allocation towards agriculture. The institutional credit allocation is not in line with the investment efficiency realised in different sectors. The above findings suggest higher allocation of term credit towards agriculture as this sector continues to realise higher investment returns as compared to other sectors. But as there is predominance of small holders (marginal and small farmers) in the state and investment credit of these households being constrained by economies of scale there is need for encouraging co-operative farming among these farm households. In this context consolidation of holdings must be given priority to pave way for co-operative farming in future. The credit financing through SHGs has not yielded significant results in developing agriculture in the state.

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Inadequacies in the Flow of Institutional Credit to Weaker Sections in Punjab

J.S. Chawla and T.S. Chahal[†]

The main objectives of the study are to examine the performance of Primary Agricultural Credit Societies in Punjab from 1998-1999 to 2002-03, with a view to analyse the flow of credit to weaker sections and to account for such inadequacies, if any in the flow of credit. Both primary and secondary data were collected to study the different aspects. Primary data were collected with the help of a schedule from 200 respondents spread over four villages of the two randomly selected blocks of Amritsar district. Secondary data were collected from Co-operative Movement in Punjab (2002-03) published by Punjab State Co-operative Development Federation Ltd., Chandigarh. Averages and percentages were used for interpretation of results. The results of the analysis highlighted that the functioning of the societies was not satisfactory in terms of different indicators and uneven flow of credit to different sections of rural people. The borrowers preferred the traditional sources, viz., moneylenders due to easy and less cumbersome loan procedures, low credit worthiness of the borrowers, influence of large farmers in management and malfunctioning of the societies.

Priority Sector Credit, Farmers' Borrowing and Default Status in Jhansi District of Uttar Pradesh

Kuldeep Kumar*, Anubha Saxena and Mukesh Kumar Sahu***

A case study was conducted in Jhansi district of Uttar Pradesh to understand the temporal changes in credit flow and borrowal-cum-default status of the farmers. The secondary data for the study were collected from Lead Bank Office and National Bank for Agriculture and Rural Development, Jhansi. To assess the borrowing and extent of default of farmers, primary data were collected from 80 farmers selected randomly from eight villages of the district. The analysis was carried out at two points of time, viz., 1996-97 and 2004-05. Compound annual growth and rate of credit was computed for the reference period. The institutional finance to priority sector in Jhansi district showed a growth rate of 22 per cent. The commercial banks together financed almost 75 per cent of the credit to the priority sector with the lead bank accounting for the major share. The credit portfolio analysis revealed increased share of crop loans and decrease in the share of loans to other priority sector areas by all the institutions. The Regional Rural Banks recorded the highest growth rate in credit, commensurate with highest recovery of loans. The average indebted amount

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by the sample farmers in Jhansi district was Rs. 65,386 with about 44 per cent as overdues/default amount. Commercial banks formed the major source of loans, followed by Land Development and Primary Agricultural Co-operative Credit Societies. Crop failures and diversion of funds to other uses were the major reasons cited for farmer's indebtedness.

An Empirical Study of Repayment of Agricultural Loans

G.V. Krishna Rao and K.R. Chowdry[†]

An attempt is made to evaluate the performance of three co-operative societies one each in Guntur, Nizamabad and Anantapur districts of Andhra Pradesh from the view point of assessment of the repayment behaviour of the farmers. The study covered 150 farmers comprising 75 small farmers, 31 medium farmers and 44 large farmers selected randomly through personal interviews. The many reasons which weighed in favour of functioning of the societies included regularity in repayment, the desire to get further loan, better yield, remunerative price, additional income from other sources and desire to be prompt and honest. Under single window system, repayment consciousness was developed among farmers. Income of farmers increased with the introduction of single window system which resulted in improvement in repayment capacity of farmers. However the three PACs were beset with various other deficiencies.

Majority of farmers were found to be highly irregular in the payment of instalments of loans due fall in prices or lower prices for agricultural commodities, short time limit for repayment of loans, pressure for clearance of old debts and crop failure were some of the other problems cited for irregular repayment of loans. Provision of extension services and input supply and also fair prices by reducing the share of middlemen and state market intervention, agricultural diversification including livestock and non-farm sector services and finally, formulating suitable policy to face the problems of drought, floods, etc., are the some of the measures suggested to reactivate these inefficient societies over time.

Institutional Credit to Farm Sectors in India

K.A. Rasure*

The present paper attempts to analyse the recent credit flow to farm sector, direct credit flow, interest rates, competing sector and Kisan Credit Cards in India, by using secondary data. The era of economic reforms has led to structural changes in credit

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delivery system and credit flow to farm sector in India. It is widely assumed that liberalisation of financial sector would facilitate growth through a reduction in the degree of credit rationing which will follow the removal of administered interest rate and other restrictions. It has been argued that the strategy which simultaneously relaxes restrictions on the credit and tenancy market, in particular to those relating to the security of land terms, may yield greater benefits. The removal of these restrictions which have had the effect of encouraging short term leases in the past, would allow households to pool irrigation resources optimally through long term tenancy contracts, and hence may significantly improve levels of rural income. Differences in behaviour among farmers facing similar technologies and risks would have to be explained by differences in their constraints such as credit constraints, marketing and extension, etc. A proper understanding between the farmers and the banks would go a long way in transformation of subsistence agriculture into commercial agriculture.

**Performance of Swarnjayanti Gram Swarojgar
Yojana (SGSY) on Income and Employment
Generation in Jabalpur District of Madhya Pradesh**

A.K. Sarawgi and M.R.S. Baghel[†]

An attempt is made in the paper to assess the income and employment generation under selected activities, i.e., dairy and goat enterprise covered under the Swarnjayanti Gram Swarojgar Yojana scheme in Panagar block of Jabalpur district in Madhya Pradesh. The primary data were collected from 30 beneficiaries through personal interviews with the help of questionnaire schedule in seven villages of Jabalpur district during 2003-04. The analysis of data was done using simple average and percentage methods. The study indicated that dairy group respondents possessed on an average two milch animals in pre-finance and it increased to 4 animals in the post-finance situation. It was observed that the total average income of Rs. 19,060 received from buffalo annually in pre-finance increased to Rs. 23,185 post-finance phase by 21 per cent: and for cow it was from Rs. 11,283 to Rs. 15,029 respectively. The overall performance of the SGSY in the study area revealed that the financial assistance not only increased the number of employment days in the selected activity but the problem of under employment has also been mitigated in the rural areas to the extent visualised under the programme. Certainly the SGSY in the study area had helped in increasing income and employment of the sample respondents and the study concludes that the performance of SGSY was successful in achieving the objective for which it was launched. The programme improved the economic well being of the rural people who were living below the poverty line. On the basis of

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study it is recommended that the follow up and monitoring may also be done at the block level. The study suggests that personnel in charge of identifying the beneficiaries should be properly trained in income estimates of the households, then the programme would be more successful.

Agricultural Credit and Moonchiravilai Primary Agricultural Co-operative Bank

J. Cyril Kanmony*, M. Edwin Gnanadhas and Antony Thanaraj****

The paper attempts to evaluate the performance of Moonchiravilai Primary Agricultural Co-operative Bank (MPACB) in the development of Moonchiravilai district and nearby areas in Tamil Nadu. For the purpose of study, primary data were collected from 50 sample beneficiaries and secondary data were collected from various published sources. The MPACB which started in 1961 provides short-term, medium-term and jewel loans to farmers of all size groups. The short-term credit provided by this bank increased from Rs. 26.76 lakh in 1990-91 to Rs. 77.15 lakh in 1998-99 but declined to Rs. 5.70 lakh in 2003-04. Hence, the compound growth rate of short-term credit is only -3.58 per cent. The same tendency is observed in medium-term credit also. But, the jewel loan increased at a rate of 0.34 per cent. On the other hand the membership growth has increased at a rate of 2.73 per cent. The study indicated that the rural credit provided to the farmers is continuously declining either due to a total decrease in borrowing by the farmers or easy credit availability from other institutional sources. It is estimated from the analysis that 50 per cent of credit received by the small farmers and 35 per cent of credit of the large farmers are spent on purchase of various agricultural implements. On the other hand, the marginal farmers spent 28 per cent of their credit on crops. It is very clear from the analysis that the bank is successful in maintaining membership but not in lending.

Impact of Micro Finance through SHGs on Rural Economy

N. Ramakrishna, P. Raghu Ram, T.V.N. Sastry and S. Subba Reddy[†]

This paper attempts to study the impact of micro finance through self-help groups (SHGs) on rural economy in Chittoor District of Andhra Pradesh. The total sample for the study consisted of 20 SHGs and 40 members involved in activities like milk business, petty business, fruit business and vegetable business. The study compared the socio-economic conditions of members in the pre- and post-SHG situations (spanning an average of three years). In the selected business activities, the

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beneficiaries have improved the business turnover in the post-SHG situation and in turn the net income. In the post-SHG period, the discounted net returns were Rs.64,968, Rs. 6,391, Rs. 21,000 and Rs. 20,001 against Rs. 53,578, Rs. 3,373, Rs.17,558 and Rs. 16,231 in the pre-SHG period for the activities viz, milk business, petty business, fruit business and vegetable business. The beneficiaries had chosen the activities in which they were comfortable. By joining the groups the beneficiaries succeeded in increasing the volume of business. Though the performance of SHGs was encouraging, there are certain areas which need to be improved further. There is lack of initiative in sharing the responsibilities of the leaders when required. Attendance of the members in the meetings was also left much to be desired. The study suggests that the members need to be educated on these matters by the group leaders, promoting agencies and banks.

Impact of Minor Irrigation Loans on Farm Economy under Different Cropping Sequences in Madhya Pradesh

H.O. Sharma, S.B. Nahatkar and P.K. Mishra*

Irrigation has played a crucial role in farm development and has contributed 55 per cent of agricultural output. To evaluate the impact of minor irrigation (MI) loan on land utilisation pattern, income and employment in different cropping sequences, a study was undertaken in the year 2003 in Sehore district of Madhya Pradesh. The study is confined to the Lead Bank (Bank of India) and out of six branches of Bank of India in Sehore Development Block three branches, viz., Sehore, Mandi, and Sonda, were selected purposively on the basis of maximum number of borrowers under MI loans. All the 36 borrowers of MI loans, who had obtained credit ten years back (i.e., in the year 1992-93) were selected for the study. The year 1992-93 was considered as the base year and the year 2001-02 as current year. It is observed from the study that more than 75 per cent of *kharif* and *rabi* fallow was utilised economically. The gross cropped area and cropping intensity increased by 25 and 40.68 per cent respectively due to this, over the base year of the study. After the borrowing of MI loans, on-farm employment of family members has increased by 68.05, 41.37 and 103.92 per cent, respectively, in soybean-wheat, soybean-gram and fallow-sugarcane cropping sequences, which are the most popular and remunerative cropping sequences of the area. Similarly, family labour, hired human labour, bullock labour and machine hours employment per hectare also increased. The cost of cultivation of crops has also increased after borrowing due to increased use of improved inputs which in turn increased net farm income. The benefit-cost ratio also increased in all the cropping sequences after borrowing but it was found maximum in fallow-

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sugarcane cropping sequences as compared to soybean-gram and soybean-wheat cropping sequences. Thus the introduction of MI loans and the irrigation facilities created by these, not only increased the area under remunerative crops, gross cropped area and cropping intensity, but also reduced the area under *kharif* and *rabi* fallow. Thus, irrigation can be seen as a crucial input in agriculture in not only increasing productivity but as a carrier of advanced technology.

Institutional Credit to Agriculture: A Case Study of District Central Co-operative Bank in Shimoga District in Karnataka

L.D. Vaikunthe[†]

This study relating to Shimoga District Central Co-operative Bank (SDCCB), Karnataka discusses its structure, membership and their socio-economic profile, crop loan availed by the Primary Agricultural Credit Societies (PACSSs) for farming and non-farm operations. The study is based on a survey of 100 crop loan beneficiaries in 5 taluks of Shimoga district. The crop loans were advanced by SDCCB through five PACSSs in the respective talukas. The study has focused only on four talukas, viz., Shimoga, Sagar, Thirthahalli and Hosanagar. The results of the study indicated that the average utilisation of crop loan is higher in the non-irrigated areas in Sagar, Hosanagar and Thirthahalli talukas compared to the utilisation of loan in the other categories of cultivation for farm operations. Purposewise the loanee farmers in all the four talukas have utilised maximum amount of crop loan for marriage expenditure in irrigated areas. The analysis also noted that the incremental income of the crop loan beneficiaries in the four talukas has been positive in the post-investment period as compared to pre-investment period.

Growth and Performance of Primary Agricultural Credit Societies – An Appraisal

D.P. Malik*, S.N. Singh* and Sunil Dhanda**

The present study was carried out to analyse the growth and performance of Primary Agricultural Credit Societies (PACSSs) in Haryana. The information pertaining to different components of credit structure of co-operative societies was collected from various published sources for the period 1992-2004. Suitable statistical tools and techniques, i.e., percentage, average, compound growth rate, indices and delinquency rate were used to draw meaningful inferences. The results

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showed that the performance of selected variables of PACSs in terms of membership, share capital, owned capital, working capital, borrowings, credit advance, credit recovery have registered significant positive growth rate over the span of the study period. PACS attained remarkable increase in the case of deposits. The increasing trend in credit outstanding and credit overdues signals healthy sign of performance. The profit of PACS yielded positive growth rate and the declining trend in cost of management to the working capital revealed that managerial expenses are under control. The delinquency rate of PACS showed that amount of credit recovery is more than credit outstanding. It was reported that poor repayment of cultivators and occurrence of natural calamities resulted in the mounting of credit overdues. Therefore, PACS should increase owned funds as well as enhance the Government's share in working capital. The officials of the institutions should be trained in supervision, credit advancement, deposit attraction and recovery of credit. The managerial expenses should be curtailed through computerisation of society/banks.

Impact of Institutional Finance on Cost, Returns and Profitability on Farmers' Economy in North Konkan Region of Maharashtra

A.C. Deorukhakar, J.M. Talathi and H.K. Patil[†]

Credit enables farmers to use various inputs to the recommended levels and thereby increase agricultural production through increased employment opportunities. The present paper attempts to study the impact of institutional credit on cost, returns and profitability in the north Konkan region of Maharashtra state. A sample of 120 borrowers and 120 non-borrowers was selected randomly from twelve villages of four selected tehsils of Thane and Raigad district of north Konkan region. The analysis revealed that cropping intensity on beneficiary farms was higher than non-beneficiaries. Area under irrigation was also more on the beneficiary farms than non-beneficiaries. The borrower farmers availed loan to the extent of Rs. 10076 per farm. Per farm loan amount increased with increase in the size of holding. Regarding size groupwise disbursement it was observed that maximum crop loan was taken by large size group followed by medium and small group. A similar trend was observed for other purposes of loan. The per farm income and profit on beneficiary farms was higher than non-beneficiary farms. The farm business income, which represents the profit for direct cost for beneficiary farmers, was four times more than that of non-beneficiary farms. This showed that crop production was profitable on beneficiary farms. The effect of short-term loan in the production process was found to be significant on all size groups. The results have clearly demonstrated that there is positive impact of agricultural credit on per hectare yield of different crops. Thus the flow of farm credit has resulted in improving the economy of the borrower farmers.

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A Study of Agricultural Credit, Its Sources and Pattern of Utilisation

Akhilesh Kumar Singh and S.K. Singh*

The paper makes an attempt to study the pattern of distribution of different types of loan for different purposes from different financing institutions to the borrower farmers in the study area, extent of productive use of loan, its diversion for unproductive purposes and the reasons thereof. The study is based on a sample of 120 borrower farmers comprising 39 marginal, 33 small, 27 medium and 21 large farmers selected randomly from five villages of Cholahpur block of Varanasi district. The sample district of Varanasi is selected purposively as the district showed maximum borrowed finance among 27 districts of the eastern Uttar Pradesh. The study pertained to the year 2000-2001. The findings of the study revealed that the major financing to sample borrower farmers were contributed by commercial banks followed by U.P. Co-operative Rural Development Bank and Primary Agricultural Credit Co-operative Societies. This is due to the fact that commercial banks have opened their branches in rural areas which helped the borrower farmers to borrow the loan with least difficulty. The crop loans was made available to borrower farmers for enhancing the crop production in kind (fertiliser) by the co-operative society to avoid the unproductive utilisation of loan. The extent of unproductive use of credit was found to be maximum for marginal farmers followed by medium, small and large borrower farmers. The extent of unproductive use of credit showed a significant amount diverted to other purposes. The pressure on consumption expenditure, excess expenditure on social obligation, delay in disbursement of loan, inadequacy of loan, lack of supervision of bank officials over use of credit were reported as the reasons for diversion of credit among the borrower farmers in the study area. The study draws attention of the bankers, government, policy makers and all concerned to take the appropriate action in order to check the diversion of credit so that the rational use of credit can be ensured to increase the crop production.

An Emerging Imperative Scenario of Agricultural Credit in India: Problems, Issues and Future Prospects

R.B. Singh and B.K. Gupta[†]

Agricultural credit has played a vital role in supporting agricultural production in India with the advent of green revolution characterised by a greater use of inputs like seed, fertiliser and increased credit requirements provided by the agricultural financial institutions. In this backdrop the study provides a historical overview of

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agricultural credit in India since the nationalisation of banks in 1969. A review of the progress of agricultural credit system in India reveals that though the overall flow of institutional credit has increased over the years, there are several gaps in the system like inadequate provision of credit to small and marginal farmers, paucity of medium and long-term lending and limited deposit mobilisation and heavy dependence on borrowed funds by major agricultural credit purveyors. These have major implications for agricultural development and also the well-being of the farming community. Supporting policy changes and investment are required to facilitate agricultural diversification and value-additions. The task of the policy makers in designing an appropriate package of measures becomes more challenging considering the fact that the new growth areas of agriculture are characterised by a high degree of heterogeneity. Hence, policies and programmes that are to be designed to support higher productivity and production in these areas need to be much more regionally disaggregated.

Farm Credit and Households' Indebtedness – A Case Study of Uttar Pradesh

R.K. Singh, Pramod Kumar Singh and Babu Singh*

The study focuses on the extent of indebtedness along with access to credit among farmers of different resource endowed regions in Uttar Pradesh. The data for the study have been obtained from a survey of 380 households and with farmers' panel of 20 villages conducted during the year 2004-05. Out of the selected households nearly 75 per cent were marginal and small holders and 25 per cent households had large size of holdings. It is evident from the study that the households had outstanding loans to the extent of 48 per cent. The prevalence of indebtedness among financial households calls for drastic steps to be taken to recast the whole farmers system for its success.

Impact of Swarnjayanti Gram Swarozgar Yojana (SGSY) on Poverty Alleviation and Rural Indebtedness

M.B. Belavatagi[†]

Programmes of self-employment of the poor and thereby reducing the incidence of indebtedness have been an important component of the anti-poverty programmes implemented through Government initiatives in rural India. The Swarnjayanti Gram Swarozgar Yojana (SGSY) is the major on-going programme for self employment of the rural poor since 1999. The basic objective of SGSY is to bring the assisted poor

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families above the poverty line and provide income generating assets through bank credit which ultimately minimises the incidence of poverty. The present study attempts to discuss the structure of formation of self-help groups (SHG) and the extent of financial assistance given to Swarozgaris, to analyse the financial and physical progress of SGSY and the extent to which SGSY reduces the problem of rural indebtedness. The study was carried out during 1999-2000 to 2002-2003. The results clearly indicated that SGSY has shown positive progress in states like Uttar Pradesh, Andhra Pradesh, Bihar, Madhya Pradesh, Maharashtra, Karnataka and Tamil Nadu. This programme is also facing the delay in disbursements of loans by the banks. There is a need to improve the credit mobilisation under SGSY with the co-ordination of banks in the country through involvement of non-governmental organisations (NGOs) in the devolvement of SHGs and expertise from the Reserve Bank of India and National Bank for Agriculture and Rural Development about the credit facilities. Thus SGSY may go a long way in providing credit, creating assets to the rural poor and thereby minimising the problem of rural indebtedness.

Impact of Institutional Credit on Rural Economy: A Case Study of Kanpur Kshetriya Gramin Bank

O.P. Shukla and R.P. Singh*

This paper relating to Kanpur Kshetriya Gramin Bank (KKGB) broadly aims at studying the impact of working of Regional Rural Banks (RRBs) on rural economy. The KKGB was established in February 1980. The area of bank operation is Kanpur Nagar and Kanpur Dehat. The performance of KKGB has been studied through information revealed by the selected beneficiaries, bank officials and annual reports of KKGB. Overall the RRBs have shown satisfactory performance in terms of providing loans and in generating employment opportunities.

Cost of Management and Credit of Primary Agricultural Credit Societies in Haryana and Punjab

Vivek Bansal*, V.P. Mehta, Ram Kumar[†] and Vinod Kumar[†]**

The study presents a comparison of the structure and financial performance of Primary Agricultural Credit Societies (PACS) in Punjab and Haryana states and examines the costs of management and unit transaction in both states for the period 1988-2001. Based on the study conducted on basis of secondary data it was observed

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that the cost of management has increased with annual compound growth rates of 20.36 per cent and 16.10 per cent in Haryana and Punjab respectively. This increase may be attributed mainly to the new appointments in PACS, revised salaries to employees (Fifth Pay Commission's Recommendation) and allowances and revised bonus payments to the employees. The unit transaction cost of credit also increased in 1988 and then gradually declined in 2000-01 due to efficient management of PACS in Haryana. A similar trend was observed in the case of Punjab during the same period. The improvement in recovery of overdues is a good sign for financial health and sustainable working of PACS in both the states.

The proportion of borrowing to loan advanced and loan outstanding indicated that borrowed money was effectively utilised. Further, reduction in managerial cost and high value of proportion of profit to working capital reveals strong performance of PACS. At present, there is a need to make efforts to mobilise more deposits to strengthen the financial structure of the societies. Continuous efforts should be done to reduce the cost of management and unit transaction cost of credit to increase the profitability of these societies of their efficient functioning. For efficient and sustainable working of PACS, the recovery rate should further be strengthened. Restructuring of governance of PACS is essential to improve their operational efficiency. All losses of PACS must be recapitalised by the Government of India.

Impact of SHGs in Malshiras Tehsil in Solapur District of Maharashtra

H.S. Nanaware and T.J. Mahadik*

The present paper attempts to examine the impact of Self-Help Groups in Malshiras tehsil, in Solapur district of Maharashtra which were launched under the scheme of Swarnjayanti Gram Swarozgar Yojana (SGSY). SGSY is a credit-cum-subsidy programme, which has been launched as an integrated programme for self-employment of the rural poor by Central Government from 1st April 1999. The main objective of this scheme is to bring the assisted poor families above the poverty line by organising them into Self-Help Groups (SHGs). At the end of June 2005 a total 1086 SHGs were launched in study area. Out of them 651 SHGs were below poverty line (BPL) and 435 SHGs were above poverty line (APL). The study is based on the primary data as well as secondary data. The primary data was obtained from 110 beneficiary members of SHGs selected randomly (66 members from BPL SHGs and 44 members from APL SHGs) with the help of pre-tested questionnaire. The secondary data is obtained from Malshiras Panchayat Samiti Office. The study revealed that the majority SHGs were of women. There is no monetary ceiling on subsidy for minor irrigation projects for SHGs, and majority of the SHGs were

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rearing milch animals in study area. It is also found that only for completing the target the loans were allocated to any SHGs. It is interesting to note that majority of the members of SHGs do not take loans from the money lenders. Their income has increased due to SHG and employment. The study suggests that there is need to involve NGOs in this programme and initiate the minor irrigation projects by SHGs. Besides it is essential to stop the subsidy facilities of SHGs. The loan should be provided with minimum rate of interest. This programme would not only help for fullfilment of target of loan allocation, but would pave way for sustainable rural development and poverty alleviation by the employment generation in the rural areas.

Performance of District Central Co-operative Banks in Maharashtra: A Model for Quantitative Analysis

K.L. Jadhav and D.V. Kasar[†]

An attempt has been made to examine the performance of District Central Co-operative Banks (DCCBs) in Maharashtra by way of studying the growth in performance indicators and estimating Performance Index (PI). The study is based on secondary data obtained from 30 DCCBs in Maharashtra for the period from 1985-86 to 2000-01. The study revealed that the performance of DCCBs in Maharashtra in terms of the number of branches, membership, share capital, loans and advances, and recovery was satisfactory during pre-banking reform period, i.e., 1985-86 to 1993-94. Further, a better performance was noted in respect of reserve funds, own funds, deposits, investment, profits and importantly, reduction in overdues and cost of management during post-banking reform period, i.e., 1994-95 to 2000-01. The higher magnitude of average performance index achieved by the DCCBs in Western Maharashtra and Konkan region indicated a developed system of DCCBs in these two regions. However, the performance of DCCBs in Marathwada and Vidarbha regions was not upto that level to ensure adequate flow of credit for agriculture. The regional inequality in the disbursement of credit was also noted. The study advocates the need to pay attention to the borrower members, which will lead to increase in the share capital and loan disbursement of agricultural purposes. The DCCBs are required to be operated more transparently to minimise the percentage of non-performing assets and disbursement may be made strictly up on the basis of repayment capacity of the borrowers, technical efficiency and economic soundness of the societies. Efforts should be made to enhance deposit mobilisation and investment of funds in Government securities and fixed deposits for transparency in financial management.

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Institutional Support and Agricultural Indebtedness

B. Sambasiva Rao*

The study aims to analyse the role of institutional support to reduce the agricultural indebtedness in rural areas. Considering the institutional support to agriculture, the relevant institutions are extension and credit institutions. The major handicap faced by the farming community is the functioning of the credit institutions in the formal sector, i.e., Rural Finance Institutions (RFI). It is an established fact that RFIs are not advancing credit to agriculture at the rate warranted by the increased requirements of credit with the larger use of purchased inputs. Also, the poorest parts of the country, i.e., the tribal belt extending from Jharkhand to Andhra Pradesh and some areas of Bihar, Orissa, Maharashtra, and Chhattisgarh are inadequately served by RFIs. Even in other advanced agricultural regions, the share of credit from the formal agencies in the total cost of inputs is low. The commercial banks advanced three reasons for their unsatisfactory performance in the rural areas, viz., (a) low absorptive capacity in rural areas, (b) high transaction costs and (c) greater risks. In view of the inability of the RFIs in advancing credit, farmers have resorted to borrow from non-formal sources, i.e., input suppliers, traders and bigger landlords. While it may be easy to obtain credit from these sources, it is also true that the terms they offer are onerous and their methods of recovery could also be ruthless. The farmers who are heavily indebted to these non-formal sources, are unable to generate additional output which result in default in repayment. It is also an established fact that the largest number of suicides are reported from areas where farmers get heavily indebted to non-formal sources of credit. To mitigate the agrarian distress the following measures may be useful. Supportive measures such as poverty alleviation programmes, Backward Area Development Programmes, and specific programmes such as Minimum Support Prices, Crop Insurance, National Calamity Fund needs to be strengthened. The basic aim of the formal banking system in the rural areas should be to ensure that all the credit requirements of the farmers and others are met and that the coverage of the formal financial system is extended to all rural households. For this, the emphasis on social banking rather than profit-based banking must be revived.

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Credit Needs for Agricultural Development in North-Eastern Hilly Region

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The perceived backwardness of agriculture in the northeastern hilly region is mainly characterised by shifting cultivation, high degree of dependence on a single crop, namely rice, the undulated topography, hilly slopes; varying altitudes and poor resource base of the farming community hindering the process of growth of agricultural sector. In view of the predominant status of agriculture in the region, a breakthrough in human development can be achieved only by addressing the key issues of agriculture and its allied sectors and it should be linked with the credit in order to make agriculture the basis of economic growth of the region. Synergy between the activities of various agencies involved in this sector needs special attention. In the region not only is the co-operative credit structure practically defunct, but also RRBs and commercial banks are comparatively inactive. In order to gain from frontier technologies, innovative extension delivery systems should be evolved to purvey the knowledge revolution to the farmers so as to promote higher productivity and sustainable livelihoods. The paper highlights the basis of policy formulation in terms of blending the traditional wisdom and practices with frontier technologies so as to promote employment generation, conservation and local initiative. The paper finally has tried to link up the credit policy of the region in order to convert the backwardness, in terms of low input intensity of the region, into an opportunity which gives it a natural advantage in production of organic food, bio-products, etc. The region can be promoted as a Centre for organically produced eco-friendly goods. Planning should be 'with' rather than 'for' the region. In place of readymade prescriptions applicable across States and regions, area-specific and need-based interventions should be formulated on a foundation of participative micro planning. Public investment needs to be made more pro-poor and productive through decentralisation, delegation and empowerment of rural communities, accompanied by removal of redundant restrictions and controls, should form the core of the revamped planning process. In addition a competitive environment needs good governance, absence of conflict, and well functioning market and private enterprise to flourish.

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