DIRECT INSTITUTIONAL CREDIT TO INDIAN AGRICULTURE

Suryawanshi Santosh D

Abstract

This research paper have examine the progress of short & long term direct institutional credit to supplying agricultural sector in India & bank branches expansion post economic reform period. The institutional credit has considered playing a key role in the agricultural development of India.A large number of institutional agencies are involved in the payment of credit to agriculture. The relevant data have taken from Handbook of Statistics on the Indian economy (2014) and Report on state of Indian agriculture (2014). Research period is 1990-91 to 2013-2014. Total Number of bank branches have increased after 2003 more rapidly, it show in fig 1 percentage of change line upwards.

Keywords :*Credit, Agriculture, bank branches, shot and loan .*

Short Profile

Suryawanshi Santosh D is working Assistant Professor in Economics at Shri Sant Damaji College in Mangalwedha, Solapur (Maharashtra).

INTRODUCTION

Agriculture formulas the root for a way of life for possibly 70 percentage of Indian population. Agriculture is the function of physical, socio-institutional, techno economic factors, which are dynamic in nature and keeps on changing with the basic objective of increasing production of food grains surplus. There is an extensive range of writings, establishing the role of agriculture in pro-poor growth of developing countries. (Tendulkar, 1990 ; Hazell and Ramaswami, 1991) As agriculture constitutes large share of national output and employment in the early stages of development, this sector has explicitly treated in most theories of economic development (Timmer, 1988) Although agriculture is the backbone of the Indian economy, yet it has always been a way of life rather than a business in India (Kumar, 1993). It is the heart and foundation of all efforts for economic development and planning in India.

Apart many serious efforts towards rapid industrialization, agriculture continues to contribute a large share to the national income. One cannot think of economic development in the country without the development of agriculture. Agriculture plays a crucial role in the development of the Indian economy. The Indian economy has undergone structural changes over time with the anticipated decline in the share of agriculture in the GDP, fall in its share from 55.1 per cent in 1950-51 to 13.9 per in 2013.

Credit is one of the life-threatening inputs for agricultural development. It capitalizes farmers to undertake new investments and adopt new technologies. The significance of agricultural credit is further lead forced by the unique role of Indian agriculture in the macroeconomic framework along with its significant role in poverty alleviation. Realizing the importance of agricultural credit in fostering

Assistant Professor in Economics, Shri Sant Damaji College, Mangalwedha.Solapur (Maharashtra)

agricultural growth and development, the emphasis on the institutional framework for agricultural credit have emphasized since the beginning of planned development era in India.

Consequently, Indian Government emphasised on directed credit programmesas an important policy which provided administered allocation of credit to priority sectors at concessional interest rates. The idea behind this policy was that, without government interference through directed credit programmes, banks funding could not be channelized to those activities which are of high social return or those categories ofcredit-worthy people who are marginalised in the credit market (Stiglitz, 1994) Indian government directed credit policies have been used for encouraging agriculture and small-scaleindustry. Agriculture has been targeted because it is a risky activity and agricultural households are credit rationed by the formal sector (Swaminathan, 1991) Agricultural credit enables to farmers to purchase the necessary agricultural inputs and help to meet their agricultural cost and motivates them to adopt intensive methods of cultivation.

DEFINITION

Credit is obtaining control over the use of money at the present time in exchange for a promise to repay it at some future time.

Credit is also defined as a device for facilitating the temporary transfer of purchasing power from those who have surpluses of it to those who are in need of it. Thus, credit involves a temporary transfer of wealth.

Agricultural Credit is the amount of investment funds made available for agricultural production from resources outside the farm sector.

Agricultural Finance is considered as separate field of study dealing with lending and borrowing by organizations and farmers.

Hopkin et al referred agricultural finance as the means of acquiring and control of assets, ownership by cash purchase or borrowing or leasing or custom-hiring.

Warren F.Lee et al defined Agricultural Finance as the economic study of the acquisition and use of capital in agriculture. It deals with the supply of and demand for funds in the agricultural sector of an economy.

INITIATIVES FOR AGRICULTURAL CREDIT

Government of India recent year undertaken key Initiatives to Increasing Flow of Credit. This key initiatives are Kisan Credit Card Scheme(1998-1999), Farm Credit Package (June 2004), Interest Subvention to Farmers (2006-2007), Extension of Interest Subvention Scheme to Post Harvest Loans, Collateral Free Loans, Relief in Event of Occurrence of Natural Calamities, Interest Subvention for Loan Restructured in the Drought Affected States(2012), Agricultural credit flow target for 2013-14 was fixed at 7,00,000 crore and achievement was 7,30,765 crore, as against ` 6,07,375 crore in 2012-13; Farmers could avail of crop loans up to a principal amount of ` 3,00,000 at 7 per cent rate of interest. The effective rate of interest for farmers who promptly repay their loans was 4 per cent per annum during 2013-14;

INSTITUTIONAL ARRANGEMENTS

Agricultural credit has disbursed through multi-agency network consisting Scheduled of Commercial Banks (CBs), Regional Rural Banks (RRBs) and Cooperatives. There are approximately 121225 million-village level Primary Agricultural Credit Societies (PACS), 371 District Central Cooperative Banks (DCCBs) with 13327 branches and 31 State Cooperative Banks (SCBs) with 1028 branches providing primarily short-term and medium term agricultural credit in the country. The long-term cooperative structure consists of 19 State Cooperative Agriculture and Rural Development Banks (SCARDBs) and 755 Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) with 1219 branches and 689 branches respectively, which are catering to the requirement of investment credit. Besides, there are 45957 rural and semi-urban branches of Commercial Banks, 14462 branches of RRBs and more than 7 million micro finance institutions (2013)

REVIEW OF LITERATURE:

Desai et al (1988) have found density of rural financial institutions andoverall amount of credit per hectare to be positively correlated with degree of agricultural progress.Shukla (1988) found the flow of agricultural credit like an inverted pyramidi.e. with narrow base of resources (deposits) and large number of those needingresources (credit). The financial institutions were found to be acting like one-way pipelines rather than intermediaries in transfer of resources. The recycling of funds had been reduced to around 50 per cent.Dantawala (1989) highlighted the achievements of financial institutions inagricultural credit with weaknesses i.e. leakages, miss utilization, corruption so high burden of over dues. The stress should be on making the rural poor credit worthy.Rao and Babu (1993) studied bank finances to agriculture and allied activities and found out that low rate of interest, easy and convenient instalments for repayment, possibility of getting subsidies from government agencies were the main reasons for growth in institutional loans.Kumar and Simon (2001) focused on strengtheningof rural credit delivery system through kisan credit cards. The small farmers with low income were getting benefited through the scheme, however, repayment was slow and missutilization of credit was emerging as a major problem.Rao (2003) found that about 60 per cent of the credit requirements of farmers are now met by the institutional sources and only 40 per cent by informal sources like money lenders etc. Among the formal credit institutions, the commercial banks have emerged as a major player (50%) followed by cooperatives (43%) and RRBs (7%) in agricultural credit.Thorat (2005) stressed on revamping of financial institutions to improve the credit delivery system in terms of timeliness, resource mobilization, stress on small and marginal farmers etc.

OBJECTIVES

1.To examine the progress of short & long term direct institutional credit to supplying agricultural sector in India.

2.To examine the growth of bank branches expansion post economic reform period.

SCOPE AND LIMITATIONS OF THE STUDY

The different institutions have play vital role in financing agricultural sector in India. For the single-mindedness of study, only secondary data have taken for the year 1990-91 to 2013-2014 so all the limitations of secondary data has found in the study.

METHODOLOGY AND DATA

This paper have mainly dedicated on progress and change of institutional credit to agricultural sector in India. The time series data on institutional credit have taken for this paper from official sources. Such as Handbook of Statistics on the Indian economy (2014) andReport on state of Indian agriculture (2014).

RESULTS AND DISCUSSION

Direct institutional credit for agriculture and allied activities- short term Commercial banks, cooperative banks and regional rural banks (RRBs) are the major agencies which farmers depend upon to access institutional agriculture credit. Each of these agencies has its own distinctive characteristics in terms of financial strength, client base and outlook towards purveying agriculture credit.

Table 1 show the progress of direct institutional credit for agricultural and allied activities for short term during the 1990-91 to 2010-2011. It is show the issue of agricultural loans & loans outstanding of the study banks viz, cooperative banks, scheduled commercial banks and regional rural banks. An appearance at the table exposes that the direct loans issued increased gradually from 59.79 billion in 1990-91 to 2536.61 billion in 2010-2011. The share of cooperative banks in Loans Issued have decline the over the period. Its share was loans issued 61.35 % in 1990-91, 57.35% in 2000-01 and 27.22% in 2010-11. But the share of commercial banks and RRB have increased gradually 36.42 % and 2.23 in 1990-91 to 57.58 % and 15.20 % in 2010-2011 respectively. Loans outstanding also increased gradually from 100.02 billion to 2835.70 billion during the period 1990 to 2011.The structural shift in the way credit is channelized with a secular decline in the share of cooperative banks has weak-ened the access to institutional credit for marginal and small farmers (Satish 2005).

TABLE 1DIRECT INSTITUTIONAL CREDIT FOR AGRICULTURE AND ALLIED ACTIVITIES - SHORT-TERM

	Loans Issued				**Loans Outstanding (In Billion)**			
Year	Cooperatives	SCBs	RRBs	Total	Cooperatives	SCBs	RRBs	Total
1990-91	34.48	20.48	1.25	59.79	51.78	42.35	5.90	100.02
	(61.35)	(36.42)	(2.23)	(100.00)	(51.76)	(42.34)	(5.90)	(100.00)
1995-96	92.43	46.28	8.49	152.73	93.12	71.73	13.08	177.93
	(63.29)	(31.02)	(5.69)	(100.00)	(52.34)	(40.31)	(7.35)	(100.00)
2000-01	185.56	107.04	30.95	323.55	181.68	154.42	36.92	373.02
	(57.35)	(33.08)	(9.57)	(100.00)	(48.71)	(41.40)	(9.90)	(100.00)
2005-06	356.24	456.44	128.16	940.84	341.40	599.71	138.77	1079.88
	(37.86)	(48.51)	(13.62)	(100.00)	(31.63)	(55.51)	(12.86)	(100.00)
2010-11	690.38	1460.63	385.60	2536.61	496.45	1932.62	406.63	2835.70
	(27.22)	(57.58)	(15.20)	(100.00)	(17.51)	(68.15)	(14.34)	(100.00)

Sources Database on Indian Economy (DBIE) on the Reserve Bank's website http://dbie.rbi.org.in).pp-118

Direct Institutional Credit for Agriculture and Allied Activities - Long-Term

Table 2 shares the data on direct long term institutional credit for agriculture and allied activates during 1990-91 to 2010-2011. The direct loans issued improved from 42.09 billion in 1990-91 to 912.17 billion in 2010-11, also loans outstanding improved from 193.13 to 2057.55 billion for same year. The share of cooperatives, SCB and RRB in loan term have change over the year.

TABLE 2DIRECT INSTITUTIONAL CREDIT FOR AGRICULTURE AND ALLIED ACTIVITIES - LONG-TERM

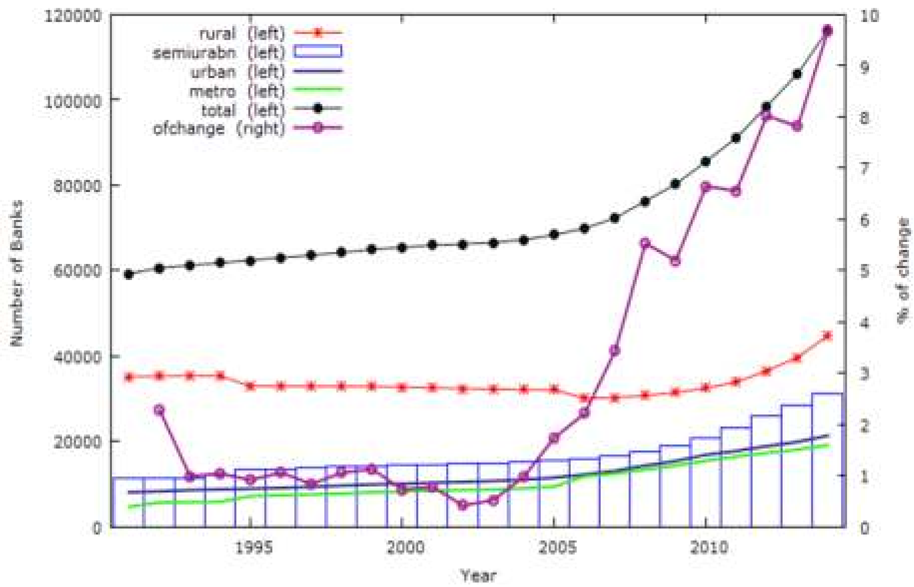
	Loans Issued				**Loans Outstanding(In Billion)**			
Year	Cooperatives	SCBs	RRBs	Total	Cooperatives	SCBs	RRBs	Total
1990-91	13.72	26.28	2.10	42.09	53.53	127.97	11.63	193.13
	(32.59)	(62.42)	(4.99)	(100.00)	(27.72)	(66.26)	(6.02)	(100.00)
1995-96	32.40	46.47	5.32	84.19	98.14	162.55	21.58	282.27
	(38.48)	(55.20)	(6.32)	(100.00)	(34.74)	(57.59)	(7.65)	(100.00)
2000-01	87.39	57.36	8.71	153.46	279.67	228.28	35.57	543.52
	(56.95)	(37.38)	(5.68)	(100.00)	(51.46)	(42.00)	(6.54)	(100.00)
2005-06	124.99	349.55	24.84	499.38	481.87	756.32	76.32	1314.51
	(25.53)	(70.00)	(4.97)	(100.00)	(36.66)	(57.54)	(5.81)	(100.00)
2010-11	90.83	767.29	54.05	912.17	270.29	1643.22	144.04	2057.55
	(9.96)	(84.12)	(5.93)	(100.00)	(13.14)	(79.86)	(7.00)	(100.00)

Sources Database on Indian Economy (DBIE) on the Reserve Bank's website (http://dbie.rbi.org.in).pp-119

Population Group wise number of branches Expansion of scheduled commercial banks The keyelement of banking policy of the post-nationalisation period was the spread of the branch network in rural areas which was given up in the post-reform period. The first Narasimham Committee Report on the Financial System (November 1991) had specifically recommended that "each public sector bank should set up one or more rural banking subsidiaries to take over all its rural branches", and that the operations of the regional rural banks should be extended to embrace all types of banking business. The need for continuing with the expansion of banking infrastructure in rural areas was even recognised by the Narasimham Committee.

Appendix 1 clearly reveals that the expansion of rural bank branches declines from 0.18 percent to -6.58 percent during 1991-1995. From 1994, the rural bank branches declined sharply until 2006.This shows that after the reforms in banking sector, rural branch expansion did not increase. In years of 2007 to 2014, it has demonstrated some improvement.

FIGURE 1BRANCHES EXPANSION OF SCHEDULED COMMERCIAL BANKS



As far as semi-urban branches are concerned, the percentage change showed expansion of branches all over the period for 1991 to 2014.The highest rate of percentage change was 12.20 in 1995 and lowest rate of change was 0.92 in 1992. Additional, it can be said that expansion of semi-urban bank branches was better than that of rural branches, as economic reforms permitted to close down loss making rural branches and shift it to other place.

The annual growth in urban branches in 1992 was 2.90 percent, which has increased to 4.55 percent in 2005. In brief, it has understood that the annual growth of urban bank branch is higher than that of rural and semi-urban branches.

The annual expansion of metropolitan branches increased from 22.53 percent in 1992 to 22.52 percent in 1995. Later on the growth showed increasing trend but with lesser magnitude for the period of 1996 to 2005.

RESENT CHANGE IN BANK BRANCH ENVIRON-MENT

In the recently state run and private sector banks have opened a little more than 7300 branches in year 2013.this is the highest yearly number in the past decade. Due to the growing popularity of alternative banking channels has failed to discourage lenders from setting up brick and mortar branches across the country. The majority of branches were opened in non-metropolitan areas, as lenders focused on expanding the reach in unbanked and under banked region.

CONCLUSION

The performance of agricultural credit 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. The study reveals that the institutional credit in India after economic reform period has been increased in its quantum. The credit provided by the various institutional sources has increased its advances. But an effort has to be taken by the banks to reduce its outstanding. The expansion of rural bank branches declines from 0.18 percent to -6.58 percent during 1991-1995. From 1994, the rural bank branches declined sharply until 2006. This shows that after the reforms in banking sector, rural branch expansion did not increase. In years of 2007 to 2011, it has demonstrated some improvement.

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