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FINANCIAL FACILITIES IN AGRICULTURAL- A STUDY

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ABSTRACT

Finance in agriculture is as important as development of technologies. Technical inputs can be purchased and used by farmer only if he has money (funds). But his own money is always inadequate and he needs outside finance or credit. Professional money lenders were the only source of credit to agriculture till 1935. They use to charge unduly high rates of interest and follow serious practices while giving loans and recovering them. As a result, farmers were heavily burdened with debts and many of them perpetuated debts. There were widespread discontents among farmers against these practices and there were instances of riots also. With the passing of Reserve Bank of India Act 1934, District Central Co-op. Banks Act and Land Development Banks Act, agricultural credit received impetons and there were improvements in agricultural credit. A powerful alternative agency came into being. Large-scale credit became available with reasonable rates of interest at easy terms, both in terms of granting loans and recovery of them.

INTRODUCTION

The co-operative banks started financing agriculture with their establishments in 1930's real impetons was received only after Independence when suitable legislation were passed and policies were formulated. Thereafter, bank credit to agriculture made phenomenal progress by opening branches in rural areas and attracting deposits. Till 14 major commercial banks were nationalized in 1969, co-operative banks were the main institutional agencies providing finance to agriculture. After nationalization, it was made mandatory for these banks to provide finance to agriculture as a priority sector. These banks undertook special programs of branch expansion and created a network of banking services throughout the country and started financing agriculture on large scale. Thus agriculture credit acquired multi-agency dimension. Development and adoption of new technologies and availability of finance go hand in hand. In bringing "Green Revolution", "White Revolution" and now "Yellow Revolution" finance has played a crucial role. Now the agriculture credit, throughmulti agency approach has come to stay. The procedures and amount of loans for various purposes have been standardized. Among the various purposes "Crop loans" (Short-term loan) has the major share. In addition, farmers get loans for purchase of electric motor with pump, tractor and other machinery, digging wells or boring wells, installation of pipe lines, drip irrigation, planting fruit orchards, purchase of dairy animals and feeds/fodder for them, poultry, sheep/goat keeping and for many other allied enterprises.

TRENDS IN THE SUPPLY OF RURAL CREDIT

The flow of auricular and rural credit Witnessed a rapid increase after the first round of bank nationalization. Between 1971-72 and 2011-2012, the agricultural credit witnessed around 578 times jump from merely Rs. 883 crore in 1971-1972 to Rs. 5,11,029 crore in 2011 -2012 (Table-1). The rapid credit growth in rural sector has led to the decline in the role of informal credit agencies, including money lenders as a source of credit. The opening up of rural bank branches was not only due to the supply-side push through governments' social control over rural banking but also due to the increase in demand because of population increase and diversification of agro products in the post-green revolution era. This is evident from Table-2 where one can see that the initial growth in the spread of rural branch-banking in India during 1980s faded with time and followed a downward trend after 1991.

Table-2 shows the distribution of rural population and rural bank offices in India from 1971 to 2012. There were 4,817 rural bank branches during 1971 catering to almost 75% of people. The corresponding figures for 2012 were 36,334 and 71% respectively. While the percentage of rural bank offices to total bank offices was the highest (58.5 percent) at the end of 1991, it gradually reduced to 36.9 per cent during 2012. The downward trend of post-1992 era (Banking Reform Era) in the opening and Economic Survey, Government of India (2012-13)

Table 1: Instituonal Credit to Agriculture and Allied Activities
(Short and Long Term; 1971-72 To 2011-12)

Year	Share in Total Credit (Per cent)				Total (Rs. Crore)
	Cooperatives	State Govts	SCBs	RRBs	
1971-72	87.1	11.2	1.7	_	883
1981-82	57.7	3.6	34.8	3.9	4,296
1991-92	50.2	2.9	41.7	5.2	11,538
2001-02	56.4	0.8	34.4	8.4	54,195
2002-03	52.2	_	38.8	9.0	65,175
2003-04	48.0	_	43.4	8.6	83,427
2004-05	42.7	_	45.9	11.3	1,05,303
2005-06	33.4	_	56.0	10.6	1,44,021
2006-07	28.5	_	60.8	10.7	1,89,513
2007-08	29.6	_	58.2	12.2	1,94,953
2008-09	23.89	_	65.32	10.77	2,45,976
2009-10	16.51	_	74.33	9.16	3,84,514
2010-11	16.68	_	73.86	9.46	4,68,291
2011-12	17.21	_	72.13	10.65	5,11,029

Sources: Handbook of Statistics on Indian Economy, Reserve Bank of India (2012)

Up of bank offices in rural areas may be due to the excessive pressure on the banking system to follow prudential norms on income recognition, asset classification and their provisioning. Profit considerations in the liberalized and globalised scenario have taken priority over expansion of the bank spread in rural areas.

Table : 2 Distribution of Population and Bank Offices in India
(1971-2012)

Year	% of Rural population to Total population	Bank Offices		%of Rural Banks to Total Banks
		Rural	Total	
1971	75.1	4,817	13,622	35.4
1981	69.6	17,656	35,707	49.4
1991	65.4	35,206	60,220	58.5
2001	72.2	32,562	65,919	49.4
2003	71.8	32,303	66,535	48.6
2005	71.3	32,082	68,355	46.9
2007	70.9	30,585	72,165	42.4
2009	70.4	31,829	80,514	39.5
2011	70.2	33,779	90,775	37.2
2012	70.0	36,334	98,536	36.9

Sources: Reserve Bank of India (www.rbi.org.in); Census Statistics 1971, 1981, 1991, and 2011; Economic Survey, 2012-13.

RURAL CREDIT AND CO-OPERATIVES

Primary agricultural cooperative societies (PACs) the grass-root level arms of the three-tier cooperative credit delivery system in India, have been engaged in delivering credit to the poor and weaker sections of the society. As on March 31, 2012, as many as 7.27 lakh villages in India are covered with 93,413 co-operative credit societies (Table-3). There was 1 PAC in every 7.8 villages. Out of 93,413 PACs, as many as 40.74% were loss making as in March 2012.

Table:3 Select Indicators of Primary Agricultural Co-Operative Societies in DIA
(As On March 31,2012)

1	No. of PACs*	93,413
2	No. of villages	7,27,911
3	Village/PAC Ratio	7,8:1
4	No. of profit Making PACs	44,554
5	No. of Loss Making PACs	38,065
6	% profit Making PACs to Total	47.69
7	% Loss Making PACs to Total	40.74

Source: Trend and progress of Banking in India, Reserve Bank of India (2012)

RURAL CREDIT AND COMMERCIAL BANKS

As in March 2012, 81,240 commercial bank branches were operating in india (Table-4). Out of this, 29.26 per cent were in rural areas which handled 31.41 per cent of the total loan accounts (13.08 crore). The remaing 70.74 perr cent of total bank offices consisting of as many as 68.59 per cent of total loan accounts were in urban/Metro or semiurban areas. This indicates a great rural-urban divide in the spread of bankoffices and access to finance from commercial banks. Data on loan outstanding indicates that an average metropolitan borrower had an outstanding of Rs. 77,079 followed by urban (Rs. 44,806), semi urban (Rs. 14,811) and rural (Rs. 9,254) borrowers.

Table-4: Population Group-Wise Distribution Of Scheduled Commercial Bank Offices, Advance And Outstanding (As in March 2012)

Population	Offices (Nos.)	Account (Nos.)	Outstanding(Rs. Lakh)	Loan outstanding per Account (Rs)
Rural	23,776 (29.26)	4,11,15,982(31.41)	38,05,176.5 (7.9)	9,254
Semi-urban	22,468(27.6)	3,10,47,873(23.7)	45,98,608 (9.6)	14,811
Urban	17,878(22.0)	1,74,42,503(13.3)	78,15,121.5 (16.2)	44,806
Metropolitan	17,118(21.07)	4,12,74,939(31.5)	3,18,13,763 (66.3)	77,079
All-India	81,240(100.0)	13,08,81,297(100.0)	4,80,32,669(100.0)	36,699

Source: *Basic Statistical returns, Reserve Bank of India (2012)*
Note: Figures within the parentheses indicate percentage to the column total.

CONCLUSION

Agricultural credit has played a vital role in supporting agricultural production in India. The Green Revolution characterised by a greater use of inputs like fertilizers, seeds and other inputs, increased credit requirements which were provided by the agricultural financial institutions. Though the outreach and the amount of agricultural credit have increased over the years, several weaknesses have crept in which have affected the viability and sustainability of these institutions. Furthermore, antiquated legal framework and the outdated tenancy laws have hampered flow of credit and development of strong and efficient agricultural credit institutions. A review of 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 and limited deposit mobilisation and heavy dependence on borrowed funds by major agricultural credit purveyors. These have major implications for agricultural development as also the well being of the farming community. Efforts are therefore required to address and rectify these issues. Following the changes in the consumption and the dietary patterns from cereals to non-cereal products, a silent transformation is taking place in the rural areas calling for diversification in agricultural production and value addition processes in order to protect employment and incomes of the rural population. In the changed scenario, strong and viable agricultural financial institutions are needed to cater to the requirements of finance for building the necessary institutional and marketing infrastructure.

The flow of institutional credit to agriculture and allied activities has increased after the implementation of bank nationalization and financial liberalization policies in India. The commercial banks contribute to the majority share of the institutional credit to agriculture. However, the objective of easy accessibility to rural finance has not been fulfilled to the desired extent even after six decades of conscious efforts for institutionalization of the rural credit. While the cooperative credit institutions are facing difficulties, particularly in mobilizing adequate internal resources so as to become self reliant and economically viable units, the distribution of institutional credit to agriculture by commercial banks has lacked equity. The flow of credit from commercial banks has benefited largely the big cultivators in comparison to the small and marginal farmers. This necessitates reviewing the existing policy on flow of rural-credit to ensure adequate, timely and affordable direct credit assistance to the majority of small and marginal farmers in the rural areas.The cooperatives have a great potential in not only enhancing credit facilities to the poor and the needy, but also in distributing effectively agricultural inputs and essential items at the village level. Professionalization of cooperatives along with modernization of their operational procedures would facilitate their development as self-reliant and economically viable rural financial organizations. Better managerial skills with efficient risk management, transparency, accountability and quality services are the need of the hour to revitalize the cooperative credit in rural India. To increase the outreach or cooperative credit to its millions of poor members, steps are needed to ensure that the cooperative credit institutions are member driven and are based on self-help and democratic principles.

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