



Institutional Finance for Agriculture in Karnataka

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ABSTRACT

Indian agriculture is one of the strong hold of the India economy and it accounts for 18.5 percent of the gross domestic product (GDP). Agriculture draws its significance from the fact that it has vital supply and demand links with the manufacturing sector and is a source of livelihood for the rural population of India, and it represents the backbone of rural livelihood security system.

KEYWORDS :

FINANCING FOR AGRICULTURAL DEVELOPMENT:

We should have banking for the poor, not poor banking in crucial areas. Capital requirement has increased manifold in agriculture due to increased use of purchased inputs like high yielding varieties (HYVS) of seeds, fertilizers, irrigation, pesticides and machineries in agricultural production process. Moreover, agricultural production process is biological in nature and has larger transition period, resulting in a wide time gap between investment and income. Although the farmers prefer to hold their savings to invest in physical productive assets on their own farms, they also rely on credit. In order to produce more, the farmers need to spend more on modern inputs which must be financial either out of saving or through borrowing. Hence an increased institutional credit flow is essential for faster agricultural growth but the rural financing market development is a complex process because agriculture is small, widely dispersed, weather dependent, partially commercialized and deprived of basic socio-economic and institutional infrastructure (Desai and Mellor, 1993 P.121). Moreover agriculture has got a preferred status for financing through institutional sources in India, particularly during post bank nationalization era.

Agricultural credit policy has been progressively institutionalized for providing timely and adequate credit to the farmers for increasing agricultural production and productivity (Government of India Report, 2000 P.141).

Our agricultural system has made it possible for small and marginal farmers have a share in the institutional credit flow which could be achieved by facilitating their access to institutional credit system.

During the last three decades, agricultural loans registered a spectacular increase at the national level but the corresponding growth has been lower in Karnataka. There has been some spatial variation in the quantum of agricultural credit flow in Karnataka situation. Hence the present study has been undertaken to analyze the agricultural credit flow in Karnataka, however, the major emphasis is laid on identification of factors influencing agricultural credit flow in the state.

STATEMENT OF THE PROBLEM:

Due to peculiarities of agriculture in India, particularly uncertainties, the small scale production, scattered operation and the returns a large proportion of cultivators can not manage from one harvest to another without recourse to borrowing (Verma et.al. 2000). According to the Food and Agricultural Organization (FAO) report, the farmers in the underdeveloped countries expect the capital needs to be met from savings because their income from farm operations is barely sufficient to provide minimum necessities of life, food, clothing and shelter. Thus, for stimulating the tempo of agriculture production, it is necessary that the farmers be provided with adequate and timely credit (Sadney et.al., 2000). The right type of credit-credit facilities and the use of technology in agriculture bring an element of healthy competition in farm operations. It turns agriculture into a way of living: as distinct from 'A Way of life' (Kumar 1987). Institutional credit to agriculture in India is disbursed through a multi-agency network consisting of co-operatives, commercial and Regional Rural Banks (RRBs). For decades, the co-operatives have been extending credit for season-

al agricultural operations and other purposes in rural areas. After the nationalization of the banks in 1969 and again 1980, the institutional credit for agriculture has expanded enormously from Rs.1865 cores in 1971-72 to Rs.69,559 cores in 2002-03 (Patil and Bal sahib 2008) 4,75,000 Cores in 2011-12. With the renewed emphasis by the government on increasing credit flow to the agriculture sector, several policy initiatives have been announced in the form of farm credit package, special agricultural credit plans(SACP) and Kisan Credit Card scheme. The farm package announced in June 2004 to double the flow of institutional credit for agriculture in the ensuing three years has shown very positive results as the total disbursement to the agriculture sector has been increased tremendously from Rs.203, 296 crore in 2006-07 (Economic survey, 2007-08). It is expected to increase to Rs.240, 000 crore by March-2008. Now it is Rs.4, 75,000 Cores in 2011-12.

Institutional Financing in Karnataka State:

The state of Karnataka has about 29,000 villages and possesses about 190 lakh hectares of land out of which about 106 lakh hectares of land is being cultivated in all the three seasons in a year.

Government has increasingly begun to tap institutional finance from banks and other term lending institutions for financing for various developmental programmers in the state in view of the need to supplement plan financing. Banks in the state have also played a pivotal role in this regard. However, credit should be utilized in a prudent manner to maximize returns and spread the benefits over a wider section of the population.

Successful implementation of socio-economic developmental programmers calls for effective co-ordination between financial agencies and government departments. It also helps in improving efficiency of resource allocation and identifying infrastructural gaps. The state level Banker's committee, constituted by the Reserve Bank of India under the Lead Bank scheme periodically has taken up the review of the performance and monitors progress under special schemes.

At the district level the district consultative committee with the CEO of ZP as chairperson and representatives of financial Institutions and heads of government department at the district level as members monitor the implementation of government sponsored schemes and service area credit plans. At the block level, Block level Banker's committee chaired by Lead District Manager with bank managers and departmental heads of government at block level as members periodically review the implementation of government sponsored schemes and service area credit plans and sorts out problems encountered in the implementation of various programmers.

This is to select priorities for loan assistance from National Bank for Agriculture and Rural Development (NABARD) under Rural Infrastructure Development Fund (RIDF) scheme launched in 1995.

Banking scenario in the state:

Karnataka has a better banking network system than any other State in the country. There are 27 public sector banks 25 private sector banks besides, 13 regional rural banks operating in the state. Dakshina Kannada and Udupi districts are unique that four major national-

ized banks, namely, Canara Bank, Syndicate Bank, Corporation Bank & Vijaya Bank and one private sector banks namely, Karnataka Bank have originated here. Two other major banks born in Karnataka are State Bank of Mysore in the public sector and Vysya Bank in the private sector. However, over 66% of the total banking business turnover in the State is concentrated in 7 major banks with lead responsibilities in the state.

The rural credit dispensation in the State takes place through co-operatives, Commercial Banks and Regional Rural Banks. Of the two major State term lending institutions, the Karnataka State Financial Corporation (KSFC) support industry and service sectors. Another State term lending institution, namely, the Karnataka State Industrial Investment and Development Corporation (KSIIDC) undertakes promotion and development of medium and large scale industries in the state and acts as a nodal agency to formulate proposals for implementation of infrastructure projects. Keeping in view of the importance of institutional credit for economic development as also stimulating credit flow to the desired sectors and areas and as per the available potential and priorities of the government, the National Bank for Agriculture and Rural Development (NABARD) as an apex level institution prepares the potential linked plans every year. Apart from this, NABARD also brings out the State Focus Paper, which covers among other things agriculture and rural economy of the state, performance of rural credit delivery system, policy initiatives of Union and State Governments and NABARD's involvement in supporting credit, developmental and supervisory functions. The State Focus paper discusses the outcome of meeting of Secretaries of various Government department specially convened for the purpose before pronouncing the credit policy initiatives for the State. NABARD's other activities include opening of district level offices for better credit planning and monitoring, improving the financial health of rural credit institutions, particularly at grass root level by creating a opportunity for the rural poor to have access to institutional credit through innovations in micro finance like promotion of SHGs and development of rural non-farm sector etc., establishing separate fund for specific activities like promoting infrastructure in rural areas and construction of scarce land and water resources through watershed management.

Status of implementation of rural infrastructure Development Fund (RIDF) in Karnataka:

Over the years, there has been a steady deceleration in public sector investment in agriculture and rural infrastructure. Against this backdrop, Govt. of India, in 1995 announced the scheme for setting up of rural infrastructure Development Fund (RIDF) within the apex institution, NABARD for financing on going rural infrastructure projects. The corpus towards the fund was to be contributed by Indian scheduled commercial banks to the extent of their shortfall against the targets in agricultural lending, subject to a ceiling of 1.5%. Over the last eight years, the corpus of the fund rose to Rs.34,000 crore extending to various tranches of RIDF 9I to I to IX.

Integrated Rural Development Programmer (IRDP)/ Swarnjayanthi Gram Swarojgar Yojana (SGSY):

Various programmers such as IRDP, TRYSEM, DWCRAToolkits, GKY & MWS were merged to form a new scheme known as Swarnjayanthi

Gram Swarojgar Yojana (SGSY) this came into effect from 1.4.1999. In the year 2002-03, as many as 928 individual families were assisted under the above programmer to the tune of Rs.31.63 core. Apart from this, 2016 Self Help Groups (SHGs) were assisted to the extent of Rs.66.02 crore in the same period. It is anticipated that a total number of 5130 individuals and 2642 SHGs will get assistance to the extent of Rs.115.96 crore by the end of March 2004.

Micro Credit Delivery Innovations- Self Help Group (SHGs):

Despite the vast expansion of the formal rural credit delivery system, and implementation of a series of anti poverty programmers, the majority of the rural population still finds itself outside the credit delivery system and continues to depend on local money lenders. This is attributable to the high transaction costs and perceived risks. Self Help Groups have become a viable system for channelizing institutional credit to the poor.

Karnataka is the leader State in using micro finance initiative as an effective strategy to address the credit needs of rural poor. By the end

of March 2003, about 62178 SHGs were cumulatively credit linked involving refinance amount of Rs.93.92 crore from NABARD. During the year 2003-04, by November 2003, as many as 18279 SHGs were credit linked to banks, taking the position of cumulative SHGs linked to bank credit to 80457 in the state, which constitutes 11.22% of the total SHGs linked to bank credit at all India level. The share of Regional Rural Banks in the total SHGs linked with bank credit was 38.67% followed by co-operatives (28.02%), Scheduled Commercial Banks (25.62%) and other agencies 7.69%.

Kissan Credit Cad (KCC) Scheme:

The Kiss an Credit Card Scheme introduced by the Government of India in the year 1998-99, aims at timely and adequate availability of short terms loans to farmers to meet their credit needs.

In the year 2009-10 number of Kiss an credit card issued stood at 367.49 lakhs involving credit limit of 2,53,129 Cores. By March 2003, a total number of 4, 16,077 cards involving credit limit of Rs. 1,954,44 crore have been issued in the state. Cumulatively, as on March 2003, the involving credit limit of Rs.6105.81 crore. The share of Co-operatives in the total credit limit outstanding was 57.08% followed by commercial banks 29.48% and RRBs 13.44%. In Karnataka 38.35 lakhs of rupees was the credit limit during 2010. (Source : credit division Ministry of Agriculture New Delhi).

Regional Rural Banks:

The Regional Rural Banks (RRBs) have evolved into major institution for credit delivery system in rural areas over the years since their inception in 1975. RRBs being an integral segment of the banking system with focus on rural poor have also been subjected to various reform measures. As a result they have achieved considerable operational and financial stability in recent years.

At the end of March 2003, there were 1103 branches of 3 Regional Rural Banks (RRBs) spread over all the districts in the State. These Banks had mobilized Rs.3078.55 crore of deposits at the end of March 2003 and advanced Rs.2548.42 crore, resulting in a credit – deposit ratio of 82.78%. Priority sector advances stood at Rs. 2009.01 crore (78.83% of total advances). Direct agricultural advances of Regional Rural Banks amounted to Rs.1267.92 crore (49.75% of total advances).

State Term Lending Institutions:

The Karnataka State Financial Corporation (KSFC) and the Karnataka State Industrial Investment & Development Corporation (KSIIDC) are the two major State term lending institutions engaged in the development of small/medium enterprises and promotion/development of medium and large scale industries in the state respectively.

All India Financial Institutions (AIFIs):

All India financial institutions comprise of All India development banks such as industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI), Industrial Credit and Investment Corporation Of India (ICICI), Small Industries Development Bank of India (SIDBI), Infrastructure Development Finance Company Ltd., (IDFC) and Industrial Investment Bank of India (IIBI); three specialized financial institutions viz., Industrial Finance Corporation of India (IFCI), IFCI Venture Capital Funds Ltd. (IVCF) and Tourism Finance Corporation of India (TFCI) as well as three investment institutions viz., Life Insurance Corporation of India (LIC), Unit Trust of India (UTI) and General Insurance Corporation of India (GIC).

Co-operative Credit:

Co-operative Credit Structure in the State:

Under short and medium term co-operative agricultural credit dispensation in the state, there is a three tier federal structure. At the village level, there are 4519 Primary Co-operative Agricultural credit societies in the state, of which 351 Primary Co-Operative Agricultural credit societies are under liquidation. At the district level there are 21 District Central Co-Operative Banks and at the state level there is Stat Co-operative bank and an apex co-operative agricultural and rural development bank at the state level and 177 primary co-operative agricultural and rural development banks at the Taluk level provide long term credit for agricultural operations. The National Bank for agricultural and rural development (NABARD) provides refinance to the Karnataka State Co-Operative apex bank and the Karnataka State Co-Operative agricultural and Rural Development Bank.

Urban Co-operative Banks:

The century old urban co-operative banking system attained appreciable progress in totality. The main theme of the urban co-operative banking (UCB) in the state is to promote savings and economic development through mutual co-operation of customers and urban co-operative banking institutions.

REVIEW OF LITERATURE:

With the starting of the process of liberalization and globalization of Indian economy in 1991 a good number of studies covering these aspects have been published. The economic reforms process has been concerned mainly with the industrial, fiscal, financial and external sectors.

Desai and Mellor (1993) studied the institutional credit flow in India. They find that increased institutional credit flow is essential for faster agricultural growth. But the rural financing market development is a complex process because agriculture is small, widely dispersed

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