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Bank Finance to Indian Farmers in Post Reform Period

KEYWORDS: Bank finance to farmers, Sourses of agricultural finance, Capital formation in agriculture

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ABSTRACT *Agriculture is the largest sector of the economic activity and has a crucial role to play in country's economic development by providing food and employment to a very large proportion of population and surplus for nation economy. Agricultural credit is one of the most crucial inputs in all agricultural development programmes. Agriculture sector plays a dominant role in the Indian economy 72 percent of the people and on the eve of planning i.e by 1950—51, the primary sector contributed 56.69 percent to the national income. However, the role of primary sector is slowly declining. This indicates the process of economic development. The share of the primary sector in the national income decline to 16.9 percent by 2010-11. Five major criteria regarding pre and post reforms are as follows a) The first criteria was taken by British Government 'in the context of institutional credit for agriculture sector. b) The second criteria was related to cooperative movement in 1904. c) The third criteria was taken in 1969 through nationalization of banks. d) Fourth criteria was introduced in 1975 with setting up of Regional Rural Banks" e) Bank finance to farmers in post reform period 1991.*

Introduction
Agriculture has been and will continue to be life line of Indian economy. Agricultural sector affected by several factors. Credit is one of the major factors affecting agricultural development. There are two source of agricultural credit first is "Non-institutional and secondly is institutional "Agriculture development bears a close positive correlation with credit and finance.

Objectives of the study:
1) To examine the important sources of agricultural credit
2) To study the capital formation in agriculture.
3) To highlight the flow of institutional credit.

Important Sources of Agricultural credit:
The financial requirements of the Indian farmers can be classified into three types depending upon the period and purpose for which they are required.

i) The farmers need finance for short term periods of less than 15 months for the purpose of cultivation, like purchasing of seeds fertilizers, pesticides, feeds and folder of livestock or meeting domestic expenses.
ii) The Indian farmers require finance for medium period ranging between 15 months and 5 years for the purchase of cattle, small agricultural implements, and making some improvement on land.
iii) The farmers need finance for the purpose of buying additional land, for effecting permanent improvements on land, digging tube wells, and machinery like tractors, harvesters etc. These loans are for long period more than 5 years.

In post reform period a multi agency approach consisting of co- operatives, commercial banks and regional rural banks know as institutional credit has been adopted to provide cheaper and adequate credit to farmers.

Institutional sources of credit:
The need for institutional credit arises because of the weakness or inadequate of private agencies to Supply of credit to farmers. Institutional credit is not exploitative and the basic motive is always to help the farmer to raise his productivity and maximize his income. The rate of interest is not only relatively low but can be different for different groups of farmers and different purposes. In the field of co- operation the primary agricultural credit societies provide mainly short term loans and rural development banks provide long term loans to the agricultural sector.

The commercial banks including regional rural banks provide both short term and long term loans for agricultural and allied activities. The RRBs have been set up under regional rural banks Act of 1976. The public sector banks in India have been empowered to sponsored RRBs by participating in their capital and also organizing and shifting then in the initial stages. One criterion adopted for the determination. Of the operational area of the RRBs is the absence of banking facilities, either co-operative or commercial , in the region. The RRBs are set up mainly with a view to developing rural economy by providing for the purpose of development of agriculture, trade, commerce, industry and other facilities, particularly the small and marginal farmers, agriculture labor artisans, village and cottage industries, retail trade, small entrepreneur and self employed ect. The RRBs were meant to combine the local feel and familiarity with several problems and the degree of business actuation ability to moblise deposits of banks. The RRBs have the status of scheduled commercial banks are set up under low- cost banking principle. More state covered and number of RRBs increases a good indicator of performance of RRBs. We can say that big infrastructure provide a big return.

The NABARD was established in 1982. The national bank for agriculture and rural development is the apex institution at the national level for agricultural credit and provides refinance assistance to primary lending institutions. The RBI plays a crucial role by giving overall direction to rural credit and financial support to NABAD for its operations.

Capital formation in Agriculture:
The direction of development is largely conditioned by the rate of capital formation in the Indian economy. Since post reform period, large investments both public and private have been made in agriculture. Data relating to gross capital formation in Indian agriculture is shown in Table I.

Table I. Gross formation in Indian Agriculture (at 1993-94 prices)

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Year	Total	Public sector	Private sector	Investment in Agriculture as % of total GDP
1992-93	14508	4076(28.1)	10432 (71.9)	1.8
1996-97	16176	4668 (28.9)	11508 (71.1)	1.5
1998-99	14895	3870 (26.0)	11025 (74.0)	1.3
1999-2000	17304	4221 (24.4)	13083 (75.6)	1.4
2000-2001	16906	3927 (23.2)	12979 (76.8)	1.3
2001-2002	17328	4127 (23.8)	13201 (76.2)	1.3
2002-2003	18657	4538 (24.3)	14119 (75.7)	1.3
Growth rate	28.60	11.33	35.34	

Source: Economic and political weekly: Sept. 4-10 2004 Vol. 39 No.36 P. 3963

It is revealed from Table1. That the investments in agriculture have grown by 28. 60 percent during the period 1992-93 to 2002-2003 and the share of public investments decreased to 24.3 percent in 2002-2003 from 28.1 percent in 1992-93. The rising trend in private investment in agriculture was supported largely by institutional credit.

Flow of Institutional credit :
Institutional credit to agriculture and allied activities is mainly provided by Co- operative banks, commercial banks and regional rural banks.

This is indicated in Table II.
Table II Flow of Institutional credit

Year	Co- operative banks Rs. Crores % to total	Regional Rural Banks Rs. Crores % to total	Commercial banks Rs. Crores % to total	Total
1992-93	9378 61.8	831 5.5	4960 32.7	15169
1996-97	11944 45.2	1684 6.4	12783 48.4	26411
1999-2000	18363 39.7	3172 6.9	24733 53.4	46268
2000-2001	20801 39.4	4219 8.0	27807 52.6	52827
2001-2002	23604 38.0	4854 7.8	33587 54.2	62045
2002-2003	24296 34.3	5467 7.7	41047 58.0	70810
2003-2004	30080 37.6	6080 7.6	43840 54.8	80000
2004-2005	36682 38.5	10476 11.0	48126 50.5	95284
Avg. growth rate	24.26%	96.72%	72.52%	44.01%

Source: Economic and political weekly: Sept. 4-10 2004 Vol. 39 No.36 P. 3963

It is understood that total have increased from Rs. 15169 corer in 1992-3 share of commercial banks in total institutional credit to agriculture is varying from 32-07 percent in 1992-93 to 58 percent 2002-2003. The share of Co- operative banks in total institutional credit to agricultural is decreased from 61.8 percent in 1992 to 38.5 percent in 2004-05. The share of regional rural banks in total institutional credit to agriculture is increasing from 5.5 percent in 1992-93 to 11 percent in 2004-05, average growth rate of institutional credit provided by Co- operative banks, regional rural banks and commercial banks was 24.26 percent , 96,72 percent and 72,52 percent present respectively.

Existence of multi-agency approach :
The all Indian rules credit suruey committee 1954 stated "co-operation has failed, but co-operation must succed." It was all India Rural credit suruey committee 1969 which recommended the apoption of "multi-agency approach" to finance the rural sector. For the first time. Government openly accepted that rural credit could not be met by co-operatives alone and that commercial banks should play an important role in the rural sector.

Recent growth of Institutional credit for farmers:
The institutional credit for farmers in recent years is given in table III.

Table III: Institutional credit to agriculture

YEAR	CO-OPRATIVE BANK AMOUNT	%	RRB'S AMOUNT	%	COM-ERCIAL BANK AMOUNT	%	TOTAL	%
2006-07	42480	21	20440	10	140380	69	203300	100
2007-08	48258	19	25312	10	181088	71	254658	100
2008-09	36762	13	26724	9	228951	78	259337	100
2009-10	63497	17	35217	9	285800	74	384514	100
2010-11	78121	17	44293	9	345877	74	465219	100
2011-12	87963	17	54450	11	368616	72	511029	100

Source Economic survey 2010-11 NABARD

Annual Report Various Issues), Agricultural statistics at a Glance, 2012.

Table 3 shown that agricultural credit from institutional sources had steadily increased from Rs. 203300 crore in 2006-07 to 511029 crore in 2011-12. The contribution of co-operative was 21 percent of total institutional credit in 2006-07 but was only 17 percent in 2011-12. Correspondingly Commercial Bank including RRB have raised the share from 79 percent to 83 percent during this period. The share of RRB continued to remain low around 10 percent to 11 percent. The share of commercial banks has been stedily rising and reached 72 percent in 2011-12

Conclusion:
Agriculture is the largest sector of the economic activity and has a crucial role to play in the country's economic development by providing food and employment to a very large proportion of population, capital for its own development and surplus for national economy. Agriculture credit is one of the most crucial inputs in all agricultural development programmes, banking played an important role in providing assistance to agriculture and allied activities. The commercial bank are mandated to achieve certain targets and sub-targets under priority sector, Direct finances to agriculture and allied activities is to reach a level of 18 percent of net bank credit. The three main function of NABARD are refinancing, institutional development and inspection of client bank. Accordingly, the Resource Bank of India set up a committee headed by Y.H. Malegan to study and advise on the micro finance sector. Based on the recommendations of the malegan committee Report, the RBI announced the creation of a separate category of non Banking Finance Company- Micro Finance Institution (NBFC-MFI) in circular issued on December 2, 2011.

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