
Analysis of institutional credit to Agriculture with special reference to public and private sector Banks

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Introduction

One of the objectives of social control over banks in 1968 and nationalization of 14 major commercial banks in 1969 was to change the policies of banking institutions regarding loans and advances to various sectors of the economy. It was experienced that the commercial banks were hesitant in providing advances to the most important sectors of the economy i.e. villages, agriculture agro based units, and cottage industries, which resulted in the lop sided development of the country. These sectors were in need of huge financial support from the organized institutions like commercial banks, cooperatives banks etc.

The various study Groups and committees appointed by Reserve Bank of India revealed that prior to nationalization of banks only 0.2 percent finance was provided to agriculture by commercial banks. On 30th June 1969 the total agricultural accounts with public sector banks were 1,65,000 and the total outstanding amount was Rs 162 crores, contributing only 5.4% to the total advances.

To achieve the goal of balanced development and equal distribution of income and property, There was a continuous demand from the various corners of the society to bring the banking institution under the control of Govt so as to provide necessary finances to the most neglected sectors of our economy. Keeping in view this aspect at the second meeting of the national credit council held at New Delhi on July 24, 1968, it was emphasized that the commercial banks should increase their involvement in the financing of the most neglected sector of the economy i.e. agriculture and small scale industries. Immediately on July 19, 1969 14 scheduled commercial banks having deposits of Rs 50 crores and above were nationalized and again on 15th April 1980, 6 more banks having deposits of Rs 200 crores and above brought under the control of Govt. Thus the public sector banks accounted for about 91% of the total deposits.

The nationalization of commercial banks was a step towards the attainment of the principles of justice, liberty, and equality as stated in our constitution. The preamble to the Banking Company Acquisition Act 1969 indicates the objectives of the nationalizations in the following words "The banking system touches the lives of millions and has to be inspired by larger social purpose and has to sub serve national priorities and objectives. Such as rapid growth of agriculture, small scale industries and export raising employment levels encouragement of new entrepreneurs and development of backward areas. For this purpose it is necessary for the Govt to take direct responsibility for the extension and diversification of banking services and for the working of a substantial part of the banking institutions system".

It was expected that the banking institution can bring a change in the overall growth of agriculture and allied activities. The various plans and policies of Govt of India have given priority to the development of agriculture and village economy. The Reserve Bank of India issued directives from time to time so as to provide necessary and timely finances to agricultural activities. A new term was coined as 'Priority sector Lending' which included agriculture, small scale industries and other weaker sections of the society.

Agriculture and Role of banking institutions:

Indian economy is known as agricultural economy as more than 60% population mainly depends upon the income derived from agriculture. Indian Agriculture is the largest sector in the country. It contributes 24% of the country gross domestic product and provides food to 1 billion people of the country. The sector produces 51 major crops, provides raw materials to country's agro based industries and contributes nearly 1/6th of the total export earnings of the country" (Tapan Kumar 2003). The planning commission has highlighted the importance of agriculture sector in the following words "the pace of development in the agriculture sector sets a limit to the growth of industry of export and of the economy as a whole and constitute a major condition for achieving economic and social stability and improving the levels of living and nutrition for the mass of the

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people . It is very important to boost the growth in Indian Agriculture sector and allied activities related to agriculture and rural economy.

Timely institutional credit has become the urge of the economy. In India cooperative banks, scheduled commercial banks and RRBs are basic institutions providing credit to agriculture. The role of institutional credit has become more significant especially after an era of nationalization. Many new innovations were introduced to the working of banking sector, like massive branch expansion programme specially in non bank and village areas, introduction of special schemes for the development of agriculture and weaker sections of the society, lead bank scheme. KCC, etc.

The Reserve Bank of India issued directives from time to time indicating the percentage of finance to be provided to agriculture and priority sector. Recently the guidelines indicate that 40% of NBC should go to priority sector of which 18% should be for agriculture. Nair study Group (2012) also suggested that minimum 18% of ANBC should be given to agriculture sector for various activities.

Objectives and Scope of the Study

The present study is an attempt to make an analysis of finances provided to agriculture under the following heads.

- Gross Bank credit and share of agricultural finance.
- Direct finance to agriculture by public sector and private sector Banks.
- Share of cooperative Banks, RRBs and commercial banks.
- Recovery position of direct finance provided by banks and positions of NPAs

The period for the study is from the year 2001-2006 onwards. The reports of RBI and other institutions are used as a source of information.

A) Share of Agricultural Finances:

The following table shows the information about distribution of bank credit to agriculture.

Table No-1.1-finance provided to agriculture

Period 2000-01 to 2005-2006

(Rs. in cores)

Year	Gross bank credit	Agriculture	Share of Agriculture in total
2000-01	4,69,153	51922	11.07
2001-02	536,727	60761	11.32
2002-03	6,69,534	73518	10.98
2003-04	7,64,383	90541	11.84
2004-05	1040909	1,25,250	12.03
2005-06	1445837	1,72,279	11.92

Source: Report on Trend and Progress of Banking in India various issues.

After nationalization of banks the gross bank credit has been increased as the beneficiaries were selected from large and varied groups. The Gross Bank credit was 4, 69,153 cores which increased up to 14, 45,837 cores in 2005-06. Similarly the amount for agriculture credit was Rs.51922 cores in 2000-01 increased up to 1,72,279 cores in 2005-06 recording the growth of 331.9 percent. However the share of agricultural credit in the total 11.07 % in 2000-01 was almost 11.92 in 2005-06.

B) Direct Agricultural finance:

Table No.-1.2- Direct Agriculture finance provided by Banks

(2002 to 2011)

(Rs. in cores)

Year	Public sector banks		Privet Sectors Bank	
	Amount	Loans to Agri as % to ANBC	Amount	Loans under Direct Agriculture as % to ANBC
2002	44909	11.31	2533	4.02

2003	51794	10.84	5201	6.26
2004	61957	11.09	8717	7.81
2005	82613	11.52	12157	7.59
2006	111636	10.97	22317	8.96
2007	146941	11.15	28013	8.32
2008	176135	12.91	37349	10.88
2009	215635	12.73	46511	11.44
2010	205071	12.78	52112	11.12
2011	300084	12.03	60043	11.25

Source: RBI Nair Committee Report - 2012.

The above table indicates the agricultural advances by public sector banks and private sector banks. Advances by public sector banks increased from 44909 corers in 2002 to 300084 corers in the year 2011. Also the percentage to ANBC has recorded of 12.13% in the year 2011. The private sector banks showed remarkable growth both in terms of amount and percentage to ANBC the percentage was 4.02 in 2002 which increased upto 11.25. The amount which was 2533 crores in 2002 increased up to Rs.60043 corers in 2011.

C) Share of cooperative Banks, RRBs and commercial Banks to Agricultural finance.

Table No.-1.4-share of cooperative Banks RRBs and commercial Banks to Agriculture (2000-01 to 2006-07)

(Rs. in cores)

Year	Cooperative bank(percentage)	RRBs (percentage)	Commercial banks (percentage)	Total
2000-01	39	8	53	100
01-02	38	8	54	100
02-03	34	9	57	100
03-04	31	9	60	100
04-05	25	10	65	100
05-06	22	8	70	100
06-07	22	10	68	100

Source: Reserve Bank of India occasional paper vol. no 28.2007

In India cooperative banks have played a vital role in the development of agriculture and village economy. Cooperative banking had good banking network in towns as well as villages. Up to the year 2003-04 the share of cooperative banks was 31%.in the total institutional credit. Which was 39% in the year 2000-01? From the year 2004-2005 the share started going down .At the end of March 2007,It was only 22% .The share of RRBs was ranging between 8% to 10%. Whereas the commercial banks showed increasing trend from 53% in 2000-01 to 70%in 2005-06. More concentration is required for the development of cooperative banking. It is also suggested that the shortcomings in the working of cooperative sector should be properly studied and steps should be taken to strengthen the cooperative sector.

D) Position of Recovery, over dues and NPAS

Table showing Recovery of Direct Agricultural Advances By public sector Banks.

(Rs. in cores)

Year ended	Demand	Recovery	Over dues	Percentage
2001	22429	15540	6889	69.3
2002	24561	17758	6803	72.3
2003	28940	21011	7930	72.6
2004	33544	25002	8542	74.5
2005	35192	29612	5580	84.1

Source: Trend and progress of banking in india-2007.

The recovery of advances given to agriculture is another important issue which requires careful attention. There is always a gap between demand and recovery of loans. Natural calamities,

inadequate rainfall, attitude of the borrowers, defective legal systems are some of the reasons for poor recovery of advances. There is a need to have proper follow-up of the advances given for agricultural operations.

Table No.- 1.5-Agriculture –NPAs of public sector and private sector Banks
(March 2001 to March 2008)

(Rs. in cores)

Year	NPAs of Public sector Banks	NPAs of Private sector Banks
31 st march 2001	7376.65	322.47
2002	7821.54	439.16
2003	7707.35	536.78
2004	7240.3	459.12
2005	7254.05	465.4
2006	6202.92	514.6
2007	6506.34	860.51
2008	8268.03	1467.31

Source: www.rbi.org.in

Table No.-Trend in NPAs in Agriculture sector.

Year	Public sector Banks percentage	Private sector Banks percentage
2007	3.17	1.65
2008	3.32	2.54
2009	1.92	1.89
2010	2.25	2.25
2011	3.49	2.36

Source: Reserve Bank of India various issues

The None performing Asset affects the working the banks. The above table shows that The NPAs in case of public sector banks and private sector banks are showing increasing tendency during last few years both in terms of amount and percentage .Specially it is more in case of public sector banks as compared to private sector banks.

Conclusion:

Agriculture finance plays a pivotal role in our economy. Finance is life blood for the survival of agriculture. The commercial banks, cooperative banks and other financial institutions are engaged in providing finance to agriculture. The study found the following observations related to agricultural finance.

i) There are many obstacles in the development of agriculture .Subdivision and fragmentation of land holding made the holding un economical. About 83% of the holdings are held by small and marginal farmers. The agriculture depends up on monsoon as there is no irrigation facilities .Inadequacy of farm mechanization and lack of proper infrastructure is basically responsible for the low productivity of agriculture.

ii) The contribution of agriculture to GDP is going down. It was 31.4 percent in 1990-91,Which reduced to 24% percent in 2003 and it was 14.5 percent in 2010-11 whereas the dependence on food grain remains the same , Hence there is a need to increase the share of agriculture in GDP of the nation.

iii)The agricultural finance by banks has shown increasing trend.The share of institutional credit has increased from 1.7 lakh accounts in 1969 to 253 lakhs in 2007. Similarly the amount outstanding was 162 corers which increased up to 2, 05,091 corers at the end of 2007. Still this amount is not adequate. It has been observed by various study groups that only 15to 20% MFSS receive institutional credit.

iv) Both public sector banks and private sector banks have recorded growth in providing finances to agriculture. In case of cooperative finance to agriculture, the share has been reduced to 22% which is a serious concern. Efforts are necessary to increase the share of cooperative banks..

v) The recovery position of advances to agriculture is not satisfactory. The over dues are increasing because of various reasons. The amount of NPA is increasing in both the cases i.e. public sector and private sector banks. These NPAs have created serious bottlenecks in the development of agriculture. The NPAs in case of public sector banks as on 31st march 2008 was 8268.03 crores. In case of private sector banks it was 1467.31 crores. The percentage of NPAs is increasing during the last 3 years which is not healthy sign for the development.

Removal of regional disparities, eradication of poverty, development of rural areas especially agriculture and allied activities, equal distribution of income and property are some of the goals of our economic policies. To achieve these goals agricultural finance by institutions like commercial banks, cooperative banks and other financial institutions can play a vital role. There is a need to make proper net work of these institutions covering villages and unbanked areas, so that maximum beneficiaries are covered.

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