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IMPORTANCE OF INSTITUTIONAL CREDIT TO THE DEVELOPMENT OF AGRICULTURE IN INDIA

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ABSTRACT

The institutional credit has always been perceived as a critical factor for agricultural development in India through complementing working capital, easing liquidity and investment constraints. The present study has examined the trends and regional variations in institutional credit flow to agriculture in India for the period 1991–92 to 2016–17 using compound annual growth rate. Further, impact of institutional credit on agricultural productivity was also assessed using panel data regression. The study is based on the secondary data collected from various published sources. Results indicated that institutional credit to agriculture in real terms has registered a significant positive growth during the past four decades and the highest annual growth was observed during 2001–02 to 2010–11. Scheduled commercial banks have emerged as the dominant source of agricultural credit. The initiative will also promote appropriate market linkages, policies and income-generating activities. In this backdrop present paper made an attempt to analyses the basic features of agriculture, problems, policies and programs for the in India.

Keywords: Agricultural productivity, Credit outreach, Institutional credit,Regional variations

INTRODUCTION

Majority of constraints related to the process of production may be resolved to a great extent by the availability of proper dose of credit in proper time. This is true not only in the case of farming but other agricultural and non agricultural activities also. It helps to invest that asset creation which in turn helps increased generation of output, employment and income. It also helps to use available science and technology including the science of business management. Everything needs timely finance with the farmers.

The performance of priority sector lending in India has been noteworthy. Both, the number of accounts and amount outstanding under priority sector grew at an annual rate of 3.8 per cent and 15.2 per cent, respectively during the period 1997-98 to 2007-08. The increasing level of formal debt may be perceived as a sign of modernization and growth, but at the same time, the absence of essential conditions to ensure that credit is being used in a judicious manner may also force the farmers to enter into the vicious debt traps. The probability of such a situation increases all the more in the case of technology fatigue, depleting natural resources and rising uncertainty over economic returns — a situation that has been staring India in its face in the recent past. Adequate access and appropriate absorption of credit by the farmers is indispensable for the long-term growth and sustainability of agriculture, and consequently for the overall economic growth.

The growth in overall agricultural credit, which was on a dwindling trend during the mid-1990s, picked up in the early-2000s and the trend continued up to 2006- 07. A declining trend has, however, been observed in the past few years. Direct credit comprises a major proportion of the total formal agricultural credit. The amount outstanding of direct credit has been consistently higher than the indirect credit, except during 2000-02 when both direct and indirect credits were more or less same in magnitude.

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OBJECTIVES

The objectives of the study as stated below:

- To study the role of institutional credit for the development of agriculture India.
- To assess the share of agricultural credit to GDP.

METHODOLOGY

The Present study is mainly emphasis on research for development of Agriculture in India through institutional credit and based on secondary source of data. Which were collected through various Annual reports. Some information collected from the sources of Journals, Periodicals, Books and Website. The collected data was analyzed by using simple analytical tool like average, percentage etc**.**

MAJORPOLICIESFORPROMOTINGAGRICULTURALCREDIT

The steep progress of policies that fine tuned the rhythm of agriculturalcredit over the last 60 years would be instructive. After independence, The cooperative sector had the dominance in the first 20 years of formal agricultural credit. It was after 1969 after the nationalization of banks, thefocus turned to the commercial banks. It was during this period that is during1970s, two important development policies came in to existence viz., ‘Leadbank Scheme’ and ‘priority sector lending policy’. They are still very lively inthe services. The SFDA and MFALDA were institutedin some districtsspread all over the country initially andspread to the country as a whole in the name of DRDA,which now coordinate salarge number of poverty alleviation programs.

Narasimham committee 1991on economic reforms noted the credit scenario in the rural sector including the efficiency and wisdom of financial institutions. Slowly the RBI de regulated the policy related interest rate in order to improve the efficiency of banks in their operations. Consequently the succeeding two decades went through several innovations in the sphere of agricultural and rural finance. the definition of priority sector included the direct as well as indirect credit to the sector of agriculture with certain ceiling in indirect credit. In future the redefinition of direct and indirect credit would be according to the need of time and requirements.

Share of Different Agencies in Flow of Institutional Credit forAgriculture (Rs.Incrores)

Institutions	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
CooperativeBanks	18,363	20,801	23,604	24,296	26,959	24,471
Share(percent)	40	39	38	34	31	28
Regional RuralBanks	3,172	4,219	4,854	5,467	7,581	9,176
Share(percent)	7	8	8	8	9	11
CommercialBanks	24,733	27,807	33,587	41,047	52,441	52,038
Share(percent)	53	53	54	58	60	61
Total	**46,268**	**52,827**	**62,045**	**70,810**	**86,981**	**85,686**

Source: Government of India (2005)Agricultural Statistics at a Glance

AGRICULTURALFINANCECORPORATION(AFC)

In April 1968 Indian Bank’s Association incorporated Agricultural Finance Corporation (AFC) to provide advisory services to commercial banks in relation to agricultural financing. AFC is basically a consortium of commercial banks established under the Indian Companies Act of 1956. The purpose of AFC is to provide consultancy services to member banks in issues related to projects for agriculture and rural development. Scheduled Commercial Banks numbering 37, notified under RBI Act of 1934 had subscribed to the share capital of the corporation. The authorized share capital of AFC was Rs 100 crore and the issued share capital was Rs 10 Crore.

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THE CORPORATION IS ASSIGNED WITH TWO DISTINCT ROLES

1. Financing the individual institutions/organizations/individuals involving agricultural development and promoting commercial bank advances for agricultural development. The financing roles included – (a) sinking, deepening and energizing of irrigation wells, (b)production, distribution and marketing of agricultural inputs such as seeds, fertilizers, insecticides, machinery and implements, (c) construction of storage structures for food grains and fertilizers, and (d) establishments of agricultural service units.
2. The promotional role included– (a) commercialization and industrialization of agriculture, (b) formulation of potential projects to be financed by banks and removal of various handicaps and difficulties experienced by commercial banks and farmer-borrowers, and (c) development of cooperation, coordination and consortium arrangement among different lending agencies and co-operatives involved in agricultural financing.

TRENDS IN THE RELATIVE SHARE OF AGRICULTURAL CREDIT TO GDP

There are wide variations in the relative share of institutional credit between agriculture and other sectors as percentage to GDP. For example, in the year 1980-81, agriculture and allied activities got 5.6 per cent of total credit share of GDP whereas, industry got 36.3 per cent and service sector 16.1 per cent. In the year 1990-91, it increased to 10.1 percent, 39.7 per cent and 18.5 per cent respectively. In a general observation itself, it can be seen that there is vast difference between the relative share of credit to agriculture and other sectors to the total GDP.

TRENDS IN SECTOR WISE CREDIT RATIO TO GDP (PRE-REFORMS)

Direct Credit to Agriculture (Percentage)

Year	**Agriculture and Allied activities (per cent)**	**Industry (per cent)**	**Others Service sector(per cent)**	**Total GDP(per cent)**
1980-81	5.6	36.3	16.1	18.3
1981-82	6.3	35.4	16.1	18.7
1982-83	7.0	37.2	17.1	19.9
1983-84	7.2	34.5	19.9	20.3
1984-85	8.5	33.6	20.9	21.1
1985-86	9.4	34.5	20.2	21.3
1986-87	9.9	36.7	19.4	21.8
1987-88	10.3	38.2	17.7	21.7
1988-89	10.0	39.4	17.9	21.9
1989-90	10.5	38.8	17.5	21.8
1990-91	10.1	39.7	18.5	22.2

Source: Bank Credit Data from RBIs BSR presented in earlier sections and GDP data refer the CSOs 1999-2000 series based on the above table there found notable differences between the three sectors in sharing the direct credit as ratio to GDP. For better analysis and clarity Simple Growth Rate in respective shares and AAGR of the three sectors are calculated as shown in the above table.

CONCLUSION

Considering the growth trends in shorter man long term credit, different institutions like cooperatives, commercial banks and RRBs had different trends. However the relative share of cooperative sector declined by1991 and during the post reforms period the commercial banks and RRBs together had dominant share. This is true in both short term and long term credit. In the case of the total loan issued and loan outstanding also the trend is almost the same.

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