

GROWTH RATE OF AGRICULTURAL CREDIT

¹Veerpaul Kaur Maan , ²Sandeep Kumar

¹Phd Research Scholar , ²Principal (Prof.)

¹Department of Humanities and Management,

²SAVJ Ludhiana ,Giani Zail Singh College of Engineering and Technology, Bathinda
Punjab, India

Abstract- Agricultural credit is considered as one of the most basic input for conducting all agricultural development programmes. In India there is an immense need for proper agricultural credit as the economic condition of Indian farmers are very poor. From the very beginning the prime source of agricultural credit in India was money lenders. After independence the Govt. adopted the institutional credit approach through various agencies like co-operatives, commercial banks, regional rural banks etc. to provide adequate credit to farmers, at a cheaper rate of interest. Moreover with growing modernisation of agriculture during post-green revolution period the requirement of agricultural credit has increased further in recent years.

I. INTRODUCTION

India is a traditional exporter of cotton, oilseed cakes and jute etc. India is also a net importer of edible oils but over the years its imports have come down. Thus the importance of commercial crops lies in the fact that these are an integral part of the agricultural production consumption and external trade system of the country. Agricultural credit is considered as one of the most basic input for conducting all agricultural development programmes. In India there is an immense need for proper agricultural credit as the economic condition of Indian farmers are very poor. From the very beginning the prime source of agricultural credit in India was money lenders. After independence the Govt. adopted the institutional credit approach through various agencies like co-operatives, commercial banks, regional rural banks etc. to provide adequate credit to farmers, at a cheaper rate of interest. Now a days the long term and short term credit needs of these institutions are also being met by National Bank for Agricultural and Rural Development (NABARD).

The scope of the operations of NABARD is large indeed. Besides providing finance to credit institutions, it is providing innovations in regard to formulation of schemes, monitoring of implementation, evaluation of results and evolution of suitable supporting structures of all kinds of agricultural activities. In earlier years, sums aggregating Rs. 1500 crore was received from RBI and Government of India as advance towards capital. But in 2001-02 by a notification of GOI, these amounts were credited to capital account of NABARD. Farmers needs for funds were mainly met by the

private money lender and co-operative credit institutions. The co-operative credit societies, Land Mortgage Banks, Land Development Banks and the Government Taccavi loans were the main sources of institutional credit available to the farmers. These agencies, however, did not have enough resources to meet all the requirements of the farmers which had increased with introduction of new farm technology.

Recognising that capital was one of the most limiting-factors hindering the adoption of new farm technology, fourteen commercial banks in India were nationalised in July, 1969. These banks included, Bank of India, Central Bank of India, Bank of Baroda, Punjab National Bank, United Bank of India, Canara Bank, United Commercial Bank, Union Bank of India, Indian Overseas Bank, Indian Bank, Dena Bank, Bank of Maharashtra, Syndicate Bank and Allahabad Bank. Six more commercial banks viz. Punjab and Sind Bank; New Bank of Commerce, Andhra Bank, Corporation Bank, Vijaya Bank, Oriental Bank of Commerce were nationalised in 1980.

The broad objectives of bank nationalisation were:

- 1) to ensure a wider spread of bank credit,
- 2) to prevent misuse of bank credit by big business houses.
- 3) to direct a large volume of bank credit to flow to priority sectors and to make it more effective instrument of economic development,
- 4) to make continuing efforts to stimulate savings and attract them into the banking system through a co-ordinated branch expansion programme in all parts of the country and all sectors of the society,
- 5) to have a purposeful and equitable distribution of bank credit, and
- 6) to create fresh opportunities for backward areas in different parts of the country and all sections of the society.

II THE REVIVAL STORY

The growth of agricultural credit from commercial banks and RRBs, which was 1.8 per cent between 1990 and 2000, increased to 19.1 per cent between 2000 and 2007. The share

of credit supplied by commercial banks and RRBs in total agricultural credit increased from 30.1 per cent in 2000 to 52 per cent in 2007. In part, the revival of agricultural credit was inspired by the announcement by the central government in

2004 that the flow of agricultural credit would be doubled between 2004-05 and 2007-08. Three distinct features of the revival story are worth noting (see R. Ramakumar and Pallavi Chavan, “Revival in Agricultural Credit in the 2000s:

Table 1: State-wise Percentage Distribution of Different Agricultural Loans Advanced by Commercial Banks, Total Cropped Area, Gross Irrigated Area and Net Irrigated Area* 1995-96 to 2009-10

States	Total advances to agriculture		Total cropped area		Gross irrigated area		Net irrigated area	
	1995	2009	1995	2009	1995	2009	1995	2009
Andhra Pradesh	12.74	12.74	8.33	7.42	10.95	9.79	10.58	9.47
Assam	0.16	0.58	21.32	2.02	1.48	1.68	1.02	1.46
Bihar	1.34	4.87	8.57	7.69	7.08	7.90	6.90	7.61
Gujarat	8.81	6.23	4.47	3.88	3.39	4.86	3.06	4.64
Haryana	2.39	4.17	3.27	2.75	5.78	6.22	4.89	5.41
Himachal Pradesh	0.02	0.31	0.76	0.68	0.40	0.37	0.29	0.24
Jammu & Kashmir	0.02	0.32	0.74	0.66	0.85	1.01	0.89	0.79
Karnataka	9.56	8.12	4.19	4.74	3.51	3.85	3.43	3.75
Kerala	3.43	4.58	0.87	0.67	1.50	0.75	1.37	0.61
Madhya Pradesh	2.58	4.92	13.47	13.40	3.95	5.40	3.72	4.62
Maharashtra	17.13	11.03	11.57	10.95	4.29	5.21	4.16	4.87
Manipur	0.00	0.03	0.14	0.14	0.19	0.15	0.16	0.11
Megaland	0.00	0.03	0.11	0.10	0.09	0.11	0.06	0.10
Nagaland	0.00	0.01	0.05	0.10	0.03	0.12	0.03	0.10
Orissa	0.34	2.12	4.95	5.02	4.30	3.75	3.67	2.97
Punjab	2.29	7.70	3.65	4.09	11.00	11.75	6.03	8.40
Rajasthan	2.35	4.02	9.36	10.01	6.36	7.34	6.21	7.22
Tamil Nadu	16.37	10.06	4.49	3.57	8.84	7.94	8.28	7.39
Tripura	0.01	0.08	0.18	0.25	0.05	0.10	0.04	0.08
Uttar Pradesh	10.70	11.53	17.19	16.16	21.64	22.02	20.97	21.88
West Bengal	2.37	3.96	5.53	4.84	3.86	3.08	3.75	3.02
A & N Island	0.00	0.01	0.01	0.01	0.02	0.02	0.00	0.00
Arunachal Pradesh	0.00	0.00	0.00	0.10	0.05	0.05	0.02	0.06
Dadra & Nagar Haveli	0.00	0.00	0.01	0.01	0.02	0.02	0.00	0.00

Delhi	2.60	0.81	0.08	0.05	0.00	0.14	0.00	0.12
Goa, Daman and Diu	0.11	0.34	0.05	0.04	0.00	0.03	0.00	0.00
Mizoram	0.00	0.00	0.00	0.03	0.02	0.02	0.00	0.01
Pondicherry	0.07	0.27	0.00	0.03	0.08	0.08	0.08	0.7

An Explanation,” *Economic and Political Weekly*, Dece 29, 2007). First, a significant proportion of the increase in agricultural credit from commercial banks was accounted for by indirect finance to agriculture. Indirect finance refers to loans given to institutions that support agricultural production, such as input dealers, irrigation equipment suppliers and Non-Banking Financial Companies (NBFCs) that on-lend to agriculture. Second, a number of changes were made in the definition of agricultural credit under the priority sector. The definitional changes broadly involved (a) the addition of new forms of financing commercial, export-oriented and capital-intensive agriculture; and (b) raising the credit limit of many existing forms of agricultural financing. To cite an instance, loans given to corporates and partnership firms for agriculture and allied activities in excess of Rs 1 crore in aggregate per borrower was considered as priority sector lending under agriculture, from 2007 onwards. These definitional changes were initiated from around the mid-1990s, during the period of financial sector reforms. According to Y.V. Reddy, former Governor of the Reserve Bank of India (RBI), “... coverage of definition of priority sector lending has been broadened significantly in the recent years, thus overestimating credit flows to actual agricultural operations in recent years” (“Indian Agriculture and Reform: Concerns, Issues and Agenda,” *RBI Bulletin*, May 2001, p. 5). Third, much of the increase in the total advances to agriculture in the 2000s was on account of a sharp increase in the number of loans with a credit limit of Rs.10 crore and above, and especially Rs.25 crore and above. Even within direct agricultural finance, which goes directly to farmers, there was a sharp rise in the number of loans with a credit limit above Rs.1 crore. It seems likely that these large loans were advanced towards financing the new activities added to the definition of agricultural credit. Recent data on banking has brought out a fourth disturbing feature of the revival in agricultural credit. There has been a sharp growth of agricultural finance that is urban in nature. Between 1995 and 2005, the share of agricultural credit supplied by urban and metropolitan bank branches in India increased from 16.3 per cent to 30.7 per cent (*Table*). The share of agricultural credit supplied by metropolitan branches alone increased from 7.3 per cent in 1995 to 19 per cent in 2005. While there was a moderate decrease in these shares between 2006 and 2008, urban and metropolitan branches continued to supply

one-third of the total agricultural credit in 2008. Currently, there was a sharp fall in the share of agricultural credit supplied by rural and semi-urban branches from 83.7 per cent in 1995 to 69.3 per cent in 2005. In 2008, the share of rural and semi-urban branches in total agricultural credit was 66 per cent.

III . CLASSIFICATION OF STATES INTO GROWTH RATE

ZONES

Two types of trends were observed in growth rates of different parameters studied earlier. One trend showing the decline i.e. negative growth rates and the other depicting the increase i.e. positive growth rates. Thus, on the basis of these diversified trends, four types of growth rate zones were developed. The stages with negative growth rates formed the negative growth rate zone. The states having positive growth rates were clubbed into three categories by using the cumulative cube root frequency method. Ultimately the zones were developed as under : -

Zone	Name of the zone	Range of growth rates (%)
I	Negative growth rate zone (NGR)	Less than zero
II	Low growth rate zone (LGR)	0-32.12
III.	Medium growth rate zone (MGR)	32-13-80.34
IV	High growth rate zone (HGR)	Above 80.34

IV .FACTORS AFFECTING DISTRIBUTION OF AGRICULTURAL CREDIT

In order to evaluate and understand the impact of various factors on the inter-regional distribution of agricultural credit, multiple regression analysis technique was used. Both linear and log-linear functions were tried. The function which gave the higher coefficient of multiple determination,

better logical and economic significance of factors was finally selected to analyse the data for each State.

It was hypothesised that total distribution of advances for agriculture depended upon total cropped area in hectares in the State, gross irrigated area in hectares and population.

The function used as :

$$Y = f(x_1, x_2, x_3, U)$$

where,

- Y = Total advances in rupees made by commercial banks.
 x_1 = Total cropped area in hectares in the State.
 x_2 = Gross irrigated area in hectares in the State.
 x_3 = Population in thousand persons.
U = Random error

V. LOG-LINEAR REGRESSION MODEL RESULTS

Table 2 Regression Coefficients of Factors Affecting Total Advances of Different States and Union Territories of India, 1995-96 to 2009-10 (Lagged One year) (Model Log linear)

States	Exclamatory variables				R ²
	Total cropped area	Gross irrigation	Population		
	a	b ₁	b ₂	b ₃	
Haryana	-87.54	-0.94(1.74)	-0.06(2.03)**	11.23(9.28)***	.9904***
Himachal Pradesh	-74.77	1.27(0.12) ^{ns}	-7.46(0.62) ^{ns}	13.02(5.03)***	.7829***
Jammu & Kashmir	-146.50	5.20(2.56)**	3.94(3.55)***	10.15(7.57)***	.9827***
Karnataka	-79.16	-0.17(1.42) ^{ns}	0.16(0.73) ^{ns}	0.85(2.83)***	.9917***
Madhya Pradesh	-65.66	x	X	X	.9832***
Maharashtra	-41.51	1.81(1.55) ^{ns}	X	5.10(5.08)***	.9254***
Manipur	443.36	7.89(2.35)***	-112.54(2.16)**	-0.57(0.79) ^{ns}	.6608**
Meghalaya	-390.64	40.91(1.86)*	37.82(5.69)***	0.29(0.15) ^{ns}	.8613***
Nagaland	-26.52	-0.04(0.26) ^{ns}	9.77(8.28s)	-1.44(0.39) ^{ns}	.9739***
Orissa	-238.98	0.004(0.40) ^{ns}	2.46(4.92)***	22.58(10.82)***	.9910***
Punjab	-94.78	-0.05(2.52)**	9.99(4.71)***	1.90(0.77) ^{ns}	.9733***
Rajasthan	-103.86	0.005(0.50) ^{ns}	-0.06(0.04) ^{ns}	10.91(6.01)***	.9824***
Uttar Pradesh	-88.64	0.001(0.05) ^{ns}	3.04(1.56) ^{ns}	6.09(2.65)***	.9715***
A & N Islandw	-115.83	-1.53(2.15)**	0.06(0.01) ^{ns}	22.73(4.51)***	.7342**
Arunachal Pradesh	-423.63	0.05(0.06) ^{ns}	102.50(02.78)***	14.80(1.41) ^{ns}	.8321***
Dadra & Nagar Haveli	-75.72	-1.58(1.62) ^{ns}	-46.87(4.24)***	17.35(3.61)***	.9039***
Delhi	-35.98	-0.08(0.50) ^{ns}	-0.45(1.32) ^{ns}	5.24(2.77)***	.6916**
Goa, Daman & Diu	-89.41	-0.01(0.52) ^{ns}	-0.05(0.45) ^{ns}	13.78(9.72)***	.9901***
Mizoram	-275.66	1.34(2.29)**	-9.32(3.87)***	47.11(6.02)***	.8743***
Pondicherry	-44.70	0.20(6.08)***	-1.59(0.59) ^{ns}	8.80(6.95)***	.9852***
Assam	-23.71	0.05(0.83) ^{ns}	-0.03(0.23) ^{ns}	2.91(5.36)***	.9153***

Figures in the parantheses are calculated t-values

*Significant at 10 percent level

**Significant at 10 percent level

***Significant at 10 percent level

For States discussed in Table 2, the log-linear function was used as it gave a higher coefficient of multiple determination. The Table 2 shows that the coefficient of multiple determination came to be the highest of the order of 0.9917 in case of Karnataka, closely followed by 0.9910, 0.9904 and 0.9901 in case of Orissa, Haryana and Goa, Daman and Diu respectively. On the other hand, the R^2 was found to be lowest to the tune of 0.6608 in case of Manipur, followed by 0.6919 for Delhi, 0.7342 of a A & N Island and 0.7829 for Himachal Pradesh. Though the R^2 values were quite high indicating powerful explanatory model, but in the states with low R^2 values, there were some other factors also responsible for the total agricultural advances. The perusal of Table 2 shows that an increase total cropped area would lead towards significant increase in total advances in the states like Jammu & Kashmir, Manipur, Maghalya, Mizoram and Pondicherry. The increase in total advances was positive and statistically significant. The total advances recorded statistically significant decline which varied from -1.58 per cent in Dadra and Nagar Haveli to -0.01 per cent of Goa,

Daman and Diu with an increase of one percent in total cropped area. The negative effect was statistically significant in the States of Punjab and Andaman and Nicobar Island only. In other States, the total cropped area could not affect the credit distribution significantly. On the whole, the total cropped area could not play a highly significant role in the distribution of commercial agricultural credit.

Table 2 further reveals that with one per cent increase in gross irrigated area, total advances increased from minimum of 2.46 per cent in Orissa and maximum 102.50 per cent in Arunachal Pradesh and they were positive and statistically significant. In some of the States, the effect of gross irrigated area was negative and statistically significant, varying from -0.06 per cent in Haryana to -112.54 per cent in Manipur. This indicates that advances did not increase in proportion to the increase in gross irrigated area in these states. In case of other States, the effect of gross irrigated area on agricultural credit distribution was not significant.

VI. REFERENCES:

1. Sahu, B.N. "Role of Scheduled Commercial Banks in supply of Credit to Agriculture in India", Indian Journal of Agricultural Economics, Vol. 26(1-4), 1971, P. 578.
2. Aggarwal, D.C. "Institutional Credit for Agriculture in Malwa", Indian Journal of Agricultural Economics, Vol. 26 (1-4), 1971, P. 565.
3. Saikia, P.D. "The Role of Land Mortgage Banks in Agriculture Development in Assam", Indian Journal of Agricultural Economics, Vol. 26 (1-4) 1971, P. 574.
4. Nath, Vishwa; Bhalereao, M.M. "Cooperative Finance - An Inter-state Comparison at the Village Level", Indian Journal of. Agricultural Economics, Vol.26 (1-4), 1971, P. 583.
5. Rao, Mohana. "Commercial Banks Financing Agriculture and Small Farmers", Indian Journal of Agricultural Economics, Vol. 26(1-4), 1971, P. 581.
6. Shukla, Tara. "Regional Analysis of Institutional Finance for Agriculture", Indian Journal of Agricultural Economics, Vol. 26 (1-4), 1971, P. 542.
7. Singh, Harvinder. A Critical Study of Commercial banks Credit Extended to Different Farm Size Groups in Sangrur District. M.Sc. Thesis (Unpublished), 1972, P.A.U., Ludhiana
8. Ammany, K. "Operative Dimension of Credit Planning", The Banker, Aug. 1973, PP. 30-34.
9. Basu, K. "Regional Disparities in Banking Development", Yojna, Vol. 18 (1-23), 1974-75, P. 17.