

REFORM IN BANKING SECTOR FOR THE DEVELOPMENT OF AGRICULTURE SECTOR

Dr. Md. Tabrez Ahmad

Principal, Muslim Minority Inter College, Bhagalpur, Bihar.

Abstract : The basic objective of banking reform is to establish a viable banking system that will help in the development of the economy. At the time of independence, the banking system was largely urban oriented and out of reach of rural population and agricultural sector. The reality is that agriculture is a very important sector for the continued growth of the Indian economy. According to the 2011 census, 69% of the people live in rural areas and depend on agriculture for their main income. But the agricultural sector is suffering from lack of advanced technology, poor infrastructure, lack of market and capital, lack of basic agricultural needs like irrigation-fertilizer etc. But the banks did not pay any attention to the agricultural sector, so farmers were forced to take loans from private moneylenders at very high interest rates with stricter terms and conditions. Therefore, banks should consider these facts to invest more in infrastructure. Such agricultural infrastructure can be improved by banks, as there is ample scope for banks to invest in the above activities and to make the banks more participatory and friendly environment through policy implementation so that the agriculture sector is taken care of by any other sector can be sorted. So, after recognizing the importance of agriculture for the development of India, the Government of India and the Reserve Bank of India have played a major role in establishing an institutional framework to increase the credit requirements for the agricultural sector.

Keywords : banking reform, agriculture sector, agricultural credit, farmer, loan.

INTRODUCTION

India is an 'agricultural dominated' country and agriculture is the backbone of the Indian economy. According to the 2011 census, 69% of the people live in rural areas and depend on agriculture for their main income. In fact, Indian geographical environment, conditions and environmental adaptability are favorable to agriculture. In India, where tropical crop sugarcane is grown in sufficient quantity, fruits like apples like those grown in cold regions are also produced in abundance. Similarly, India holds a global place in tea cultivation done on hilly land, so favorable conditions are available for flat land crops like wheat, paddy. Not only this, the climatic conditions of cash crops like rubber, cotton, jute are also present. Above all, a natural state of agriculture is created due to the monsoon climate, with the use of artificial irrigation tools being largely limited. The fertile plains of the rivers form a wide fertile agricultural area, so the presence of soils like black soil, laterite soil, peat soil provide a wide variety of crop production. A large part of India's geographical area is arable, while about 90% of the land area of countries like China is not arable. Overall, it can be said that India naturally emerges as a geographical region where the probability of agriculture flourishing is much higher than any other geographical unit. But if we see this possibility on the ground of reality, then Indian agriculture is proving to be a 'deficit deal'. While the average wheat production in India is 27 quintals per hectare, in France it is 71.2 and in Britain 80 quintals per hectare. Similarly, in India, where the average annual productivity of a farm laborer is 162 dollars, in Norway it is 973 dollars and in USA it is 2408 dollars. There is also an interesting fact that food crops are grown on about 75% of the total land holdings of India whereas commercial crops are grown only on 25% of the land. But why is the condition of Indian agriculture so pathetic despite such natural adaptability? Several reasons can be cited for this, such as large population, neglected agriculture under colonial rule, lack of advanced technology, lack of basic agricultural needs like irrigation and fertilizer etc. But the most important reason is the lack of capital in Indian agriculture. We are living in a capital-intensive era today and the profession in which the flow of capital is not smooth is bound to deal with losses. Agriculture is also no exception to this rule. It is very simple that the development of agriculture depends on the basic elements - improved seeds, developed technology, availability of irrigation resources, fertilizers etc., is not possible without capital. Most of India's agriculture is subsistence in the absence of capital because sufficient financial resources are not available to produce high cost and high risk but high return cash crops.

A study has shown that agriculture provides direct and indirect employment to about 60% of the people in the country. Apart from providing employment, agriculture also contributes about 16% of the country's gross domestic product. Agriculture has contributed to the development of the Indian economy. Rural development can be accelerated only by the development of agriculture. But Indian agriculture is also called 'monsoon gambling', as it is completely dependent on the monsoon. If the monsoon is good, the agricultural yields are good, and if the monsoon does not come on time, the farmers suffer heavy losses. Along with the monsoon, agriculture depends on another important factor, and that is debt management. That is, getting loans at the right time serves as the nectar for the farmers. Agricultural data shows that there are a large number of small and medium farmers in India, who depend entirely on agricultural produce. He runs his family's livelihood with the same produce and saves a part of that produce as a cost for the next production. And this sequence always goes on. If any deadlock arises in this sequence, then it directly impacts agricultural production. With this, if the loans are not available to the farmers on time, then they have to face many problems. Therefore, farmers need loans to carry out agricultural operations, for which Indian farmers mostly depend on unconstitutional sources, which exploit the farmers and provide them loans at high interest which would give the condition of the Indian farmer. She goes away. There is a time when the farmer is forced to commit suicide. To get a solution to this type of problem, farmers should always take loans from institutional sources. Most emphasis on institutional credit was India's first Prime Minister. Smt. Indira Gandhi had given them nationalization of 14 banks in the year 1969, so that small farmers in India also got this loan. Earlier the bank used to give loans only to big farmers. Small farmers used to remain untouched by this type of loan.

Today, about 58% of the total labor force in India is in agriculture and allied sectors. Despite having so much labor force, the GDP Its contribution is much lower at around 16%. The reason for this is not the expected development of the agricultural sector. The basis of food security of all people, Indian agriculture is facing many challenges today. Many governmental and public

measures have been taken at the time for its overall and rapid development. However, the need to maintain its mobility is still felt. The biggest challenge facing the agriculture sector at present is to ensure the availability of appropriate credit arrangements for this. In this era of global food crisis, an agricultural country like India needs to use its managerial and technical expertise with positive policy to deal with these challenges. The most important is the investment required for the all-round development of the region.

Today, most of the farming community is living in poverty and deprivation, while the cost for achieving production in agriculture has increased considerably. The ability to meet this cost is necessary for agricultural development of those poor farmers, better credit management which is almost nil. Also, the market and price for their products is not so much that the cost can be recovered at the right time and right way. Therefore, it becomes imperative that we solve their problem. There can be two ways - one is to ensure adequate credit facility or to market and price their products so that they are not worried about the cost and profits.

WHY THE NEED FOR CREDIT IN AGRICULTURE

Agricultural credit is one of the most important inputs in all agricultural development programs. For a long time, the main source of agricultural credit was private moneylenders. But this source of debt was insufficient, highly expensive and exploitative. To prevent this, co-operative, commercial banks and regional rural banks were set up to provide affordable, timely and adequate credit to farmers. Indian farmers take loans to meet the following requirements :

1. To purchase agricultural inputs like seeds, fertilizers, plant protection chemicals, fodder for animals etc.
2. To assist his family in years when the crop has not gone well.
3. To buy additional land, improve on existing land, clear old debts and buy expensive agricultural machinery.
4. To increase the work efficiency of the farm when there is a shortage of resources.

SOURCES OF AGRICULTURAL CREDIT

There are two major sources of agricultural credit - non-institutional credit and institutional credit.

Non-Institutional Credit: In this type of loan, the person lends a personal loan such as a professional, businessman, commission agent, relative. Never take loan from such type of institutions. Because the interest rate of these institutions is high and they exploit the farmers.

Institutional Credit: This loan is given by institutional agencies such as cooperatives, commercial banks. Their interest rate is low and these loans are helpful in the development of farmers.

WHERE SHOULD FARMERS TAKE LOANS?

The farmer needs a loan to run an agricultural business, for which the farmer mostly takes loans from non-institutional sources. This loan is sometimes not suitable for the farmer. Farmers should always take loans through institutional means to avoid exploitation as they do not exploit the farmers and the loan can be easily repaid in installments. Problems faced by farmers in institutional loans On the one hand, institutional credit is helpful in the development of farmers, but on the other hand, farmers have to face some problems in getting loans from these sources because it requires paperwork. Farmers are less interested in paperwork. Apart from this, farmers often live in villages and they are not educated, which makes them difficult to go to the banks. Apart from this, there are some other reasons as well, such as lack of immediate credit, lack of suitable security with the farmers, longer period of input and output, seasonal agri-business, inability to estimate the loan properly, someone from the government Do not pay attention.

WHICH LOAN SHOULD FARMERS TAKE?

Farmers should take loans as per their requirement like –

Short term loans: Such type of loans are taken by the farmer to purchase farm inputs like manure, seeds, insecticides and curative medicines. It has to be paid immediately after harvesting. The repayment period of this type of loan is about 6 months to 18 months.

Medieval loan: This type of loan is taken by the farmer to buy animals, to buy agricultural equipment, to level the land, the repayment period of this type of loan is about 18 months to 5 years.

Long-term loans: Farmers take this type of loan to buy land, buy engines and build farm houses. The period for repaying this type of loan is more than 5 years. Importance of Institutional Credit: In the changing scenario, the importance of this loan plays an important role in the development of farmers, because without institutional credit, the development of farmers cannot happen. Therefore, the government should at present pay attention to institutional credit. The importance of institutional credit is also due to the following reasons: 1. Loans are available to the farmers at low interest. 2. Farmers are not exploited. 3. Availability of long-term loans to farmers increases. 4. The farmer can repay the loan as per his convenience.

EFFORTS FOR AGRICULTURAL CREDIT

The lack of suitable financing for agricultural work is a major obstacle in the development of the agricultural sector. The Kisan Credit Card Scheme was introduced in 1998 to cater to the short term credit needs of farmers. The government set up the National Bank for Agriculture and Rural Development (NABARD) in 1982 with the aim of intensifying the flow of credit flow to the agricultural sector. The goal of providing better financial and credit facilities to rural farmers was also behind the establishment of rural banks in 1975. But in spite of all this, the entire loan requirement of the farmers has not been fulfilled. To speed up the institutional credit flow in the country, the Reserve Bank of India and the Government of India has issued several announcements and guidelines. In a report released by the Reserve Bank, it is assumed that between 2000 and 2010, the share of agricultural credit increased by 755 per cent to Rs. 3,90,000 crore. A research commission constituted by NABARD believes that the credit allocated to the agriculture sector in the country from April 2009 to January 2010 remained stagnant at Rs. 3 lakh crore and rapidly increased to Rs. 8 lakh crore by March 2010.

It appears from these figures that these schemes being implemented for farmers are better, but the reality is the opposite. Even today most farmers take loans from non-institutional sources at huge interest rates. The Working Group headed by U.C. Sarangi, Former NABARD Chairman has highlighted in its report that small and marginal farmers are getting loans from non-institutional sources at high interest rates in huge amounts. This team said that about 36% farmers of the country are getting loans from moneylenders or other non-institutional sources at 20-25% interest rates, 38% farmers at 30% interest rates. The recent report of the Reserve Bank further reinforces the fact that the small and marginal farmers in the country holding 2.5 hectares of land hold 83 per cent of the total cultivators and hold about 43.5 per cent of the total holdings, whereas they receive the loan is only 24%. Apart from this, farmers also face many irregularities in getting loans from institutional areas. In many places, even illegal fees

are demanded from them. In rural areas of the country, even a section of brokers has been born for Kisan Credit Card. In such a situation, attempts to correct the plight of the farmers cannot be successful until a transparent system of better credit flow is created.

Several provisions were made for this in the General Budget for the financial year 2014-15, giving adequate attention to the agriculture sector. It was said in the budget that farmers will get loan at 7% interest rate and also Kisan Vikas Patra will be started again. An allocation of Rs 8 lakh crore was also made to provide cheaper loans to farmers. Similarly, it was also announced to distribute health cards to farmers with an expenditure of Rs 100 crore. It was also proposed to set up a TV channel to create farmers markets in towns and cities, empower farmers and provide them with awareness and knowledge to tackle hoarding of stockholders in the agricultural sector. Also for assured irrigation, Rs 1000 crore was given for the Prime Minister Agricultural Irrigation Scheme. The government has also set a target of 4% growth in agriculture. The budget states that the second green revolution will be an important focus in the agricultural sector, along with technology support for protein revolution and higher productivity.

Apparently a large part of the capital that is reaching Indian agriculture is coming from non-institutional investment. That is, instead of institutional arrangements like banking, local moneylenders are providing finance to the farmers. One, it is more expensive and secondly it can get loans for even sustainable agriculture. In this way, the vicious cycle of capital flow is created and agriculture is getting worse day by day. In such a situation, agriculture can be improved only through comprehensive banking reforms.

The banking system is the most important channel of institutional financial flows. The bank has the biggest role in breaking any kind of vicious cycle of flow of finance. It is a matter of relief that while the present government is aiming to double the income of farmers by 2022 and is running various schemes for this, banking reforms through various efforts like capitalization and merger of banks. Is encouraging Correction is a wide-ranging word whose end goes to the context where maximum people's benefit lies. In such a situation, banking reform can be established only when agricultural reform is at its core. Banking reform cannot be sustainable and sustainable without making agriculture profitable because inclusive growth is not possible only with the advancement of manufacturing and service sectors.

HISTORY OF THE RELATIONSHIP BETWEEN BANKING AND AGRICULTURE SECTOR

Agriculture is the backbone of the Indian economy. The post-Independence India picture had a low rate of urbanization and industrial activity. Agriculture and allied sector activities were at the heart of the economy. In the sixties, the survey of the availability of credit or credit in rural areas was called the 'Rural Credit Survey'. According to the report received in 1964 of the survey, there was a shortage of organized sectors in rural areas due to which there was a dependence on loans given by Mahajans, which had high interest rates. Therefore, the level of investment was low here, due to low investment, growth rate was affected and it was low. On the basis of this survey, in 1967, Reserve Bank Governor 'L.K. Jha' suggested the concept of adopting 'social banking'. That is, the management of a bank in such a way that its business interest and wider social interest is coordinated.

Prior to nationalization, institutional credit availability was very low in the core sector of the economy including agriculture. In that period, the industrial sector, which accounted for only 15% of national output, received two-thirds of the loans of banks, while agriculture, which had half of its national output, was almost ignored by banks. Keeping these deficiencies in mind, the government adopted the concept of social banking in February 1968. 14 major private banks were nationalized in 1969 and the process of branch expansion of banks in semi-urban and rural areas was started. Banks nationalized in 1970 were directed to allocate a certain percentage of the loanable funds to those areas of production, to those geographical zones and to the groups in society that the government recognized as 'priority areas'. Agriculture was mainly concerned. This program is called the 'priority sector loan' program.

Banks faced different types of crises in the 1980s. Banks were plagued by low profit earnings, low capital rates and a crisis of opacity. In 1991, when the era of economic reforms started in the country, Narasimham Committee was formed to improve the financial sector, especially the banking system on a large scale. This committee made several important suggestions such as bringing competitive efficiency in the financial sector, bringing autonomy by reducing government intervention in the financial sector, and ending the regulation of interest rates. On the basis of the suggestions of this committee, extensive changes were made in the banking system. Banks were given more autonomy, reduced government intervention and the emphasis was on making the system transparent.

After the introduction of reforms in the banking sector, in 1996, the Government of India adopted a new 'Agricultural Development Strategy' and with the intention of implementing it constituted the 'R.V. Gupta Committee' on agricultural credit, called R.V. Gupta Committee on Farm Credit. Given. This committee presented a report in 1997 and recommended that a new type of program be started to increase the flow of agricultural credit. Keeping this in mind, 'Kisan Credit Card' (KCC) was created. It was implemented in 1998. Three institutions, commercial banks, regional rural banks and cooperative banks were involved in the process of implementation of this program. The objective of this scheme is to encourage farmers to promote the use of modern technologies for agricultural operations, to encourage food production and to ensure a fixed agricultural income even in times of disaster.

KCC cards are issued to the farmers on the basis of their land holdings, due to which the determination of the limit is at the discretion of the banks. Normally the cards are issued for three years and the amount withdrawn from the card has to be paid in a year. If the farmers pay the money within one year, then the government also provides interest subsidy to them.

On the basis of land holdings, NABARD found 40% farmers eligible for it. The scheme benefited from increased investment in agriculture, which also increased prosperity in agriculture, but prosperity has been non-inclusive.

A new agricultural credit policy was announced in July 2004 and it was targeted that the amount of agricultural credit would be at least doubled in the next three years. Nevertheless, in the mid-term review of the year 2006, it was found that many types of farmers were deprived of the benefit of increase in agricultural credit. Actually, the land ownership certificate was approved but our social system is such that most of the land is registered in the name of men. Therefore, the women farmers were deprived of the benefits of KCC. Keeping this fact in mind, the government also attempted to provide cards to women on the basis of possession and the RBI directed in 2006 to approve loans on the basis of ownership rather than ownership. Thus, the social base of KCC was broadened, investment in agriculture increased and overall production increased which could be called inclusive type of development. However, it was seen that some rural farmers, especially those who live in drought-prone areas, could not repay their loans on time, due to which the arrears of banks were increasing. Keeping this in mind, the government started the

Agricultural Debt Restructuring Program in 2008, which is also called the Debt Waiver Program. This program proved to be very beneficial for the farmers, but this program was also criticized by the intelligentsia that it would increase the government's fiscal deficit.

The present government is also striving to make the KCC program more comprehensive and universal. At the same time, the government is also trying to make various government benefits available to the farmers directly through the bank accounts. The government's focus on direct benefit transfer scheme is more under this objective.

At present, when talking about the loans being given by the banks to the agricultural sector, they have to take into account the priority sector loan donation program. At present it is mandatory for domestic banks to give 40% of the loanable fund and for foreign banks 32% of the loanable fund (40% if there are more than 20% branch) to the priority sector. Also, the maximum limit of interest has been fixed at 11%.

The government has made it mandatory for banks to allocate 18% of the total 40% loans to priority sector for agriculture and food processing. Also, in the budget for the year 2017-18, 10 lakh crore rupees have been set for agricultural credit. Through the budget, it was announced to set up a committee micro irrigation fund in NABARD with an initial fund of Rs.5000 crores to ensure that milk processing and infrastructure fund will be set up in NABARD from 2000 fund.

NEED OF BANKING REFORM

Despite these measures, there are some inherent drawbacks that have not fully linked the banking system to the agriculture sector.

- The first problem is limited expansion of bank branches in rural areas. The 'Nachiket More Committee', constituted by the RBI on financial inclusion, had said in its recommendations that every adult man in the country should have a bank branch in close proximity so that he can get all the banking facilities he needs. Also, the committee recommended that the account holder in any corner of the country should not take more than 15 minutes to access banking facility. Keeping this in mind, the 'Vimal Jalan Committee', constituted on allotment of licenses to new banks, has taken an official measure to take 25% of the branches to rural areas in licensing new banks. Banking reform must necessarily involve this aspect.
- Secondly, there have been many cases in which it has been observed that commission is sought by the bank authorities in lieu of agricultural loan approval. This corruption has to be removed. Due to this corruption, subsidized loan also becomes equal to market rate loan. This does not provide effective benefits to the farmers.
- Thirdly, banks are hilarious in achieving the target set by RBI under priority sector program. Banks are doing this because a negative concept has been developed regarding farmers that they do not invest agricultural loans judiciously. Declaration of loan waiver for farmers by various political parties at the time of elections further reinforces the concept. In such a situation, firstly it is necessary that the process of agricultural credit disbursement should be made completely transparent. In this regard, special emphasis should be given on making the process of banking ombudsman simple and clear. Also, the grievance redressal system should be made quickly responsive and effective. It should be ensured that the use of cheap agricultural loans is not used in agriculture only.
- Fourth, to make agriculture profitable, the corporate farming that is being talked about, it simply means investing in agriculture. If the bank ensures the access to finance directly to the farmers, then the farmers will get direct benefits. There should be mandatory inclusion of this aspect in banking reform. Till now, mostly subsistence farming is done due to lack of capital, which does not benefit. Increase of capital flow will lead to the cultivation of cash crops which will be beneficial.
- Fifth and finally that the terminology and preferential perception related to agriculture have to be changed. For example, the debt fulfillment of industry is called 'bail out package' and in agriculture the same process is called 'debt waiver'. Its first meaning is that agriculture is essentially a profession of loss. This is wrong. This notion should be changed through banking reform. It is right that a loan waiver should be done for the loss-making account. But it should be seen as an investment and not an expense. Without agricultural reform, no banking reform can be sustainable. Therefore, agriculture should have a prominent place in banking reform.

CONCLUSION

In conclusion, it can be said that at the time of independence in India, farmers had to depend on non-institutional sources of credit achievement including moneylenders and money lenders, traders and commission agents, friends and relatives, etc., which would give them higher interest rates. But as a result, the farmers were always pressed under debt burden. At that time the share of institutional sources of credit was very low. But today the situation has improved significantly. Institutional sources of loans for farmers have increased significantly, and for meeting the agricultural needs for farmers, about 80% of the financial resources are from institutional sources, which easily provide short term and long term loans to farmers at low interest rates. It is done. But even today only big farmers are getting this benefit. Small and medium class farmers still get loans from non-institutional sources. Therefore, it can be said that there is a need for comprehensive reform in the banking system.

REFERENCES

- Acharya, S.S. (2006). Agricultural marketing and rural credit for strengthening India agriculture. INMR Policy Brief No. 3: Asian Development Bank.
- Akhtar Jawed, S.M. and Alam, Md. Shabbir (July 2011). Banking System in India Reforms and Performance Evaluation, New Century Publications, New Delhi, India.
- Bhattacharya, A. (1997). The Impact of Liberalization on the Productive Efficiency of Indian Commercial Banks. European Journal of Operational Research, 98(5): 332-345.
- Dadibhavi, R.V. (1988). 'Dimensions of Regional Disparities Institutional Credit to Agriculture,' Indian Journal of Agricultural Economics, vol. 43(3).
- Haque, T. and S. Verma (1988). 'Regional and Class Disparities in the Flow of Agricultural Credit in India', Indian Journal of Agricultural Economics, XVIII, 3.
- Joshi, Vijay and Little, I.M.D. (1996), "India's Economic Reforms", Oxford University Press, Delhi.
- Muniappan, G.P. (2002). Indian Banking: Paradigm Shift –A Regular Point of View, IBA Bulletin, 24(3): 151-155.
- Sahu, G.B. and Rajasekhar, D. (2005). Banking Sector Reform and Credit Flow to Indian Agriculture. Econ. Polit., p. 5550-5559.