

Impact Of Bank Credit On Agricultural Sector- A Case Study Of Hullahalli Village

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Abstract

In a developing economy like India, even today agriculture is the backbone of the rural economy. Agriculture is one of the priority sectors which play a crucial role in the growth of the economy. Though its contribution to the GDP has been low in the relative sense, it has a potential to reduce poverty by providing employment and food security to the majority of the population. The 12th Five Year Plan Approach Paper indicates that agricultural development is an important component of faster, more inclusive and sustainable growth approach. However, poor living conditions in the rural economy indicate that there is a need for government measures, initiatives and interventions in a planned and coordinated manner. Majority of the farmers, with small holdings and lack of assured irrigation are poor, as they are not able to sustain from agricultural income alone. Hence there is a need for a strong institutional credit and banking set up to meet the credit requirements, effectively and on reasonable terms and conditions. It is in this background an attempt is made in this paper to analyse the impact of bank credit on agricultural sector in rural areas with a case study of Hullahalli Village. The study is based on primary data, tables, charts and diagrams will be made use of in the analysis

Key Words: *Development, Agriculture, Bank Credit, income and rural economy.*

Introduction:

Agricultural sector is the backbone of the rural economy. Most of the farmers with marginal land holdings and inadequate irrigation facilities are poor. They cannot sustain only by agricultural income alone for their living. Therefore, for generating income they need to depend on other activities. There is a need to provide credit for the non-farm activities for their development. Banks need to support by providing credit for some of the value addition activities and generation of employment. There is a need to create awareness and direction among the rural masses for improving their living conditions. It is possible only through a strong institutional credit and banking set up which would meet the credit requirements of the rural population.

Review of Literature: A large volume of literature is available on the concept agricultural credit. Studies were made on public sector banks, private sector banks and RRBs in relating to agricultural credit. Though studies on management of agricultural credit and how Indian banking sector reforms affect the agricultural sector are very few. A brief review of relevant literature is done below

Rakesh Mohan(2004), viewed in his article, A review of performance of agricultural credit in India, though the overall flow of institutional credit has increased over the years, there are several gaps in the system like inadequate provision of credit to small and marginal farmers, limited deposit mobilisation and heavy dependence on borrowed funds by major Agricultural credit purveyors. The study suggested that in the

changing scenario strong and viable agricultural financial institutions are needed to cater to the requirements of finance for building the necessary institutional and marketing infrastructure.

Ramesh Golait(2007) has made an attempt to study the current issues in agricultural credit in India. The Researcher observed that the credit delivery to the agriculture sector continues to be inadequate. The study has identified crop losses, consecutive failure of monsoon, recurrent drought, mounting debts and land tenancy, as some of the main causes which led many distressed farmers to commit suicide. He suggests merging and revamping of RRBs that are predominantly located in tribal /backward regions is seen as a potentially significant institution arrangement for financing the hitherto unreached population.

Dr.Kewal Kumar and Atul Gambhir(2012) in their article have discussed about the problems faced by farmers and suggest some frame work changes regarding problems and sound financing system for the near future. The study found that all types of farmers have forced to avail credit with higher interest rate and cumbersome process of getting loan. They suggest that policy makers should simplify the procedure of agriculture credit, interest rate for marginal and small farmers should be reduced.

Dr.S.Gandhimathi(2012)has made an attempt to analyze the impact of economic reform on the distribution of agricultural credit in India. The study titled “Distribution of agricultural credit in the pre and post reform period” shows that the co-operative banks dominated in the total agricultural credit disbursement in the pre reform period. The study revealed that the rural banking system in India made tremendous quantitative achievement by neglecting the qualitative aspects of the credit delivery system.

Dr. Vandana Tyagi(2012)analysed the contribution of agriculture to India’s GDP. Agriculture contributes almost about 18 per cent to the country’s GDP. The study found that, although the ratio of agricultural credit to agricultural GDP has increased from 5.4 per cent in 1970s to 8.7 percent in 2001-02, it may be noted that agricultural credit as a proportion to total credit has declined from 20.5 per cent to 10.5 per cent during the same period indicating lower deployment of credit in agriculture.

Veerpaul Kaur Maan,Dr. Sandeep kumar(2012)conducted a study on the topic “State wise agricultural sector growth and performance” reveals Agriculture is the major sector of the Indian economy as a source of income, employment and export earnings. Commercial crops plays a significant role, not only in the domestic sector but also in the external trade by meeting the domestic requirements of oils, fibres and sugar as well as earning the foreign exchange through export or import substitution. Their significance has further grown recently due to liberalization and globalization of the Indian economy since 1991.

G.C.Pande and S.Priyakumar(2013) in their study found that agricultural sector in India is facing several critical challenges like increasing pressures on land, diminishing soil fertility, water scarcity and adverse environmental conditions etc. They suggest these critical issues can largely be countered by use of emerging technologies having high growth potential. The study also suggest that financing to contract farming by banks is a boon to farmers who can access institutional credit easily for crop production arranged by the companies.

Veerpaul Kaur Maan and Amritpal Singh(2013) a study titled “Role of NABARD and RBI in agricultural sector growth” analyzes NABARD has taken over refinancing functions from the Reserve Bank of India with respect of State Cooperative Banks and Regional Rural banks. This study reveals NABARD is involved in the implementation of projects assisted by World Bank and its affiliate, the International Development Association(IDA). NABARD has been associated with implementation of 42 projects with external credit out of which 38 projects are assisted by IBRD.

Gowhar Bashir Ahangar and Ashaq Hussain Gaine(2013) in their study assess the quantum of loans disbursed and outstanding by institutional agencies and to examine the progress of scheduled commercial banks in supplying agricultural credit in India. The study observed that the credit provided by various institutional sources has increased its advances. But an effort has to be taken by the banks to reduce its loans outstanding, so that the recovered institutional credit should be pumped into agricultural sector further for its growth.

Objectives:

- To understand the impact of bank credit on agriculture and allied activities
- To know the occupational pattern in the study area
- To identify the sources of finance in the study area
- To analyse the impact of credit on income in the study area
- To analyse the impact of credit on the standard of living of the people in the study area.

Hypotheses:

- Bank credit helps in increasing the income in the agricultural sector
- Bank credit helps in improving the standard of living of the people

Methodology:

The study is based on both secondary and primary data. Various books, journals and reports have been referred. Primary data related to 100 households have been collected through questionnaire and interview method in the study area. Tables, Charts, graphs and simple statistical methods will be made use of in the analysis of data.

Data Analysis:

The study area Hullahalli is a village located in Nanjangud Taluk of Mysuru District. It is inhabited by poor people. Agriculture and allied activities are the major occupation of the people in the area. It is a backward area which still needs basic facilities like construction of roads, drains, cleanliness, health facilities, sanitation etc.,. Hence this area has been chosen for research.

The Occupational Structure in the Study Area

Occupation	Number of Respondents
Agriculture	26
Allied activities	04
Agriculture and allied activities	08
Small business	26
Coolie	26
Services	10
Total	100

Source: Primary data

The above table indicates the occupational distribution of the respondents in the study area. It reveals that around 38% of the people are dependent on agriculture and allied activities, 26% are dependent on small business and coolie, while 10% are in the services. The occupational distribution itself reveals the backwardness of the village.

Sources of credit

Sources	Number of respondents
Money lenders	28
Bank	10
Self Help Groups	50

Cooperatives	12
Total	100

Source: Primary data

The above table indicates the sources of loan availed by the respondents. It is evident from the data majority of them depend on SHGs for credit. 50% of them have availed loan from SHGs, 28% from money lenders, 10% from banks and 12% from cooperatives. The data reveals that SHGs are playing a vital role in providing credit to the rural poor than the other banking system. Another striking feature is that even after the many initiatives taken up by the government for financial inclusion and providing credit at a reasonable rate for the development of the rural areas, the role of money lenders has been crucial in providing credit for the rural masses.

Income Status of the respondents

Income (in thousands of rupees)	Number of respondents Before Loan	Number of respondents After loan
0-10000	40	04
10000-20000	06	24
20000-30000	18	18
30000-40000	14	20
40000-50000	20	12
Above 50000	02	22
Total	100	100

Source: Primary data

The above table shows the income status of the respondents. The data reveals that the income of the people has increased after availing the loan than the before loan conditions. The number of people within the income range of 0-10000 has reduced from 40 before loan to 4 after loan. Also the number above 50000 income range has increased from 2 to 22. Overall it indicates that there has been a significant improvement in the income status after availing the loan benefit by the people. This highlights that the credit facilities provided in the rural areas have been beneficial for the people to earn better income and improve their living conditions.

Impact of bank credit on the standard of living of the people in the study area

Standard of living	Agriculture	Allied activities	Agriculture & allied activities	Small business	Services	Coolie	Total
Improved	14	04	08	24	10	18	78
No change	08	0	0	02	0	08	18
Lowered	04	0	0	0	0	0	04
Total	26	04	08	26	10	26	100

Source: Primary data

The above table shows the Impact of bank credit on the standard of living of the people. People engaged in various activities like agriculture and allied activities, business, services, and wage earners are all of the opinion that their standard of living has improved after availing the credit facilities, through the banking system. About 78% of the people were of the opinion that their standard of living has improved after availing the credit. However, 18% opined that there was no change and 4% opined their standard of living was lowered. This was mainly due marketing problems, inadequate loan, dependency on money lenders, high rate of interest, drought, crop loss and insufficient rain etc.,

Impact of credit on standard of living of the respondents in the study area

Standard of living	Agriculture	Allied activities	Agriculture & allied activities	Small business	Services	Coolie	Total
Housing	12	02	06	12	10	18	60
Purchase of durables	04	0	02	0	0	0	06
Extension of business	0	02	0	12	0	0	14
Purchase of land	02	0	0	0	0	0	02
No favourable impact	08	0	0	02	0	08	18
Total	26	04	08	26	10	26	100

Source: Primary data

The above table highlights the impact of credit on the standard of living of the people in the study area. The parameters used are housing, purchase of durables, extension of business, purchase of land. 82 households are of the opinion that the credit facilities have helped them to increase the standard of living. About 60 households have improved by housing benefit, 8 in terms of purchase of land and durables, 14 by extension of business activities. While in case of 18 households there has been no favourable impact. This was mainly due marketing problems, inadequate loan, dependency on money lenders, high rate of interest, drought, crop loss and insufficient rain, uncertainty in employment etc.,.

Major findings:

- Majority of the people are engaged in Agriculture and allied activities, some in small business, some as wage earners, and few in services.
- 50% of them have availed credit through SHG bank linkage programme, moneylenders, bank and cooperatives.
- The data reveals that there has been a significant improvement in the income after availing the credit facilities through various means.
- Majority of the respondents are of the opinion that there has been an improvement in their standard of living as a result of reasonable credit benefits.
- Around 60% have availed the credit for improving the standard of living through housing, 14% for extension of business activities and 8% for purchase of durables and land.
- Provision of credit has a positive impact on the income status and standard of living of the rural masses, a key for the development of rural areas.
- However, still certain problems persist in the rural areas which need to be addressed like inadequate loan, poor marketing facilities, and dependency on monsoon, crop loss, delay in sanctioning loan, need for collateral securities, high rate of interest, uncertainty in employment etc., for their development.

Conclusion:

The primary data of Hullahalli village has revealed that the credit facilities available for the benefit of the rural masses, has definitely a positive impact on the income of the people and also in

improving their standard of living. It indicates that providing credit is a way through which development of rural areas can be enhanced.

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