

The Performance of Banking Sector in Agriculture Credit in India: An Analysis

Mr.Ramesha H.C.
Assistant Professor,
Department of Economics,
SBRR Mahajana First Grade College PG-Wing,
Pooja Bjugavat Memorial Mahajana Education Centre, Mysuru-16

Abstract: *The Present Agricultural credit structure in India has several sources and agencies engaged in extending credit to the rural people. Some agencies are in the organized sector, some others are in the unorganized sector. Similarly, some agencies are engaged in providing credit directly to the farmers, others are engaged in indirect financing, i.e., through refinancing. Finance is an important factor of development for all sectors of the economy. It becomes more important because of unorganized nature of farming and inability of the farmers, especially small and marginal, to invest from own sources. Finance has been recognized as the life blood of all economic activities; like all other producers' agriculturist also needs credit. The need of finance for agriculture is hardly be over emphasized where its productivity is still low due to financial constraints. The present paper makes a thorough discussion on various sources of agricultural credit. While the first Part deals with agencies engaged in direct financing and in the Second part discusses the agencies engaged in indirect financing for different purposes to the agriculture sector.*

Key words: credit, agriculture, productivity

I. Introduction

Agriculture plays a vital role in the overall development of the rural economy in particular and in the national economy in general in developing countries like India. Rapid and sustained agricultural development facilitates the process of economic growth. Agriculture development implies increased production and productivity of crops, generation of employment opportunities and thereby improved standard of living of the peasants. Moreover, the agricultural sector accelerates the overall economic development. Over 58 per cent of the rural households depend on agriculture as their principal means of livelihood. Agriculture, along with fisheries and forestry, is one of the largest contributors to the GDP. As per latest estimates released by CSO the share of agricultural products/Agriculture and Allied Sectors in GDP of the country was 51.9 per cent in 1950-51, which has now come down to 16 per cent in 2016-17 at 2010-11 prices.

II. Indian Banking System

Agricultural credit has played a vital role in supporting farm production in India. Though the outreach and amount of agricultural credit have increased over the years, several weaknesses have crept in which have affected the viability and sustainability of these institutions. Following the shifts in consumption and dietary patterns from cereals to non-cereal products, a silent transformation is taking place in rural areas calling for diversification in agricultural production and value addition processes in order to protect employment and incomes of the rural population. In the changed scenario, strong and viable agricultural financial institutions are needed to cater to the requirements of finance for building the necessary institutional and marketing infrastructure. Farmers not only need credit but also guidance in adopting improved methods of cultivation. Thus, it is necessary to provide such guidance and extension services along with credit. They must be taught how to use quality seeds, fertilizers, pesticides, etc. and also how to grow crops.

III. Review of Literature

Some studies related to the various issues of agriculture credit are:

Binswanger and Khandker (1992) found that the output and employment effect of expanded rural finance has been much smaller than in the nonfarm sector. The effect on crop output is not large, despite the fact that credit to agriculture has strongly increased fertilizer use and private investment in machines and livestock. High impact on inputs and modest impact on output clearly mean that the additional capital investment has been more important in substituting for agricultural labour than in increasing crop output.

Burgess and Pande (2005) found that a one percent increase in the number of rural banked locations reduced rural poverty by roughly 0.4 percent and increased total output by 0.30 percent. The output effects are solely accounted for by increases in non-agricultural output – a finding which suggests that increased financial intermediation in rural India aided output and employment diversify action out of agriculture.

Mohan (2006) studied the overall growth of agriculture and the role of institutional credit. Agreeing that the overall supply of credit to agriculture as a percentage of total disbursement of credit is going down, he argued that this should not be a cause for worry as the share of formal credit as a part of the agricultural GDP is growing. This establishes that while credit is increasing, it has not really made an impact on value of output figures which points out the limitations of credit.

Golait (2007) examined the issues in agricultural credit in India. The analysis revealed that the credit delivery to the agriculture sector continues to be inadequate. It appeared that the banking system is still hesitant on various grounds to purvey credit to small and marginal farmers. It was suggested that concerted efforts were required to augment the flow of credit to agriculture, alongside exploring new innovations in product design and methods of delivery, through better use of technology and related processes. Facilitating credit through processors, input dealers, NGOs, etc., that were vertically integrated with the farmers,

including through contract farming, for providing them critical inputs or processing their produce, could increase the credit flow to agriculture significantly.

Sreeram (2007) found that increased supply and administered pricing of credit help in the increase in agricultural productivity and the well being of agriculturists as credit is a sub-component of the total investments made in agriculture. Borrowings could in fact be from multiple sources in the formal and informal space. Borrowing from formal sources is a part of this sub-component. With data being available largely from the formal sources of credit disbursal and indications that the formal credit as a proportion of total indebtedness is going down, it becomes much more difficult to establish the causality. He also stated that the diversity in cropping patterns, holding sizes, productivity, regional variations make it difficult to establish such a causality for agriculture or rural sector as a whole, even if one had data.

Antony and M (2007) has made an attempt to design a model for pricing loans in the backdrop of Basel 2nd guidelines. Accordingly interest rate for a loan is to be fixed as a sum of percentage costs, percentage risk premium and percentage economic value added. The risk premium is calculation of the expected loss premium and unexpected loss premium depends on the value of probability of default and loss given default.

Abhiman and et. al. (2009) studied on Impact of Agricultural Credit on Agriculture Production: An Empirical Analysis in India and they found that there are wide regional disparities in the disbursement of agricultural credit by scheduled commercial banks. At the same time the share of agricultural GDP in total GDP is falling. These results reveal that even though there are several gaps in the present institutional credit delivery system like inadequate provision of credit to small and marginal farmers, paucity of medium and long-term lending and limited deposit mobilization and heavy dependence on borrowed funds by major agricultural credit purveyors, agriculture credit is still playing a critical role in supporting agriculture production in India.

Number of studies reviewed and brought out some potential results and interrelated issues pertaining to the agriculture credit, while these studies focused on particularly specified areas of agriculture and allied sectors and the role of credit facility. On the basis of these reviews, following objectives will be fulfilled the research gap.

IV. Objectives of the Study

- To analyze the trends of agency-wise disbursement of credit to the agriculture sector in India
- To study the purpose-wise disbursement of credit to the agriculture sector in India
- To examine the position of Non Performing Assets (NPAs) to loans outstanding in State Cooperative Banks

V. Methodology of the Study

The data for the study has been collected from only secondary sources to reveal the research paper. Content Analysis Method, which is commonly known as the review of the previous literature, has been followed in the preparation of this article. These secondary types of data were collected from various published sources such as published articles, books, journals, websites, government reports, economic survey and NABARD report. Though the present study concentrates on the state as a whole, the focus will be on credit facility in agriculture sector. Full use of relevant books, journals and internet sources is made in order to make this study informative and meaningful.

VI. Discussion

The country is the largest producer, consumer and exporter of spices and spice products. It ranks third in farm and agriculture outputs. Agricultural export constitutes 10 per cent of the country's exports and is the fourth-largest exported principal commodity. With reference these, the banking sector plays significant role in lending credit to the agriculture sector. It contributes a significantly large share to the national income of the country although it has come down from as high as 56.5 per cent during 1950s to less than 16 per cent in 2017-18 and is projected to go down future in immediate future. All these changes are happening in Indian economy due low level of bank credits to the agriculture sector which says crisis of banking sector in lending credit to the agriculture sector. Suppose the banks lend the financial services sufficiently to all farmers like marginal, small and medium farmers, they can also be actively involved in agriculture activity and the Indian agriculture may sustain its growth.

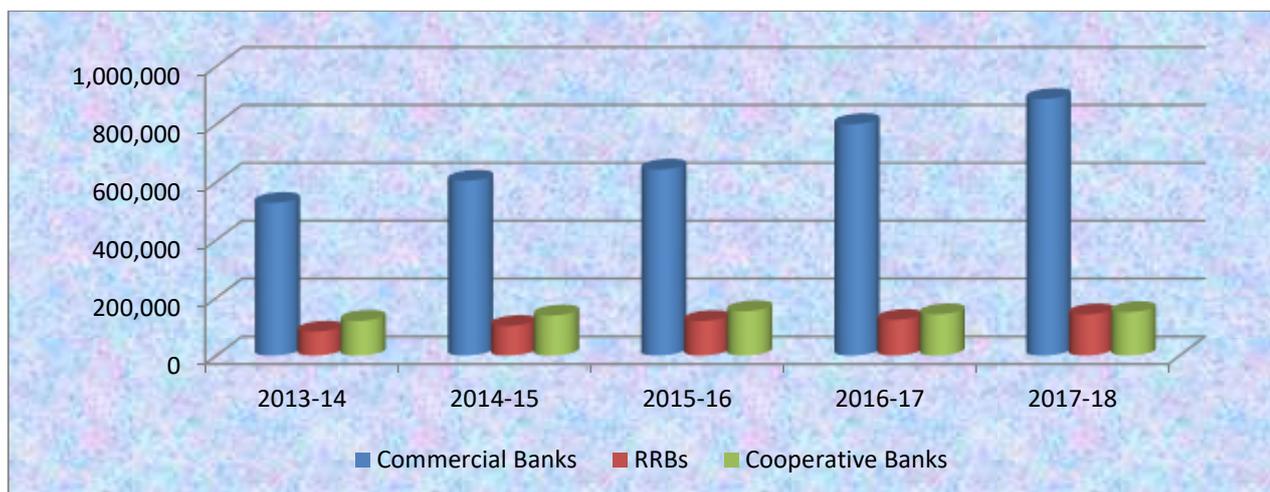
VII. Performance of Banking Sector in Indian Agriculture

Banking system is an important constituent of overall economic system. It plays a crucial role in the attainment of macro-economic objectives. It acts as a vehicle for socio- economic transformation and also as a catalyst to economic growth. It plays an important role in mobilizing the nation's savings and channelizing them into high investment priorities and better utilization of available resources. The following sections explain about the performance of different agencies involved actively in proving credit facilities to the agriculture sector in India.

Table-1: Agency-wise Ground Level Credit Flow (Amount in Rs crore)

Year	Commercial Banks	RRBs	Cooperative Banks	Total	Growth Rate
2013-14	5,27,506	82,653	1,19,964	7,30,123	--
2014-15	6,04,376	1,02,483	1,38,469	8,45,328	15.77
2015-16	6,42,954	1,19,260	1,53,295	9,15,509	08.30
2016-17	7,99,781	1,23,216	1,42,758	10,65,755	16.41
2017-18	8,86,771	1,42,415	1,50,242	11,79,428	10.66

Source: Annual Report 2017-18, NABARD

Graph-1: Agency-wise Ground Level Credit Flow (Amount in Rs crore)

Agency-wise share of credit flow to the agriculture sector in the last five years is presented in the table 1 and the graph 1. Agriculture credit disbursement continues to be dominated by commercial banks (75 per cent). While the share of Regional Rural Banks (RRBs) remained constant at 12 per cent for the last two years in 2016-17 and 2017-18, the share of cooperative banks was also constant at 13 per cent respectively during the years. Growth rate of credit supply varies from year to year.

Table-2: Agency-wise Disbursement and Share (%) of Refinance (Amount in Rs crore)

Agency	2015-16		2016-17		2017-18	
	Disbursement	Share %	Disbursement	Share %	Disbursement	Share %
SCBs	22,824	47.94	25,834	48.29	40,000	61.32
RRBs	12,140	25.26	11,370	21.25	11,537	17.32
StCBs	6,231	12.96	6,438	12.02	7,086	10.86
SCBARDBs	3,258	6.78	3,398	6.35	2,595	3.98
NABARD Subsidies	611	1.27	532	0.99	1,228	1.88
NBFCS	3,000	6.24	5,938	11	2,794	4.28
Total	48,064	100	53,510	100	65,240	100

Source: Annual Report 2017-18, NABARD

The table-2 shows about agency-wise disbursement and share of refinance to the agriculture sector in India. Disbursement under long term refinance have continuously increased and recorded Rs 65,240 crore in 2017-18. The disbursement has increased at a compound annual growth rate (CAGR). Of the total refinance assistance provided during 2017-18, scheduled commercial banks (SCBs) accounted for 61 per cent, RRBs 18 per cent and StCBs for 11 per cent. SCBs have steadily increased their share over the years.

Table-3: Region-wise Disbursement (Amount in Rs crore)

Region	2015-16	2016-17	2017-18
Northern	7,106	10,502	10,107

North Eastern	481	445	772
Eastern	5,501	4,381	5,498
Central	4,499	5,165	6,776
Western	6,813	9,037	14,720
Southern	23,664	23,970	27,367
Total	48,064	53,500	65,240

Source: Annual Report 2017-18, NABARD

The table-3 shows the region-wise disbursement of credit. The major share of long term refinance goes to the southern states. However, their share has reduced from 49 per cent (2015-16) to 42 per cent (2017-18), while the share of western region has increased to 23 per cent in 2017-18 from 14 per cent in 2015-16. The NER has marginally increased its share from 1 per cent (2015-16) to 1.16 per cent (2017-18). An amount of Rs 757 crore was disbursed among the north-eastern states during 2017-18.

Table-4: Purpose-wise Disbursement under Long Term Refinance (Amount in Rs crore)

Purpose	2015-16		2016-17		2017-18	
	Disbursement	Share %	Disbursement	Share %	Disbursement	Share %
Minor Irrigation	1,174	2.4	1,145	2.14	1,513	2.32
Land Development	1,555	3.24	5,752	10.75	3,561	5.46
Farm Mechanisation	5,672	11.6	11,076	20.7	6,862	10.52
Plaitation & Horticulture	1,983	4.13	2,631	4.92	906	1.39
PF/SGP/AH other	1,238	2.55	1,088	2.03	2,033	3.12
Fisheries	371	0.77	211	0.4	95	0.14
Dairy Development	2,834	6.7	2,118	3.95	3,724	5.71
Bio-gas	0	0	0.59	0	0.65	0
Forestry	5.9	0.01	0.83	0	0.15	0
Storage, Godown & Marker Yard	431	0.82	109	0.2	234	0.36
Non form Sector	14,056	29.24	18,505	34.59	27,696	42.45
SHG	6,906	14.32	5,660	10.58	6,981	10.7
other (Including SGSY & SC/ST)	11,856	24.65	5,210	9.74	11,634	17.83
Total	48,082	100	53,506	100	65,240	100

Source: Annual Report 2017-18, NABARD

Purpose-wise disbursement under long term refinance during the last three years is furnished in the Table-4. Among the farm sector activities, farm mechanization, dairy development and land development

constituted 10.52 per cent, 5.71 per cent and 5.46 per cent respectively, of the total disbursement in 2017-18. Together, non-farm sector (42 per cent) and micro-credit (11 per cent) constituted around 53 per cent of total refinance.

Table-5: Profitability and NPAs of StCBs by Region (Amount in Rs crore)

Region	2015-16		2016-17		Total NPAs		NPAs (%)	
	Profit	Loss	Profit	Loss	2015-16	2016-17	2016	2017
Central	105	0	85	0	894	1,014	4	4.8
Northern	119	13	226	0	452	470	1.8	1.8
Eastern	58	5	59	3	897	669	5.6	3.9
Western	261	8	285	15	1,591	1,546	7.7	6.4
Southern	149	15	262	0	1,137	876	3.6	2.6
North Eastern	23	74	53	0	593	605	13.1	13.1
Total	715	115	970	18	5,564	5,180	4.5	4.1

Source: Annual Report 2017-18, NABARD

The table-5 shows the current position of NPA of State Cooperative Banks in India. At the aggregate level, the percentage of Non Performing Assets to loans outstanding in respect of StCBs, reduced to 4.08 per cent as on 31 March 2017 as against 4.50 per cent as on 31 March 2016. Region-wise analysis showed that the NPA levels in percentage terms of the State Cooperative Banks in the central, North-eastern and Western regions were higher than the all-India level.

The Non Performing Assets to loans outstanding varies across the agencies in India. Related to the StCBs, the NPAs' position has declined as mentioned already. But the average gross NPAs for DCCBs across India increased from 9.4 per cent as on 31 March 2016 to 10.45 per cent as on 31 March 2017. Thus, these increased NPAs may cause for the banking crisis in India during the long period when the banking sector incurred loss.

VIII. Findings of the Study

- Agriculture credit disbursement continues to be dominated by commercial banks (75 per cent). While the share of Regional Rural Banks (RRBs) remained constant at 12 per cent for the last two years in 2016-17 and 2017-18, the share of cooperative banks was also constant at 13 per cent respectively during the years. Growth rate of credit supply varies from year to year.
- Disbursement under long term refinance have continuously increased and recorded Rs 65,240 crore in 2017-18.
- Of the total refinance assistance provided during 2017-18, scheduled commercial banks (SCBs) accounted for 61 per cent, RRBs 18 per cent and StCBs for 11 per cent. SCBs have steadily increased their share over the years.

- The major share of long term refinance goes to the southern states. However, their share has reduced from 49 per cent (2015-16) to 42 per cent (2017-18), while the share of western region has increased to 23 per cent in 2017-18 from 14 per cent in 2015-16.
- The NER has marginally increased its share from 1 per cent (2015-16) to 1.16 per cent (2017-18). An amount of Rs 757 crore was disbursed among the north-eastern states during 2017-18.
- Purpose-wise disbursement under long term refinance during the last three years, the farm sector activities, farm mechanization, dairy development and land development constituted 10.52 per cent, 5.71 per cent and 5.46 per cent respectively, of the total disbursement in 2017-18.
- Together, non-farm sector (42 per cent) and micro-credit (11 per cent) constituted around 53 per cent of total refinance.
- At the aggregate level, the percentage of Non Performing Assets to loans outstanding in respect of State Cooperative Banks reduced to 4.08 per cent as on 31 March 2017 as against 4.50 per cent as on 31 March 2016.
- The average gross NPAs for DCCBs across India increased from 9.4 per cent as on 31 March 2016 to 10.45 per cent as on 31 March 2017. Thus, these increased NPAs may cause for the banking crisis in India during the long period when the banking sector incurred loss.

IX. Policy recommendations

- Banking sector should concentrate more on agriculture sector through providing financial assistance to the farmers like marginal, small and medium farmers.
- Institutional agencies also draw a clear-cut distinction between short-term credit and long-term credit. Moreover, they recognize the organic link between credit and other needs of the farmers and seek to achieve an integration of credit with such needs.
- They must also be provided marketing assistance so that they can obtain the best possible return from their produce. Only institutions like co-operative societies, commercial banks, etc. can provide such guidance, not the usurious moneylenders and greedy commission agents. So it is now necessary to make a brief review of different institutional agencies of rural credit.
- They should provide the loan facilities at lesser rate of interest to the farmers and also they have to provide agriculture equipments through installment with giving concession on every product.
- All the agencies should concentrate more on reducing the NPAs to loans outstanding and they have to take additional initiatives for recovery of loans the agriculture sector.

X. Conclusion

Agricultural credit has played a vital role in supporting agricultural production in India. The Green Revolution characterised by a greater use of inputs like fertilizers, seeds and other inputs, increased credit requirements which were provided by the agricultural financial institutions. The performance of agricultural credit in India reveals that the overall flow of institutional credit has increased over the years but also it is not sufficient to provide all the requirements in agriculture sector. Explanation for this lies in farming, in the cruel fact that India may no longer be an agrarian economy but still has an agricultural policy. So as with all fast-developing economies, the share of farming is declining in India's GDP as services and manufacturing rise, this is how it should be. Despite the bottlenecks in Indian Agriculture Sector, there is need for the targeted efforts on the part of the government and banking institutions to pull more people in agriculture sector out of economic obsolescence into more productive pursuits.

XI. Reference

- Abhiman Das, Manjusha Senapati, Joice John (2009), 'Impact of Agricultural Credit on Agriculture Production: An Empirical Analysis in India' Reserve Bank of India Occasional Papers, Vol.30, No.3, Monsoon-2009.
- Annual Report 2017-18, NABARD, Mumbai.
- Arellano M, and S. R. Bond (1991): 'Some tests of specification for panel data: Monte Carlo evidence and an application to employment equations', Review of Economic Studies, 58: 277-297.
- Binswanger, H. and Shahidur Khandker (1992): 'The Impact of Formal Finance on Rural Economy of India', World Bank, Working Paper No. 949.
- Bond S. R. (2002): 'Dynamic panel data models: a guide to micro data methods and practice', Port Economics Journal, 1: 141-162.
- Burgess, Robin and Rohini Pande (2005): 'Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment', American Economic Review, 95: 780-795.
- Golait, R. (2007): 'Current Issues in Agriculture Credit in India: An Assessment', RBI Occasional Papers, 28: 79-100.
- Mohan, Rakesh (2006): 'Agricultural Credit in India – Status, Issues and Future Agenda', Economic and Political Weekly, 41: 1013-1021.
- Reserve Bank of India, (2004): 'Report of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System' (Chairman: Prof. Vyas).
- Sargan, J. D. (1988): 'Testing for Misspecification after Estimating Using Instrumental Variables' in Maasoumi, E. (ed.), Contributions to Econometrics: John Denis Sargan, Vol. 1, Cambridge University Press.
- Sriram M. S. (2007): 'Productivity of Rural Credit: A Review of Issues and Some Recent Literature', Indian Institute of Management Ahmedabad, Working Paper No.2007-06-01.