

The Impact of Banking and financial sector reforms on agriculture credit in karnataka

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Finance is the fuel for the wheel of progress. Development of any sector cannot be visualized in the absence of sufficient support of capital. In the previous chapter the contemporary issues prevailing in the agriculture system has been studied and in this chapter a detailed study on Agricultural Credit in India has been attempted, so that in the next chapter a microscopic study on the impact of Institutional credit on the farmer beneficiaries can be taken up. It is hoped that such a study will provide an up to date linkage to probe into the impact of institutional credit on farmer beneficiaries on the Study area.

Agriculture occupies a prominent position in the rural economy of the country and it continues to hold great potential for reducing rural poverty and hunger. It is estimated that for every additional rupee generated through agricultural production in India, the existing economical linkages can add another three rupees to the income of the rural economy.

Agriculture continues to support 60 per cent of employment in rural areas deposit the fact that primary agricultural activities are gradually declining as a share of the total economy there by agriculture contributes only 26 per cent of national gross domestic product. In developed countries agriculture typically represents less than 2 per cent of the total national income and employment. Agricultural trade contributes about 13 per cent of the total Indian exports. India's share of the world rise exports is about 20 percent, in world tea exports 19 percent, in fish 2.4 percent and fruits and vegetables 1 percent.

Farm credit is recognized as a strategic input in agricultural development in view of longer gestation period of farm enterprises. The other factors that call for greater volume of farm credit relate to lower base and limited savings of the famers. Credit has a positive impact on farm economy. States with the highest yield (Punjab and Haryana) also happened to be the states with the maximum availability of the farm credit.

With the breakthrough in farm technology agriculture has become increasingly capital intensive. The adoption of new technology involves sizeable and additional amount of capital for the purchase of variable inputs like seeds, fertilizers, plant protection chemicals.

Added to this the new technology calls for massive investments for building infrastructure on the farm front by the farming community. This calls for huge amount of investment funds which the agriculturists can not meet out of their own savings. Hence external finance from credit institutions becomes essential for the agriculturists.

Direct Institutional Credit for Agriculture and Allied Activities (Loans Issue)

Year	Share of CO-operative (Percentage)	Share of SCB (Percentage)	Share of RRBs (Percentage)	Total (Crores)
2000-01	39	53	8	52827
2001-02	38	54	8	62045
2002-03	34	57	9	69560
2003-04	31	60	9	86981
2004-05	25	65	10	125309
2005-06	22	70	8	180486
2006-07	24	67	10	150156
2007-08	20	70	10	150156
2008-09	19	71	10	182738
2009-10	18	69	13	188251
2010-11	19	70	12	178734
2011-12	20	71	12	186294

Source: Hand Book of Statistics, Reserve Bank of India, Mumbai, 2010-12

The table reveals that Direct Institutional Credit for Agriculture and Allied Activities loan issued by the co-operative banks, commercial banks and RRB's in the country increased from 52827 in the year 2000-01 to 186294 in the year 2011-12. The major contribution in issuing the agriculture loan in india by the commercial banks followed by co-operative banks and RRB's, their share is 71,20,12% respectively.

3.1. Agriculture and Credit

Agricultural credit is one of the most crucial inputs for the development of agriculture in India. The credit is provided by the primary agricultural co-operative banks mainly for short term crop loans. The land development banks are providing long term loans.

The CB including regional rural banks are providing both short term and long term loans. The National Bank for Agriculture and Rural Development (NABARD) is the apex institution for providing the re-financial assistance. The Reserve Bank of India is the policy making authority.

The Supply of banking credit to agriculture is an ever growing problem in India. the savings of the farmers are low or negative to generate income for their subsistence. Besides, they ever expanding families which need more and more income to make out living.

The majority of farmers have very little marketable surpluses. The frequent crop failures make the farmers depend on banks for their credit requirements. The crop loans are the major portion of needs of the farmers and are urgently needed to the seasonal operations. Long term loans are needed for creating assets which generate income.

According to All-India Rural Credit survey estimation, the credit requirements of agriculture in 1951-52, were above Rs.750 crores. The All India Rural Debt and Investment Survey (1961-62), estimated that the total borrowing by the farmers were around Rs.2000 crores during 1972-73, of which credit needs for fertilizers was about one-third. The medium and long-term requirement of credit was estimated at Rs.2000 crores during 1969-70 and 1973-74 according to All Indian Credit Review Committee.

The credit to agriculture was supplied mostly by the money lenders in the earlier times in India. The farmers were exploited with high interest rates by money lenders. The need for co-operative institutions to solve the problem of the rural credit was highlighted in the report of Fredrick Nicholson in 1985. The Famine Commission (1901) also stressed the need for the credit society in India.

The CB were urged to lend for the agriculture and other priority sectors at the fag-end of 1967. The need to replace the indigenous banks and the money lenders by commercial and co-operative banks was realized. Accordingly, credits to agriculture by these banks have increased.

The non-institutional agencies dominated in the earlier period, but considerably reduced in 1971 and in 1981. The co-operative banks role was continuously increasing and their contribution was a little more than CB. However, the share of the co-operative banks was considerably increased than the CB. The co-operative banks and commercial credit to agriculture were in increasing trend in the recent decades.

State Co-operative Banks

The Apex Banks or the State Co-operative Banks were formed by federating District Central Co-operative Banks in a particular state. Its funds are secured by way of share capital subscribed by the affiliated DCC banks. Deposits from the public, surplus funds of the affiliated DCC banks, reserve fund, short-term loans and credit from CB. The major part of the funds of a DCCR is received from the Reserve 'Banks of India prior to the establishment of NABARD.

The sources of fund for the state apex co-operative banks were only the deposits and the borrowings. The participation of the State Government in the share capital was below 5 crores. The short-term credit was increased up to 1000 crores and the medium and long-term credit was of low figure of 50 crores only.

Primary Land Development Banks (PLDBS)

The PLDBs are located at the taluk/block level and they are providing long –term credit to agriculture. Loans are advanced to the member farmers on the security of land or other agricultural property. The long-term loans are issued for the purpose of permanent improvement on land, minor irrigation, mechanization of agriculture and diary development. The PLDBs raised funds by capitalizing profit, accepting deposits from the public and borrowing loans from the State Land Development Bank.

State Land Development Banks

The State Land Development Banks were establishment as the Apex Bank in each State to provide long-term credit facilities to its member PLDBs. They draw funds with shares subscribed by the members PLDBs, floating of debentures and loans from the State Government, Central Government, Reserve Bank of India, Agricultural Refinance Corporation and NABARD. It also accepts deposits from the public.

The number of Primary Land Development Banks increased and the s advanced also correspondingly went up from 1.38 crores to 461 crores.

3.2. National Policy on Agriculture

Since independence, a multi-agency approach consisting of co-operatives, CB and regional rural banks-known as institutional credit-has been adopted to provide cheaper and adequate credit to farmers. The major policy in the sphere of agricultural credit has been its progressive on for supplying agriculture and rural development programs with adequate and timely flow of credit assist weaker sections and less developed regions.

- a. To ensure timely and adequate flow of credit to the farming sector,
- b. To reduce and gradually eliminate the money-lenders from the rural scene.
- c. available credit facilities to all the regions of the country, i.e., regional imbalances and
- d. To provide larger credit support to areas covered by special programs like Pulses Development Program, Special Rice Production Program and the National Oilseeds Development Project.

3.4. Need for Larger Flow of Credit to Agricultural Sector

Larger flow of credit to agricultural sector is imperative in view of the greater thrust intended to be provided to this sector under the National Agricultural Policy seeks to:

1. Actualize the untapped potential of the farm sector.
2. Strengthen rural infrastructure to support faster development
3. Promote value addition
4. Accelerate the growth of agro business
5. Create employment in rural areas
6. Ensure household food and nutritional security
7. Secure a fair standard of living for farmers and agricultural workers and
8. Discourage migration to urban areas.

Conclusion:

Agricultural development occupies a virtual a significance place in the overall economic development of the country.' Mahatma Gandhiji" said agriculture is a back bone of a country. He stressed the rural character of the economy and the need for regeneration of rural life, since independence .Since it has been the constant endeavour of our policy makers to give adequate trust to rural development as the sector is directly related to agriculture .Still the stay for the majority of the population of India.