

Institutionalization of Farm Credit for Sustainable Agriculture

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Abstract

The present study was conducted in Ballia District. The block Ratanpura was selected on account of more number of branches of the Kshetriya Gramin Vikas Bank. The Kshetriya Gramin Vikas Bank Ballia in the block is studied. The number of cases covered 150 (75 borrowers and 75 non-borrowers) and the number of cases in small, medium and large came to 43, 27 and 05 in borrowers and 46, 23 and 06 were in non-borrowers. The study was based on primary data as well as secondary data. The primary data were collected from the farmers and secondary data were taken from different reports. The study reveals the institutional finance in agriculture in all over India has increased to over 68 percent in 2010 which shows a remarkable decline in the share of non-institutional credit. The total branches in Ballia district were 32 in the year 1980 which increased to 89 in the year 1990. The total advances increase from Rs. 256.34 lacs to 9240.04 lacs in the year from 1980 to 2005 respectively which shows considerable increase in the loan advanced. The lending positions of the Ballia Kshetriya Gramin Bank to various sectors also shows considerable increase in the advances made to priority sector. The primary data regarding the institutional and non-institutional loan in different farm size groups also shows a considerable increase in institutional finance which came to 97.78 percent, while the non-institutional finance came to only 2.22 percent. Thus, it can be concluded that there has been considerable increase in the institutional finance to agriculture through banks.

Keywords: Institutional Credit, Agriculture Credit, Rural Development, Small and Marginal Farmers, Commercial Banks, RRBs, Cooperatives

Introduction

Credit is the temporary transfer of purchasing power. It is the external source of capital for investment. There is a strong, though often latent, demand for agricultural credit in the developing world. It must be stressed that credit, though often necessary, is only one instrument for promoting agricultural development. In general, the demand for credit depends on the level of economic development of a country and the structure of its agricultural economy. Provision of adequate institutional credit to support the modern technology and augmentation of agricultural productivity and production is the basic aim of the country's agricultural credit policy. All production activities require for their sustenance some degree of credit, the amount and duration of which depends on the length of the production cycle. The rural credit market appears to be confronted with a paradox. The informal sources of finance by them are local money lenders, landlords and traders etc., charge heavy rate

of interest i.e.; more than 20 percent, often keep land as collateral against loan and have a very high recovery rate. On the other hand, Rural Financial Institutions (RFIs) charge almost half of this interest rate, do not take land as collateral for most of the crop loans, and still face high defaults. The Government of India promoted Regional Rural Banks (RRBs) through the RRBs Act of 1976 to bridge the gap in the flow of credit to the rural poor. Strategy in agriculture for increasing the production which means use of high yielding variety, use of more fertilizer and pesticides with the increase irrigation facilities which require more credit in agriculture. Previously there was a domination of Non-Institution Finance in agriculture rather than Institutional Finance. After nationalization finance in agriculture i.e.; through Commercial Banks, RRBs and Cooperatives, it is essential to examine how far the institutional credit has increased in financing agriculture.

Methodology

First of all, the list of blocks in Ballia District was taken from C.D.O. office. Then, the block wise, number of banks branches operating has been find out. After doing so, the block having maximum bank branches was selected for the present study. Thus Ballia block was selected purposively (having the maximum number of branches of banks). After selection of blocks, the bank having more number of branches in Ballia block was selected. Two branches of Kshetriya Gramin Bank were operating in this block. Kshetriya Gramin Bank is also the lead bank of Ballia District. Therefore, the Kshetriya Gramin Bank was selected for the present study. Kshetriya Gramin Bank Ballia has been selected purposively. Since this bank is established in rural area and financing the farmers in a bigarous way. Out of 75 cases, 10 cases were reported as term loan while 18 cases were of such cases who have taken crop loan as well as term loan together, while 47 cases reported as only crop loan. Hence, total numbers of term and crop loan were selected 28 and 65 respectively.

Results and Discussion

The share of institutional credit, which was little over 7 percent in 1951, increased manifold to over 68

percent in 2010, reflecting concomitantly a remarkable decline in the share of non-intuitional credit from around 93 percent to about 30 percent during the same period. Notwithstanding their wide network, co-operative banks, particularly since the 1990s have lost their dominant position to commercial banks. The share of co-operative banks (22 percent) during 2005-06 was less than half of what it was in 1992-93 (62 percent), while the share of commercial banks (33 to 68 percent) including RRBs (5 to 10 percent) almost doubled during the above period. The efforts to increase the flow of credit to agriculture seems to have yielded better results in the recent period as the total institutional credit to agriculture recorded a growth of around 23 percent 1995-96 to 2008-09 from little over 14 percent during 1991-92 to 2008-09. In terms of total credit to agriculture, the commercial banks recorded a considerable growth (from around 43 percent to about 69 percent), while cooperative banks registered a fall over (over 52 percent to over 18 percent) during the above period. There is a considerable increase in RRBs from 5% to 13% (Table 1).

Ballia Kshetriya Gramin Bank

Ballia Kshetriya Gramin Bank was setup in the early stage of conceptualization of the Regional Rural

Table1: Progress of Institutional Finance to Agriculture in all over India during different years. (Rs Crores)

Year	Cooperative Banks	Percent	RRBs	Percent	Commercial Banks	Percent	Total	%Increase
1991-92	5800	52	596	5	4806	43	11202	27
1992-93	9378	62	831	5	4960	33	15169	35
1993-94	10117	61	997	6	5400	33	16494	9
1994-95	9406	50	1083	6	8255	44	18744	14
1995-96	10479	48	1381	6	10172	46	22032	18
1996-97	11944	45	1684	6	12783	48	26411	20
1997-98	14085	44	2040	6	15831	50	31956	21
1998-99	15916	43	2538	7	18441	50	36897	15
1999-00	18363	40	3172	7	24733	53	46268	25
2000-01	20801	39	4219	8	27807	53	52827	14
2001-02	23604	38	4854	8	33587	54	62045	17
2002-03	23716	34	6070	9	39774	57	69560	12
2003-04	26959	31	7581	9	52441	60	86981	25
2004-05	31424	25	12404	10	81481	65	125309	44
2005-06	39404	22	15223	8	125859	70	180486	44
2006-07	33987	24	15170	10	100999	67	150156	49
2007-08	35875	20	17987	10	128876	70	182738	51
2008-09	36165	19	19325	10	132761	71	188251	53
2009-10	32871	18	23984	13	121879	69	178734	-

Source: Economy Survey and NABARD various Issues

Bank in 1976 with three branches in Ballia, Hanumanganj and Narhi under Dubhar, Hanumanganj and Sohaon development blocks on 25 December. By the end of 1980 the number of branches of the bank increased to 32 which further increased to 85 in 1990. In 2009 before amalgamation the total number of branches of the Ballia Kshetriya Gramin Bank was 87 out of which 83 branches fall in Ballia District where 4 branches of Ratanpura development block gone to Mau district as a result of creation of the new district but the branches remain part of Ballia Kshetriya Gramin Bank. Consequent upon the amalgamation of two RRBs viz. Ballia Kshetriya Gramin Bank & Etawah Kshetriya Gramin Bank, Ballia-Etawah Gramin Bank sponsored by Central Bank of India came into existence on 01 Jan. 2010.

Table 2 shows that the total branches in Ballia district were 32 in 1980, 82 in 1985 and 89 in all the three consecutive years viz. 1990, 1995 and 2000. In 2005, the total branches were 87 (on account of merger of two branches). The table further reveals that the

total advances increased from Rs 256.34 lacs to Rs 9240.04 lacs i.e. it has increased about 36 percent during the same period.

Table 3 depicts that the total agriculture loan increased from Rs. 260203 in 2004-05 to Rs. 865820 in 2008-09. The table further reveals that the small scale industry came to Rs. 7707 and Rs. 8665 in 2004-05 and 2008-09 respectively. Thus, the total lending to priority sector increased from Rs. 392665 in 2004-05 to Rs. 1106338 in 2008-09. In present study the primary data collected from farmers shows a significant increase in institutional finance to farmers as shown by table 1.4.

Table 4 reveals that the overall average borrowings per farm came to about Rs. 38474.82. The overall average borrowings per farm came to about Rs. 26141, Rs. 45878 and Rs. 100612 on small, medium and large farm size groups respectively. It further reveals that out of the total borrowings, about 98 percent were availed from the institutional agency and only 2 percent from non-institutional agencies. Size

Table 2: Total Branches in Ballia district and Advances made by the branches in different years.

(In Lac Rs)

Particulars	1980	1985	1990	1995	2000	2005
Rural Branches	31	81	77	77	84	75
Semi-Urban	01	01	10	10	03	10
Urban Branch	-	-	02	02	02	02
Total Branches	32	82	89	89	89	87
Advances	256.34	1408.06	2547.56	4345.82	6677.31	9240.04

Source: Ballia-Etawah Gramin Bank, Indra Market, Ballia

Table 3: Lending of the Ballia Kshetriya Bank to priority sector in different years.

(In thousand Rs)

Particulars	2004-05		2008-09	
	Number	Amount	Number	Amount
Crop Loan/KCC	14599	242382	14598	807938
Tractor	18	3365	103	32706
Mirror Irrigation	405	7781	35	868
Fishery	14	510	18	828
Other Agriculture Loan	339	6165	485	23480
Agriculture Loan	15375	260203	15239	865820
Small Scale Industry	68	7707	83	8665
Other than Agricultural	1879	124755	3470	231853
Total Priority Sector	17322	392665	18792	1106338

Source: Ballia-Etawah Gramin Bank, Indra Market, Ballia

Table 4: Extent of Institutional and Non-Institutional loan in different farm size groups per farm under Study during year 2003-04. (Amount in Rs)

Farm Size Group	No. of Cases	Institutional Loan (Bank)	Non-Institutional Loan	Total
Small	43	25213.33 (96.45)	928.57 (3.55)	26141.90 (100)
Medium	27	44984.43 (98.05)	892.86 (1.95)	45878.29 (100)
Large	05	100612.00 (100)	—	100612.00 (100)
Overall	75	37621.49 (97.78)	853.33 (2.22)	38474.82 (100)

Note: Figures in parentheses represent percent in total

wise analysis shows that of the total borrowing came to 96 percent on the small farms, 98 percent on medium farms and 100 percent on large farms obtained from RRBs and respective percentage of non-institutional credit came to about 4 percent, 2 percent and nil respectively. It is clear from the above discussion that about 98 percent loan availed from RRBs and only 2 percent loan availed from non-institutional agencies, the extent of institutional finance increased with increase in farm size.

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