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Role Of Institutional Credit In Agricultural Development In India

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***Abstract:** India is basically a rural economy. Majority lands in India particularly in southern India are either arid or semi arid lands. Land is an inelastic factor. That's why the productivity of the agricultural sector has to be increased to meet the growing demand for food grains. This can be achieved by providing more capital for implementing modern methods and modern technology. . Low income is one of the characteristic features of developing countries. We should not forget that India is a developing country. The NSS, 70th round reveals that an average farmer earns Rs 6426 per month, which leaves him with a meager surplus of Rs 203 after his consumption expenses have been met. the institutional credit has been increased, it is insufficient. The institutional credit provided to the agricultural sector is 15. 1 per cent only hence, the agricultural sector has caught by the private sector. There is a need to provide more amount of institutional credit to the agricultural sector to break cloches of private.*

***Keywords:** growth, exports, trade, poverty, hunger, technology, cultivation*

I. INTRODUCTION

India lives in its villages. India is essentially rural India and rural India is virtually the cultivator. Predominance of agricultural sector is a phenomenon of developing economies like India. Agriculture acts vital role in the process of economic Development. Agriculture is a major sector supplying sector as well as demanding sector for the remaining sectors viz-Industrial and Tertiary sectors. Agricultural sector supplies raw material, labour force and capital formation for the development of the two sectors. Agriculture is the only sector where the fast growing population depends up on the increasing demand for food grain.

Indian agriculture plays a pivotal role in the process of economic development. National commission on agriculture reported that Agriculture plays an important role in our country's exports and Trade. Some of the chief commodities are Cotton, jute, tobacco, oil seeds, tea and coffee. The contribution of the agricultural sector of national income, foreign exchange and employment is a measure of that sector's importance in overall economy of the country.

Mukesh Ambani of reliance industries aptly stated the importance of agriculture that agriculture has the potential to accelerate economic growth and social development in India.

Unless the government reaches self- sufficiency in agriculture for maintaining food stocks in the country. The country cannot keep up its sovereignty which is an essential element for the country that shows external force free and cannot restore from social unrest due to droughts. India had bitter experience with severe drought in 1965 and 1966. A lesson has been taught by the President of America Lyndon Jhon son that India was restricted food aid to monthly basis under the PL 480 programme. This was done to force India that not to condemn American aggression in Vietnam.

National Agricultural policy 2000 shows the importance of Indian agriculture. It states that actualize the vast untapped growth potential of Indian agriculture strengthens rural infrastructure to support faster agricultural development, promote value addition, accelerate the growth of agro business, create employment in rural areas, secure a fair standard of living for the farmers and agricultural workers and their families, discourage migration to urban areas and face the challenges arising out of economic liberalization.

The Development in agriculture and allied industries mitigate the regional imbalance, backwardness and income disparities and promote social justice which is incorporated in our Indian Constitution. Agriculture is an instrument for elimination of poverty and unemployment. Ahluwalia emphasized that the incidence of rural poverty is inversely relted to agricultural performance measured in terms of agriculture and net domestic product (NDP) per rural person. He suggested that an agricultural growth oriented strategy of development is the best way to remove poverty, hunger and unemployment.

The sixth five year plan recognized the importance of agriculture. It stated that since food occupies the first place in the hierarchical needs of man. We can neglect agriculture only at the risk of economic instability.

II. ROLE OF INSTITUTIONAL CREDIT IN AGRICULTURAL DEVELOPMENT

Agricultural sector, like other sectors, also requires adequate and timely credit for its faster and sustained growth. It is well known fact that the Indian economy predominantly agrarian economy revolving around peasant communities. Without agricultural prosperity, the prosperity of the Indian economy becomes too difficult to realize.

The rapid growth in agriculture can be achieved and sustained mainly through an increase in productivity, which is only the possible way of providing adequate and timely credit. In order to produce more in agriculture, the farmer need to invest more in form of modern inputs which must be financed either from savings or borrowings. Since the amount of savings by farmers are very small or it may be nil particularly in the case of marginal, small and low income group of farmers, an increased in flow of credit is essential to adopt of modern technologies in agriculture. Singh and Prasad (1978) identified that due to adoption of new agricultural technology and modern methods of cultivation, demand for agricultural credit has increased.

Lewis (1970) observed that the required growth of productivity in agriculture can be achieved by investing more capital in it.

The role of credit in agricultural development, after liberalization, has become very important. Singh (1996) opined that, in the wake of recent economic liberalization, the demand for credit in agriculture is likely to increase further due to emergence of new areas of investment in agriculture such as adoption of high yielding, early maturing, disease resistant verities of food as well as non-food crops, adoption of latest technology requiring improved irrigation systems and other machinery establishing commercial farms of dairy, poultry, fishery, etc., equipped with adequate linkages for processing, packing, transport, marketing etc., tapping commercial avenues in the area of horticultural plantations, floricultural aquaculture, bee keeping, sericulture, mushroom culture, developing capital intensive, hi-tech, non-conventional, export oriented projects in the field of bio-technology, tissue culture, embryo-transfer technology, plasticulture, green house plantation of aromatic and medicinal plants etc.,

More than 60 per cent of the people in India, still, receive income from agriculture. Mishra opined that agricultural development could increase the income of the people of the country. To increase the agricultural production, the improved technology, increase investment, increase in fixed capital formation, effective water management, etc., are important. For this utilization of modern imputes including finance would boost the agricultural production.

Source of institution can be divided into two categories (1) non-institutional credit (2) institutional credit. The non-institutional credit sources are the following (i) Money lenders, (ii) Relatives (iii) Traders (iv) commission agents, and (v) Land lords. The institutional credit sources comprise (i) co-operatives (ii) scheduled commercial banks (iii) regional Rural bank and (iv) NABARD.

Early to 1969 non- institutional credit contributed a lot particularly in agricultural sector. But, one of the main reasons for village poverty is usurious money lenders due to abnormal rate of interest. Mihir shah et.al, opined that the villages are ultimately caught up in the vicious circle of poverty, as the farmers borrow money from money lenders who charge abnormal rate of interest. Money lenders both professional and non- professional who constituted major source of non-institutional credit, charge usurious rate of interest.

Money lenders are not merely a source of credit; he often combined the role of crop buyer, labour, employer and land leased. 'Real' rate of interest then not just the 'rate' charged, they were also hidden in the lower price paid for produce sold.

The Indian Parliament emphasized the role of banks at the time of nationalization of Banks in 1969. That the banking system touches the lives of millions and has to be inspired by larger social purpose and has to sub serve national priority and objectives, such as rapid growth in agriculture, small industries and exports, raising of implement levels, encouragement of new entrepreneurs and the development of the backward areas. For this purpose it is necessary for the government to take direct responsibility for the extension and diversification of banking services and for the working of substantial part of the banking system.

Ex-Governor general of RBI C. Rangarajan opined the working efficiency of banking system that 1969 will make the banking institutions viable and efficient. The viability of banking system will expand along with the branch expansion which deliberately skewed towards unbanked and under banked areas.

Singh (1985) examined the role of banking in the development of rural section in India after nationalization of banking. The commercial banks have realized the importance of rural development and their responsibilities towards the rural society. He suggested that 40 per cent of the total advances may be disbursed among priority sector, of this percentage atleast 25 per cent should go to weaker section.

Spingler, honey expressed the role of banking in developing the economy that banking system is capable of mobilizing savings from hoarding of individual preference to productive channels of required investment.

S. K. Misra and V. K. Puri stressed the role of banks in providing credit particularly to agriculture sector that the small peasants and tenants are practically resource less, ample supportive system will have to be advised to give them the necessary resources and incentives to increasing agricultural production and productivity. The institutional credit structure particularly the banks, will have to be directed to increasingly divert their resource to the poor farmers, technical and extension services provide and fair returns assured to the farmers for their produce.

Malya and Rao (1980) emphasized that major benefit of the Banking schemes went to the better of categories viz. medium and large farmers. The shortage of finance has been identified as the major constrain in the case of new methods of cultivation. He concluded that the creation of adequate credit

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facilities has been identified as the principal solution for all Indian agricultural problems.

Thripathi identified the importance of agricultural credit that the Creation of credit facilities, therefore, has been identified as the principal solution for major agricultural problems of rural India. The shortage of finance has been identified as a major constrain in case of marginal and small farmers to change over to innovative practices of cultivation. The landless laborers, rural artisans of other weaker sections of the rural people have been put in the most disadvantages position due to financial shortage.

Even after nationalization of banks though they work successfully in many respects, the system could not do much to solve the rural indebtedness. Therefore the new type of banking system has been conceived.

EMERGENCE OF RRBs

A new era in the country's banking system was started on October2, 1975 with the inauguration of five rural banks in West Bengal, U.P, Rajasthan and Haryana by an ordinance. It was replaced by an Act of Parliament "Regional Rural Bank Act, 1976"

The Regional Rural Bank Act stated that Regional Rural Banks were setup to develop the rural economy by providing credit and other facilities, particularly to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs.

Since establishment of Regional Rural Banks, credit facilities were brought very near to the door of the poorer sections of the rural areas. Alak Ghosh stated the role of Regional Rural Banks that the rural banks, by bringing credit facilities very near to the door of the poorer sections of the rural people, will help to receive them from the rip of the money lenders. Further stated that the setting up Regional Rural Banks provide an alternative source of effective credit supply to the small and marginal farmers, rural artisans and landless laborers

Group wise farmers' income, consumption and net income during 2012-13 in India are shown in the below table. The table ascertains that farmers, particularly marginal farmers are getting losses in cultivation. But small farmers are getting surplus. The average net income in India is Rs 203 only. The net investment in productive assets is increasing with land. The average investment in the productive assets in India during 2012-13 was Rs 513.

particulars	up to 01	1.01-02	2.01- 04	4.01-10	10+	Average
Income	4718	7348	10730	19637	41388	6426
Consumption	5701	6457	7786	10104	14447	6223
Net	-983	891	2944	9533	26941	203
Net investment productive asset	-	422	746	1975	6987	513

Source: NABARD Annual Report 2014-151975

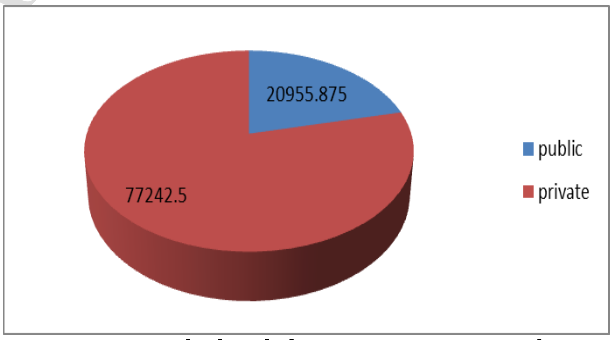
Table 1: Income and Consumption expenditure of Agricultural Households during 2012-13 in India

Year	Percentage		
	Public	Private	Total
2004-05	2.9	10.6	13.5
2005-06	3.4	11.2	14.6
2006-07	3.7	11.2	14.9
2007-08	3.5	12.6	16.1
2008-09	3.1	16.3	19.4
2009-10	3.4	16.7	20.1
2010-11	2.8	15.6	18.4
2011-12	3.0	16.8	19.8

Source: NABARD Annual Report 2014-15

Table 2: Capital formation in agriculture and Allied sector

Private sector is contributing lion share in capital formation. It is clearly visualized in the above table and the below graph. Since 2004-05 private sectors' in capital formation has been increasing accept 2010-1. Though the capital formation in this year decreased, the capital provided by the private sector was more than that of public sector. In the same year the public sector contribution was 2.8 per cent. The minimum contribution of the private sector in this regard is 10.6 and maximum is 16.8, but, regarding to public sector these are 2.8 and 3.7 respectively. The table summarizes that private sector is providing capital a lot to the agricultural and allied sector. It is concluded that the impact is more on this sector.



Source: Average calculated from NABARD Annual Report 2014-15

Graph 1: Average capital formation

Year	Poverty Ratio		
	Rural	Urban	Total
2004-05	41.8	25.7	37.2
2011-12	25.7	13.7	21.9

Source: NABARD Annual Report 2014-15

Table 3: Poverty in India

The above table reveals the poverty ratio in India. The table ascertains that poverty levels in urban as well as rural and altogether are decreased. In 2004-05 the poverty ration in rural areas was decreased from 25.7 to 13.7. In the period 2004-05 - 2011-12.the total poverty ratio was decreased from 37.2 to 21.9 in the same period. In spite of poverty ratio was decreased I rural areas, it is not at negligible level.

(Rs in Crores)

Agency	2010-11	2011-12	2012-13	2013-14	2014-15
Commercial Bank	3,45,877	3,68,616	4,32,491	5,09,005	5,99,691
RRB's	44,293	54,450	63,681	82,652	1,02,483
Co-op Societies	78,121	87,963	1,11,203	1,19,964	1,38,469
TOTAL	4,68,291	5,11,029	6,07,375	7,11,621	8,40,643

Source: NABARD Annual Report 2014-15

Table 4: Credit flow into the agriculture in India from 2010-11 to 2014-2015

The increasing trend in credit flow into Agricultural in the country for the period from 2010-11 to 2014-15 was visualized in the above table. The total inflow in the sector in 2010-11 was 4, 68,291. It was about twice in span of four years (2014-15). Though it is clear that the enhancement in the credit inflow into the agriculture was increasing, we can find the highest rate of credit inflow during the Said period in the sector is 2013-14. In this year the credit inflow was increased by 18.85 per cent than previous year. The very next year the rate of increment was decreased by 1.69 per cent than the succeeding period. In 2014-15 the rate of inflow though was increased but it was 0.97 per cent more than the succeeding year.

III. CONCLUSION

India is basically a rural economy. Agriculture plays a vital role in the country's economic development. India lies in temperate zone, that's why Majority lands in India particularly in southern India are either arid or semi arid lands. Because of this, agriculture in India has become a gambling of rain fall. It is the responsibility of agricultural sector to supply food to the crowing population of the country. Land is an inelastic factor. That's why the productivity of the agricultural sector has to be increased to meet the growing demand for food grains. This can be achieved by providing more capital for implementing modern methods and modern technology. We know that capital is a function of savings in tern savings are function of income. Low income is one of the characteristic features of developing countries. We should not forget that India is a developing country. The NSS, 70th round reveals that an average farmer earns Rs 6426 per month, which leaves him with a meager surplus of Rs 203 after his consumption expenses have been met.

Capital formation in agricultural sector is low. Hence, credit has to be provided to meet farmers' requirements. Though after banks nationalization particularly the emergence of RRBs in the country; the institutional credit has been increased, it is insufficient. The institutional credit provided to the agricultural sector is 15. 1 per cent only hence, the agricultural sector has caught by the private sector. There is a need to provide more amount of institutional credit to the agricultural sector to break cloches of private.

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