ROLE AND GROWTH OF FINANCIAL INSTITUTIONS AND AGRICULTURAL DEVELOPMENT IN INDIA: AN ECONOMIC ANALYSIS

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Abstract:

Agriculture contributes to the growth of gross domestic product and thus, to the growth of Indian economy. In India, banks and financial institutions lend to agriculture sector. In India, there are financial institutions available for a different sector. As Indian economy is so large, every sector needs different institutions to manage its economy. Financial institutions role is not limited to lending to agriculture sector. But it expands to providing various services to the farmers, particularly to the small and marginal farmers. Financial institutions have established Credit Counselling Centres to help farmers understand the details of financial support provided by financial institutions. The present study analysis of the performance and growth of financial sources credit has been regarded to play a vital role in the agricultural development in the country. Agriculture is a primary sector in India as it provides employment opportunities for the people in rural areas. The agricultural performance depends on various factors; agricultural credit is one of them. The institutional credit flow to the agriculture has been increasing for the past four decades. However, the patterns in the growth of agricultural credit are different in different sub-periods. The study based on the secondary data collected from various sources, has revealed that the financial institutional credit to agriculture in real terms has increased tremendously during the past previous years. The structure of credit outlets has witnessed a significant change and commercial banks have emerged as the major source of institutional credit in recent years. The study has statistical tools also adopted/ identified that the different between financial institutional credit to agriculture development in the country. The results of the exponential growth model of financial institutions credit to agriculture development in India. As per the results, the financial institutions credit has positively grown on an average by 15.5% during the study period and it is significant at 1% level of significance. The goodness of fit value is 88.1%.

Keywords: Agriculture, Role, Growth, Financial Institutions, and Financial Institutional Credit to Agriculture Sector.

Introduction

Agricultural finance is playing significant role in the development of the sustainable agricultural sector because adequate fiancé is required by farmers to establish economic size farms or large scale farms, and to expand existing farms. Adequate finance also brings significant changes in the structure of agriculture. Financial sources in sustainable agriculture is a very significant vital role and as other inputs being used in agricultural production. It is one of the perilous inputs for agricultural development. The importance of agricultural credit is further strengthened by the significant role of Indian agriculture in the macroeconomic outline along with its substantial role in the poverty alleviation and rural development. Realizing the importance of agricultural credit in fostering agricultural growth and development, the emphasis on the institutional framework for agricultural credit is being emphasized since the beginning of planned development era in India. A large institution of financial agencies namely, public banks, co-operatives, regional rural banks, Scheduled Commercial Banks, Non-institutional banks, Non-Banking Financial Institutions, Self-Help Groups and Money Lenders are involved in meeting the short and long run essential of the agriculture farmers. Realizing the importance of agricultural credit in fostering agricultural growth and development, the emphasis on the institutional framework for agricultural credit is being emphasized since the beginning of planned development era in India. Agriculture finance empowers poor farmers to increase their wealth and facilitates the development of food value chains for feeding 9 billion people by 2050. Agriculture finance helps clients provide market-based financial services,

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and fund long-term and green investments to support sustainable agriculture and agri-food value chains.

Objectives of the Study:

1. To study the growth of agricultural credit and sustainable agriculture development in India.
2. To analyze the impact of the financial sources on sustainable agricultural development in the country.

Hypothesis:

1. There is a significant impact of financial institutional sources on sustainable agriculture development in India.

Research Methodology:

The research study is mainly based on secondary data. The secondary data sources of information have been collected from the various sources like RBI, Scheduled Commercial Banks, Handbook of Statistical to Indian Economy, Census publications, State Cooperative Banks, DCC Bank, Agriculture Department, etc. The data collected have been analyzed by using appropriate statistical techniques like percentage, average, Annual Growth Rate (AGR), Compound Annual Growth Rate (CAGR) and exponential growth model were used.

Sources of Agriculture Finance:

Agricultural credit is disbursed through a multiagency network consisting of Commercial Banks (CBs), Regional Rural Banks (RRBs) and Cooperatives. There are approximately 100,000 village-level Primary Agricultural Credit Societies (PACS), 368 District Central Cooperative Banks (DCCBs) with 12,858 branches and 30 State Cooperative Banks (SCBs) with 953 branches providing primarily short- and medium-term agricultural credit in India. The long-term cooperative structure consists of 19 State Cooperative Agricultural and Rural Development Banks (SCARDBs), with 2609 operational units as on 31 March 2005 comprising 788 branches and 772 Primary Agricultural and Rural Development Banks (PA&RDBs) with 1049 branches.

Performance of Financial in the Sustainable Agriculture Development:

Sustainable agriculture is intended to protect the environment, maintain soil fertility, and even expand the natural resource base of the earth. The three main goals of sustainable agriculture are economic profitability for farmers; the promotion of environmental stewardship; and an increase in welfare for farmers, their communities, and their animals while producing enough to meet the needs of humans. The agriculture sector is inextricably linked with all three- environmental, social, and economic- aspects of sustainability. Keeping this in view, developing a strategy to create incentives and derive monetization to effect system-wide change by mainstreaming sustainable agriculture practices is needed. For achieving success in promoting sustainable development in agriculture attention must be focused on land, water energy, nutrient supply, genetic diversity, pest management, systems approach and location of specific research and development.

Flow of Credit to Agriculture Sector

A comprehensive credit policy was announced by the Government of India on 18 June 2004, containing measures for doubling agriculture credit flow in the next three years and providing debt relief to farmers affected by natural calamities. The following are the highlights of this announcement: Credit flow to agriculture sector to increase at the rate of 30 per cent per year; Debt restructuring in respect of farmers in distress and farmers in arrears; Providing for rescheduling of outstanding loans over a period of five years including moratorium of two years, thereby making all farmers eligible for fresh credit; Special One-Time Settlement scheme for old and chronic loan accounts of small and marginal farmers; Banks allowed to extend financial assistance for redeeming the loans taken by farmers from private moneylenders; Commercial Banks (CBs) to finance at the rate of 100 farmers/ branch; 50 lakh new farmers to be financed by the banks in a year; and New investments in agriculture and allied activities at the rate of two to three projects per branch.

Growth of Agricultural Credit Indicators:

In India a multi-agency approach comprising co-operative banks, scheduled commercial banks and RRBs has been followed for purveying credit to agricultural sector. The policy of agricultural credit is guided mainly by the considerations of ensuring adequate and timely availability of credit at reasonable rates through the expansion of institutional framework, its outreach and scale as also by way of directed lending. Over time, spectacular progress has been achieved in terms of the scale and outreach of institutional framework for agricultural credit. Some of the major discernible trends are as follows: Over time the public sector banks have made commendable progress in terms of putting in place a wide banking network, particularly in the aftermath of nationalization of banks. The number of offices of public sector banks increased rapidly from 8,262 in June 1969 to 68,355 by March 2005. One of the major achievements in the post-independent India has been widening the spread of institutional machinery for credit and decline in the role of non-institutional sources, notwithstanding some reversal in the trend observed particularly in the 1990s. The share of institutional credit, which was little over 7 per cent in 1951, increased manifold to over 68 per cent in 2010, reflecting concomitantly a remarkable decline in the share of non-institutional credit from around 93 per cent to about 30 per cent during the same period. However, the latest NSSO Survey reveals that the share of non-institutional credit has taken a reverse swing which is a cause of concern. The details of relative share of borrowing of cultivator households from different sources are presented in following Table–1.

Table – 1 :Growth of Borrowing of Cultivator Households from Different Sources in India (1951 to 2011)

(In per cent)

Year	Non-Institutional of which	Money Lenders	Institutional of which	Cooperative Societies/ Banks	Commercial Banks
1951	92.7	69.7	7.3	3.3	0.9
1961	91.3	49.2	18.7	2.6	0.6
1971	68.3	36.1	31.7	22	2.4
1981	36.8	16.1	63.2	29.8	28.8
1991	30.6	17.5	66.3	23.6	35.2
2001	38.9	26.8	61.3	30.2	26.3
2011	29.7	21.9	68.8	24.9	25.1

Source: All India Debt and Investment Survey and NSSO.

The various sources of agricultural credit can be broadly classified into institutional and non-institutional sources. Non-Institutional sources include moneylenders, traders and commission agents, relatives and landlords, but institutional sources include co- operatives, commercial banks including the SBI Group, RBI and NABARD. Notwithstanding their wide network, co-operative banks, particularly since the 1990s have lost their dominant position to commercial banks. The share of cooperative banks (22 per cent) during 2005-06 was less than half of what it was in 1992-93 (62 per cent), while the share of commercial banks (33 to 68 per cent) including RRBs (5 to 10 per cent) almost doubled during the above period.

Table -2 :Financial Institutional Credit to Agriculture Development in India (Period: 2009-10 to 2018-19)

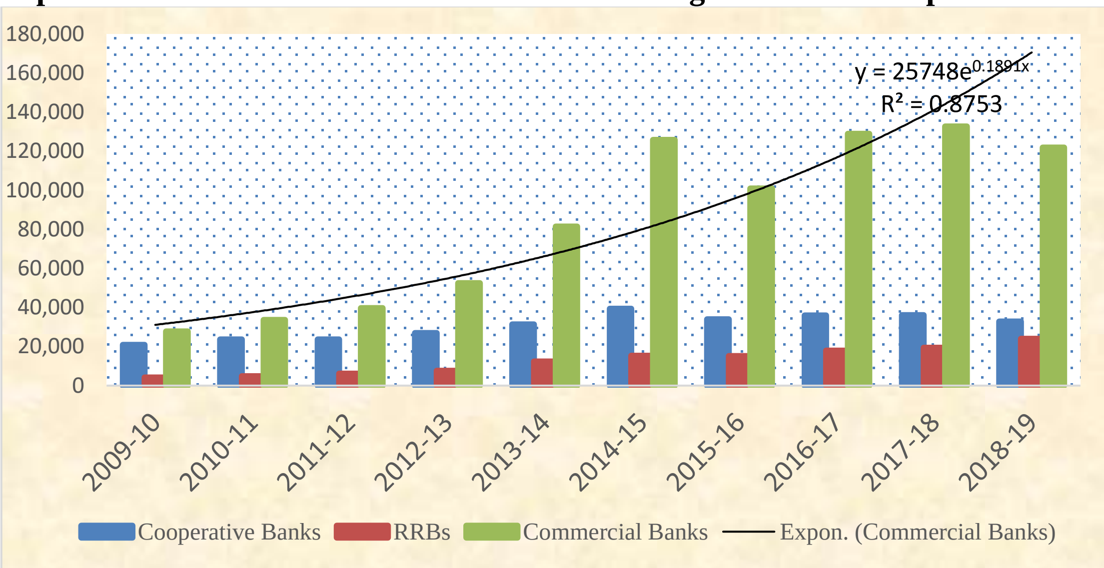
(Rs. Crores)

Year	Cooperative Banks	Share (%)	RRBs	Share (%)	Commercial Banks	Share (%)	Total	Percent Increase
2009-10	20,801	39	4,219	8	27,807	53	52,827	14
2010-11	23,604	38	4,854	8	33,587	54	62,045	17

2011-12	23,716	34	6,070	9	39,774	57	69,560	12
2012-13	26,959	31	7,581	9	52,441	60	86,981	25
2013-14	31,424	25	12,404	10	81,481	65	1,25,309	44
2014-15	39,404	22	15,223	8	1,25,859	70	1,80,486	44
2015-16	33,987	24	15,170	10	1,00,999	67	1,50,156	49
2016-17	35,875	20	17,987	10	1,28,876	70	1,82,738	51
2017-18	36,165	19	19,325	10	1,32,761	71	1,88,251	53
2018-19	32,871	18	23,984	13	1,21,879	69	1,78,734	-
Mean	**30,481**		**12,682**		**84,546**		**127,709**	
CAGR (%)	**6.31**		**22.16**		**20.81**		**16.76**	

Source: Economic Survey and NABARD various issues.

Graph-1 :Financial Sources Credit to Sustainable Agriculture Development in India



The details of institutional credit to agriculture are presented in above Table-2 and Graph-1. 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 per cent during 1995-96 to 2018-19 from little over 14 per cent during 200-01 to 2018-19. In terms of total credit to agriculture, the commercial banks recorded a considerable growth (from around 43 per cent to about 69 per cent), while cooperative banks registered a fall (over 52 per cent to over 18 per cent) during the above period. There is a considerable increase in RRBs from five percent to 13 per cent.

Testing Hypothesis:

H0: There is no significant impact of financial institutional sources on sustainable agriculture development in India.

H1: There is a significant impact of financial institutional sources on sustainable agriculture development in India.

Table –3 :Impact of Financial Institutional Sources on Sustainable Agriculture Development

Model Summary and Parameter Estimates							
Dependent Variable: Financial Institutional Sources to Sustainable Agriculture Development							
Equation	Model Summary					Parameter Estimates	
	R Square	F	df1	df2	Sig.	Constant	b1
Exponential	.881	59.021	1	8	.000	49150.086	.155

The table reveals the results of the exponential growth model of financial institutions credit to sustainable agriculture development in India. As per the results, the financial institutions credit has positively grown on an average by 15.5% during the study period and it is significant at 1% level of significance. The goodness of fit value is 88.1%

Conclusion:

The study concluded that the agriculture sector emerged as a dynamic and vibrant sector of the economy. At the national level, this sector has performed extremely well and enabled out country to attain agricultural strengthening a diversification. Agriculture continues to be the mainstay of the Indian economy. Agriculture is described as the backbone of Indian economy mainly because of the three reasons. Contribution of Agriculture sector in Indian economy is much higher than global average (6.4%). Contribution of Industry and Services sector is lower than world's average 30% for Industry sector and 63% for Services sector. Agricultural finance is the provision of multiple types of services dedicated to supporting both on- and off-farm agricultural activities and businesses including input provision, production, and distribution, wholesale, processing and marketing. Although many new types of formal financial institutions have spread to the rural areas of developing countries, the majority of smallholders have limited or no access to them. The present study has shown that the institutional credit flow to the agriculture has been increasing for the past four decades. The structure of the sources of credit has witnessed a clear shift and commercial banks have emerged as the major source of institutional credit to agriculture in the recent years. Imparting training to borrowers regarding procedural formalities of financial institutions could be helpful in increasing their access to institutional credit to sustainable agriculture development.

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