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Flow of Institutional Credit to Agriculture – A Case Study of SALEM District in Tamilnadu

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ABSTRACT : Agriculture in India is a crossroads and major challenge of the policy makers of to reserve se the trend of deceleration in agricultural growth which is directly associated with the declining of public investment in agricultural research and development .Fragmentation of holdings, lack of infrastructure and structured markets outdated technology and inappropriate input pricing policies of the government .The crisis of agricultural stagnation needs immediate attention and treatment on the part of planners and policy makers . Recording the continues deceleration of agriculture growth, the present study attempts to analysis the trend and growth of flow of credit to agriculture after 2001 in India. The study based on secondary source of data compile from several sources, revealed that structure of credit outlet has witnessed significant chance and commercial banks have emerged as the major source of institutional credit to agriculture in recent years, but the declining share of investment credit in total credit may constrain the sustainable growth of agriculture in India. The situation calls for concrete efforts to augment the follow of credit to agriculture, alongside to exploring the new innovation in the farming practices, product design and methods of delivery through better use of technology and related processes .Facilitating credit through processor, NGO and input dealers that are vertically integrated with farmers for providing them critical inputs or processing their produce, could increase the credit flow to agriculture significantly.

Keywords: Institutional credit, agricultural productivity, Sustainable Deployment and inclusive growth.

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1. INTRODUCTION

Agriculture is still the lifeline and soul of majority of the people in India Mahatma Gandhi .1901 rightly said that,'' India lives in its villages " A large proportion of the population in India is rural agricultural and allied sector based and solely depends upon the agriculture for a livelihood creation. Therefore ,an enhanced and stable growth of the agriculture and allied sector is important ,as it plays a vital role not only in generating purchasing power among the rural population by creating on –farm and off –farm employment opportunities but also through its contribution to livelihood creation and ensuring the price stability in the country as whole.
Indian agriculture has undergone a rapid technological revolution during the past two decades and with adoption of new agriculture technologies, the demand for agriculture credit has increased manifold. The majority of our farmers, being small or marginal have to depend on credit for auguring crucial inputs. The traditional sources of institutional finance –the co-operative –could not cope with the increased demand for credit due to inadequate supply of funds with them for various types of farm investment. With the nationalization of 14 commercial bank in 1969 and 6 more in 1980, more credit is being provided to the agricultural sector.

2. Review of literature

Rosegrant and evenson (1995) studied the total factor productivity and sources of long –term growth in Indian agriculture using data envelopment analysis (EDA) a parametric technique .In this study tornqvist Their TFP indices were computed for 271 district which were covering around 13 states in India for the period 1956 to 1987 ,the study examines the sources of productivity growth including public and private investment and estimate the rates of return to public investment in agriculture .The results showed that significant TFP growth in the Indian crops sector was produced by investment – primarily in research –but also in extension markets and irrigation which is important pillar for agriculture growth in India. Sarbajit Chaudhuri (2001) studied the interaction of formal and informal credit markets in backward agriculture using mathematical tool by establishing Nash equilibrium .The paper considers two alternative ways of formulating a credit subsidy policy through an increase in the aggregate volume of formal credit supplied to the borrowers ,keeping the formal sector interest at a reasonable level ,it is actually able to lower the informal sector interest rate and improve both the agriculture productivity and welfare of farmers.

Objective of Flow of Agricultural Credit

- To examine the role of Institutional credit,
- To the role of examine agricultural productivity
- To examine promote income Sustainable Deployment and inclusive growth

3. Methodology

They study has been confined to Pathanayakanpalayyam of Selam District Primary data were collected from a sample of 60 farmers .The sample consists of four farm size categories viz ., Marginal farms , small farms , medium farms and large farms Each having equal representation Pathanayakanpalayam is a developing union panchayats situated in the heart if Selam District .Sugarcane ,groundnut and paddy are the major crop [s grown in the selam district . Well from the major source of irrigation. Small and marginal farmers predominate in the selam district .It has good infrastructural facilities .As such this study gives an understanding of the flow f credit in a developing region.

Debt owed to different credit agencies by Rural Households

Thus the agriculture credit institutions have undergone a qualitative as well as quantitative transformation in recent years , thereby causing remarkable decline in the relative share of non – institutional sources of credit to the outstanding debt of cultivator households decreased from 93 per cent in 1951 -52 to 39 per cent in 1981 (Table 1) .but past experience reveals that the distribution of agricultural credit among various categories of borrowers has been shared by the rich farmers and the small and marginal farmers have been denied their due share .In this context ,an attempt is made in this paper to highlight the different sources of agricultural credit available and to examine the flow of credit with special reference to different categories of farmers.

Table -1: Debt owed to different credit agencies by Rural Households (percentage)

Sl. No	Category of Debt	1951-52	1971	1981
I	Non –Institutional			
1	Professional money lenders	40	14	8
2	Agriculture money lenders	25	23	9
3	Relatives and friends	14	14	9
4	Traders and commission agents	6	9	3
5	Landlords	2	9	4
6	Others	1	2	6
II	Institutional			
1	Government (TACCAVI LOANS)	3	7	4
2	Co-operative	3	20	29
3	Commercial Banks	1	2	28
	Sub –Total	--	--	--
	Grand Total	100	100	100

Source: For 1951-52 –All India Rural Credit Survey Report 61-62: For 1981-82 and 1971-72 –All India Debt and Investment Survey Report; Reserve Bank of India Bulletian June 1986.

Flow of Agricultural credit

To ensure flow of credit to the agriculture sector of 18 per cent of net bank credit is targeted for lending to agriculture by all commercial banks. The National bank for Agriculture and rural development (NABARD) which is the apex organization in the field of rural credit has taken several initiatives for facilitating flow of credit to the agricultural sector notable development in recent years is the introduction of Kisan credit card scheme in 1989-99, which is regarded as an innovative scheme to facilitate rural lending . With a view to ensuring that flow of credit to agriculture increase substantially .RBI, has evolved a scheme in which they have advised the banks that they should prepare an annual action plan for disbursement of credit to agriculture under different heads .Accordingly each bank is preparing special Agriculture credit plan (SACP) segregated into quarterly target ,which is being monitored by the RBI .As per guidelines every banks should plan for at least 25 per cent growth in disbursements over the previous year , the performance of the public sector banks under this scheme for the last five years is shown in , Table -2

Table -2: Flow of credit to Agriculture by public Sector Banks (Special Agriculture credit plan Scheme) (Rs in Crore)

Sl. No	Year	Target	Achievement	percentage
1	1996-1997	14253	12783	89.7
2	1997-1998	16069	15831	98.5
3	1998-1999	18504	18443	99.7
4	1999-2000	21308	19755	92.7
5	2000-2001	24693	NA	NA

Source of Agricultural credit

Table 3 shows the share of different sourc3es of credit in the total borrowing of farmers in the study area .the supply of credit in the sample as a whole, by the institutional agencies .is 77.25 per cent consisting of co-operation and commercial banks.

Table -3: Shares of different sources of Agricultural credit in the Total credit in Selam District.

Sl. No	Source of Credit	Farm Size				
		Marginal	Small	Medium	Large	Average
1	Co-operatives	40	46	52	38	44.00
2	Commercial Sourecs	22	23	30	58	33.25
3	Instittutional Sources	62	69	82	96	77.25
4	Non –Institutional Sources	38	31	18	4	22.75
	Total	100	100	100	100	100.00

Sources; District Agricultural Statistics Hand Books – 2012

The proportion of credit has increased it the size of farm –ranging from 2 per cent on marginal farms to 96 per cent on large farm co-farmers followed by non –Institutional sources and commercial banks Co-operatives and commercial banks occupy the first two places in providing credit to medium and large farmers.

Supply of Agricultural Credit

The disparity between the small and large farmers in availing formal credit would be more clear if the availability of formal credit is Presented .The relevant data are presented in Table-4

Table-4: Availability of Agricultural Credit –Farm size –Wise

Sl. No	Particulars	Marginal	Small	Medium	Large
1	Average farm size (hectares)	0.55	1.70	2.93	5.88
2	Availability of Total credit (Rs ,/crop ha)	2850	2245	2036	1705
3	Availability of Institutional Short term credit (Rs,/ Crop ha)	1390	1260	972	677

Availability of short term credit per crop hectare in the sample decreased with the increased in the farm size .It ranged from Rs 677 on large farmers to R 1390 on marginal farms. An attempt of made to find out the purpose of borrowing and the end the of credit. Most of the farmers borrow an amount for productive purpose and there is large scale diversion to other purposes .The diversion of credit has been for purposes like consumption .Social obligations education and litigation etc. This hampers the credit facilities to other unproductive purposes would not generate incomes and consequently the borrower lacks capacity to repay the loan .The following table shows the utilization of credit for the purpose and diversion of credit .The data are given in Table -5

Table -5: Utilization of credit

Sl. No	Farm Size	Proportion of credit utilization for		
		Productive Utilization	Consumption	Other purposes
1	Marginal	67	20	13
2	Small	76	16	8
3	Medium	84	4	12
4	Large	89	-	11

The table shows that on the average 79 per cent of the credit is utilized for productive purposes. is the extent of However the proportion of productive utilization has shows positive relationship with the farm size .In other words the table shows that size the greater diversion of credit among marginal and small farmers is to meet consumption needs. In fact diversion of credit for consumption expenditure is inversely related to the farm size in the sample.

Kisan Credit Card Scheme

The kisan credit scheme ,introduction in 1998 -99 , is an innovative mechanism for facilitating short –term credit to farmers .The scheme has gained popularity and its implementation has been taken up to 27 commercial banks ,334 central co-operative banks and 187 regional rural banks . The progress in issue of kisan credit card and credit sanction upto December 2000 is listed in there has been some marginal improvement recovery of loans availed of by agricultural sector ,through there is scope for improvement Table -6

Table-6: gricultural Advances –Recovery (Per cent)

Sl. No	Institution	1995-96	1996-97	1997-98	1998-99	1999-2000
1	Commercial banks	62.0	63.3	66.1	66.68	N.A
2	District central cooperative banks	69.0	70.0	70.0	70.0	69.24
3	Regional Rural banks	65.0	57.0	61.0	64.0	NA
Provisional N A- Not available						

4. Conclusion

The study that the majority of small and marginal farmers are still dependent on the non- institutional credit agencies such as commission agents (Jaggery mercents). The credit needs of the farmers in this district increased, not only due to the poverty of a large proportion of the cultivators, but also because of the multiplicity of crops and increased physical volume of inputs. An inverse relationship was found between the amount of loan per heactre on the one hand and the size of the holding on the other. The differences in credit availability and consumption needs relative to income which, in turn result from the inequality of land ownership. The study also suggests that there is a need for redirecting loan ownership. Small farmers and marginal farmers should be encouraged to tap subsidiary sources of income to meet their consumption needs rather than extending consumption loans.

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