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BANK CREDIT TO AGRICULTURE IN THE CONTEXT OF FINANCIAL INCLUSION

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ABSTRACT

The nationalisation of 14 major banks with deposits of Rs.50 Crores or more in 1969 was a historic event in the history of India. One of the goals of bank nationalisation was to provide liberal credit to the agriculture, small scale industries, petty business, cottage and village industries. These different sectors of the "small men" in India constitute the priority sector. With the nationalisation of 6 more commercial banks in 1980 the total became 20 and the SBI with its associates would make the total 21. Punjab national bank and new bank of India were amalgamated subsequently and the total nationalised banks today are 19.

Over the period their branches increased from 8260 in 1969 to 64608 by March 2009. Over this period rural branches increased from 1860 to 20058 and in percent terms from 22percent to 31percent in the rural areas. Population per Bank branch decreased from 63800 in 1969 to 15000 by 2007. Deposit mobilisation and bank credit have substantially increased between 1950 and 2010. Bank deposits in 1950-51 were 820 crores and they increased to 44,21,639 crores. This is a stunning growth over the period. Bank credit increased from just 580 crores in 1950-51 to 32,40,399 crores by 2009-10. Over the period so many changes have taken place, based on policy changes from time to time of which Financial Inclusion as a component of inclusive growth is of significance.

Objectives: The basic objective of this paper is to examine agricultural credit as a part of the priority sector lending by the nationalised banks. Along with this objective other objectives like expansion of priority sector lending over the period, percent of agricultural credit in priority sector credit and the role of institutional and non-institutional agencies in rural credit are also examined. The 12th plan has incorporated inclusive growth as a strategy to enable all sections of the society to derive the benefits of economic development. This paper makes an attempt to probe into the credit flow of Financial institutions to the farm sector.

Data: Data is mostly secondary published by the RBI and the findings of the NSS 59th round survey 2005 and department of Agriculture and cooperation, annual report 2004-05.

Methodology: The Methodology and research tools are simple in the form of averages and percents over the periods of reference.

Key Words: Agricultural Credit, Priority Sector Lending, Institutional Credit, Inclusive Growth, Financial Inclusion

Introduction

This paper is divided into Part I and Part II to facilitate the presentation of the analysis clearly. Part I deals with the Introduction, objectives, methodology, data and limitations, while Part II deals with the analysis and conclusions.

Part-I

Introduction:

The nationalisation of 14 major banks with deposits of Rs.50 Crores or more in 1969 was a historic event in the history of India. One of the goals of bank nationalisation was to provide liberal credit to the agriculture, small scale industries, petty business, cottage and village industries. These different sectors of the "small men" in India constitute the priority sector. With the nationalisation of 6 more commercial banks in 1980 the total became 20 and the SBI with its associates would make the total 21. Punjab national bank and new bank of India were amalgamated subsequently and the total nationalised banks today are 19.

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Methodology: The Methodology and research tools are simple in the form of averages and percentages over the periods of reference.

Limitation: This study has its limitation since it takes only agriculture as a part of priority sector lending at a macro level. It has the limitation of comparison of 2009 data with 2002 figures in view of latest data constraint.

Part-II

Priority sector lending has been one of the contemplated objectives of nationalisation. Priority sector lending intends to ensure assistance from the banks in an increasing manner to those sectors of the economy which account for a significant proportion of the GDP but have not received adequate support of institutional finance in the past. These sectors are agriculture, small industry and business, small transport operators, retail trade, professional and self-employed persons, higher education, housing loans for weaker sections and consumption loans. They need to be brought under financial inclusion to ensure inclusive growth.

In 1980 RBI gave guidelines to banks on priority sector lending. These guidelines fix 40 percent of the aggregate bank credit to be advanced to the priority sectors. 40 percent of the priority sector advances should be given to the agricultural sector. Weaker sections in rural areas should be given at least 50 percent of the agricultural advances. 12.5 percent of the advances to the small scale sector should go to village artisans, craftsman and cottage industries. 12 percent of the total bank credit should go to exporters.

In June 1969 priority sector lending by the commercial banks was 440 crores by 2009 march it increased to 7,20,083 crores. The RBI stipulation of 40 percent of the bank credit to the priority sector is complied with. In fact 42.5 percent of the total bank credit went to priority sector in 2008-09. The growth rate of priority sector lending was slow for a long time as the bank officials could not understand the spirit of the new objectives of banking in India. They were also worried at the poor and unsatisfactory recovery performance of the priority sectors. The following table depicts priority sector lending over the period.

Table-1: Public sector banks advances to priority sectors: amount outstanding (Rupees in crores)

S.No	Priority Sector	June 1969	June 1971	March 2005	March 2009
1	Total bank credit	3,020	4,080	7,17,419	16,93,437
2	Total priority sector advances	440	910	3,07,046	7,20,083
3	Percentage of priority sector advances to total bank credit	12	25	42.8	42.5
4	Agricultural Credit	160	340	1,09,917	2,98,211
5	Percentage of agricultural credit to total priority sector credit	36.36	41.36	36	41.41
6	Small scale industries	260	440	68,000	1,91,307
7	Other priority sectors	20	130	1,25,114	2,30,565

Source: RBI Reports

The impact of Globalisation has been felt on the banking sector strongly. Narasimham Committee influenced by privatisation, liberalisation and Globalisation policies opposed the priority sector lending. The committee recommends that priority sector lending should be reduced to only 10 percent of the total bank credit. It also recommends for gradual removal of priority sector lending. The government of India has not accepted Narasimham committee's report. However, the Indian Bankers Association under the impact of the Narasimham committee recommendations demand that priority sector lending should be slashed down to 10 percent. They bring out higher operational expenses on small loans, low recovery rates and higher risks involved in priority sector lending as the reasons.

Priority sector lending was not uniform in all the states in India. States like Uttar Pradesh, Bihar, Rajasthan had low credit flows to the priority sector. More advanced states have enjoyed regular credit flows and thus regional imbalances in banking credit have been witnessed.

In-spite of the fanfare over priority sector lending in the process of financial inclusion under inclusive growth of which agriculture should constitute 40 percent non institutional agencies are still important in rural credit. Rural Indebtedness has been increasing over the years. 73 percent of the cultivator households in rural India are with debt burden as pointed out by 59th round of National Sample Survey. The data in Table I also shows that agricultural credit as a percentage of priority sector lending was just 36.36 percent in 1969 and increased to 41.36 percent in 1979. It again slipped to 36 percent by 2005. There is a marked increase to 41.41 percent by 2009 March. The following table shows that dominance of non-institutional agencies over the period.

Table-2: Changing share of institutional agencies

Year	Share in total rural credit by	
	Institutional	Non institutional
1971	29	71
1981	61	39
1991	64	36
2002	57	43

Source: RBI Reports

Note: Non Institutional sources comprises money lenders, commission agents, Traders & Brokers, friends and relatives and the like. It is a known fact that they charge higher rates of interest and impose difficult conditions of repayment. Besides loans from these agencies are uncertain.

As per the above table the share of non-institutional agencies has decreased from 71percent in 1971 to 39 percent in 1981 and further to 36 percent in 1991. The Era of economic reforms, Globalisation and Narasimham committee report have increased the share of non-institutional agencies to 43 percent by 2002. This is the period for the expansion of micro finance institutions and private banks. Throughout the decade these institutions have expanded as the earlier enthusiasm of the Nationalised Banks in priority sector lending has been on the wane. The stringent methods of collection, higher rates of interest, coercive activities of the agents are all accepted by the borrowers as credit needs are acute. The harassment and deaths reported in the media due to methods of recovery adopted by the micro finance institutions are horrible.

Conclusion:

Credit in the rural area to farming community and weaker sections needs a re-thinking in the light of the current developments and the strategy of inclusive growth as more than 60 percent of the households depend on agriculture as means of lively hood in rural India. Agriculture prone to suffer from the vagaries of the nature needs careful monitoring. It should not be understood as the last resort as means of livelihood. It should be accepted as a choice by the young and dynamic sections of the society to make it viable. Deaths of cotton farmers, deaths due to inability to sell at proper prices, deaths due to debt burden dampen the spirit of the farming community. Wisdom lies in strengthening the area in which a country is strong. India's strength lies in a robust agriculture. Nationalised banks, government of India and state governments should provide all help and assistance to the agricultural sector to make the nation strong. A viable and strong agriculture alone can reduce rural poverty besides ensuring food security. India should awake to the alarming bells and tighten its belts in this direction.

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