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Institutional Credit in India : A Review of Performance

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ABSTRACT

In India the vital role of agriculture arises out of the position the agrian sector occupies in the overall economy of the country. Agriculture is the largest sector of the economic activity and has crucial to play in the country's economic development by providing food and raw materials , employment to a large proportion of population, capital for its own development and surpluses for economic development. The problem of agricultural finance in India, like that of other developing countries, is both quantitative and qualitative. The report of the All India Rural Credit Survey Committee brought into sharp focus the inadequacy of co-operative finance to agriculture. The Rural Debt and Investment Survey underlined the changes in the pattern, quantity and texture of farm credit arising out of the measures initiated on the basis of the prescription of the survey report.

Keywords: Institutional credit, bank finance on agriculture, agriculture credit.

INTRODUCTION:

Agriculture is the largest sector of the economic activity and has a crucial role to play in the country's economic development by providing food and raw materials, employment to a very large proportion of population, capital for its own development and surpluses for national economic development. Thus the importance of agriculture despite rapid industrialisation has not in any way diminished. It has become necessary not only to achieve self-sufficiency in matters of food and agricultural raw-materials, but to highly modernize agriculture so as to throw up surpluses to be made available for investment in the other sections of economy as well.

The adoption of new technology has given rise to increasing demand for farm credit which is the key factor in, and the life blood of agricultural development. The organization of institutional credit is one of the major factors governing agricultural production particularly that of small and marginal farmers. But it is no wonder that all farmers, especially small peasants, have to borrow at one time or the other. The rural masses borrow almost habitually, passing on the burden of debt to the next generation. It is, perhaps, this phenomenon of agriculture that compelled Nicholson to observe that "the lesson of universal agrarian history from Rome to Scotland is that an essential of agriculture is credit. Neither the condition of the country nor the nature of the land tenures, nor the position of agriculture, affects the one great fact that agriculturists must borrow". Agriculture credit, thus, in a practical sense, is a nucleus of the system of farm operations. It provides a floe of the system averting ruin which would have occurred due to the lack of monetary capacity of the farmer. The rural credit survey report quotes the French proverb which says that, "credit supports the farmer as the hangman's rope supports the hanged". Adequate and timely credit to the farmer is, therefore, vital and indispensable for the rehabilitation and progress of agriculture.

Farm production technology being advocated at present is sophisticated in nature. Besides, it is highly input and labour intensive. It is interdependent on several interrelated practices, each one of which has to be applied rationally in time and in the manner recommended by the extension specialists. Thus, scientific crop planning has created an unprecedented upsurge in the demand for various types of inputs of production such as high yielding variety of seeds, fertilizers, pesticides, irrigation, threshers, tractors etc. This in turn has created a heavy demand for credit.

The growing importance of capital for transformation of agriculture implies increased need for credit when a majority of cultivators have little 'owned funds' to operate costly technology. In the early stages of adoption of the new technology, 'owned funds' were the main sources of finance, with big farmers being the first to implement it. In the later stage the need for credit was felt when the small and marginal farmers also adopted the new technology. The new technology necessitates increased credit for all the cultivators in general and the small and marginal farmers in particular.

REVIEW OF LITERATURE:

Anjani Kumar, K. M. Singh, Shradhajali Sinha, (2010), researchers have examined the performance of agricultural credit flow and has identified the determinants of increased use of institutional credit at the farm household level in India. 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. But, the declining share of investment credit in the total credit may constrain the sustainable agricultural growth. The quantum of institutional credit availed by the farming households is affected by a number of socio-demographic factors which include education, farm size, family size, caste, gender, occupation of household, etc.

Kannan, E (2011), Researcher has find out that the disbursement of credit through institutional sources had a large impact on improving agricultural productivity. However, it points at its inadequacy and thereby urges for widening its coverage both in terms of the amount of credit and the coverage of more number of marginal and small farmers.

Siddharth Mishra (2014), the researcher studies that trend of agricultural finance by commercial banks: A case study of Union Bank of India, Bank of Baroda and State Bank of India. This study is based on secondary data. The researcher evaluate that the performance of UBI has not been satisfactory as the agricultural advances. The advances given by BOB and SBI had increased, during the study period.

HardeepKaur (2015), the researcher has to examine the performance and structure of cooperative banks in the state of Haryana. The study is based on the secondary data. The paper covers the period from 2002-03 to 2009-10. Ratio analysis is also done to figure out some more facts about the cooperative banks. As statistical weapons average, percentage and coefficient of variance have been applied. The co-operative banks suffered losses during the study period.

Seena P. C. (2015) this paper describes the management of agricultural credit in India and the impact of various banking sector reforms on agriculture. She concluded that performance of agricultural credit in India reveals that though the overall flow of institutional credit has increased over the years, there are several gaps in the system like inadequate provision of credit to small and marginal farmers, limited deposit mobilization and heavy dependence on borrowed funds .Efforts are required to address and rectify these issues. Banking sector reforms like fixing prudential norms, reduced SLR, CRR, banking diversification all affect the Indian agricultural sector.

NEED FOR THE STUDY:

Several studies have been undertaken to evaluate the role of institutional finance for the agriculture at the national level by individual researchers , financial institutions and Government. But area specific studies are comparatively limited in number. Such studies are of great importance on account of the vast, inter-regional variations of bank credit in developing countries like India. Also studies on inter-regional and intra-regional variations in the supply of farm credit by various agencies with in a district in a backward region have not been attempted. Further , only few studies have been carried out to analyse the operational performance of different institutions at micro-level. In a vast state like Andhra Pradesh with varying agro-climatic and socio economic conditions, location specific studies are required to understand the nature and character of agricultural credit structure in different regions. In view this, this study is planed at micro-level to examine the Impact of bank finance on farm households in SPSR Nellore District of Andhra Pradesh with the following specific objectives.

OBJECTIVIES:

1. To study the need for Institutional credit;
2. To analyse the progress of institutional credit; and
3. To examine the recovery performance of institutional credit.

Database:
This study is based on secondary data only. Secondary data collected from the period 2010-11 to 2015-16.

Tools and Techniques:
Various statistical tools applied for analysis the data like CGR, Percentages and Averages.

Demand for Agricultural Credit:
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 for the amount and duration of 'which depends on the length of the production cycle. So all rural families engaged in production activities need to have savings at one time and may borrow at other times. Financial institutions in this regard can help the potential savers and borrowers by adjusting to their different behaviour and this process will increase the community's investments and productivity. Credit could play a major role in preventing the rather extreme measures of asset depletion and pauperisation adopted by the farmers in drought years. Removal of regional imbalances in the matter of credit supply is another important objective which is receiving government attention.
The programme for achieving higher levels of productivity and production calls for a marked increase in the volume of both production and investment credit with a large share going to the weaker sections and backward areas. As the majority of the farmers in the country are small and marginal farmers having merger resources, there is a need for such credit policies and programmes as would enable them to make step-by-step progress towards scientific and intensive use of their limited land resources by a greater input of both labour and capital.To facilitate understanding of the credit needs of the farmers, it would be fruitful to break up the total demand for credit of cultivator households for major purposes. The basic purposes for which farmers borrow have been classified into four types of credit and are explained below.

Classification of Agricultural Credit:
Agricultural credit can be classified into four different kinds as per the requirement and period of credit granted viz., period-wise, purpose-wise, security-wise and creditor-wise credit.

Period-Wise Classification:
Period or duration is an important basis for classification of agricultural credit. Based on the period, credit needs of the farmers may be classified as short-term, medium-term and long-term credits.

Purpose-Wise Classification:
According to the Reserve Bank's classification, agricultural credit may be classified into three types viz., credit for farm activities, non-farm activities' and family expenditure.

Security-Wise Classification:
According to this type of classification, the agricultural credit may be categorised as secured credit and unsecured credit. It is based on the type of security offered by the farmer while obtaining the credit.

Creditor - Wise Classification:
The agricultural credit may be classified on the basis of creditor viz., institutional and non-institutional credit.

Supply of Credit:
Under the present system of agricultural credit in India, credit is supplied through a plurality of agencies usually termed as organised and unorganised. The unorganised sector consists mainly of the landlords, professional and agricultural moneylenders, commission agents, traders, relatives and friends etc. The organised sector mainly comprises Co-operatives, Commercial Banks, Regional Rural Banks and Government.

Institutionalisation of Agricultural Credit:
Institutional agencies contributed 64 per cent to the cash debt of the agricultural households in 1991 as against 31.7 per cent in 1971. Among the institutional agencies, the share of commercial banks in the total debt was 33.7 per cent in 1991, as against only 2.4 per cent in 1971. The share of the co-operatives increased from 22 per cent in 1971 to 29.8 per cent in 1981 and it declined to 21.6 per cent in 1991. Thus, the share of commercial

banks and co-operatives as percentage of total debt increased from 24.4 per cent in 1971 to 55.3 per cent in 1991. Another important observation is that the share of commercial banks increased from 2.4 per cent in 1971 to 28.8 per cent in 1981 and further increased to 33.7 per cent in 1991. The share of government declined from 7 per cent in 1971 to 4 per cent in 1981 and later increased to 7.5 per cent in 1991. There was no noticeable change in the share of debt owed to insurance and provident fund agencies. Debt owed to non-institutional agencies which formed 68.3 per cent of the total debt in 1971, declined to 36 per cent in 1991. The decline was noticed in respect of each of the non-institutional agencies. The share of debt owed to moneylenders (agricultural and professional) declined steeply from 36 per cent in 1971 to 14.5 per cent in 1991.

Progress of Institutional Credit in India:

The participation of co-operatives in agriculture credit increased by 49 per cent and that of commercial banks by 152 percent from 2011-12 to 2015-16. The credit issued by RRBs increased from Rs.37011 crores in 2011-12 to Rs.106320 crores in 2015-16. The total institutional credit issued for agriculture increased from Rs.254618 crores in 2011-12 to Rs.652067 crores in 2015-16, registering a 156 per cent increase during the same period. The outstanding institutional credit also showed a growing trend in the same period.

Institutional credit outstanding increased from Rs. 417200 crores in 2011-12 to Rs.990782 crores in 2015-16, thereby recording an increase of 137 per cent. The co-operative credit outstanding increased by 279 per cent during the same period. The credit outstanding of the Commercial banks increased from Rs. 343298 crores in 2011-12 to Rs. 518764 crores in 2015-16, thereby registering an increase of 51 per cent. The Regional Rural Banks outstanding credit increased from Rs.63824 crores to Rs.132336 crores, thereby recording an increase of 107 per cent for the same period.

Progress of Institutional Credit for Agriculture: Loans Outstanding During 2011-12 To 2015-16

(Rupees in crores)

Year	Co-operatives	Commercial Banks	Regional Rural Banks	Total
2011-12	100078	343298	63824	417200
2012-13	142662	389076	73063	594801
2013-14	252605	443118	89687	685410
20114-15	312065	467886	106715	886666
2015-16	338682	518764	132336	990782

Source: RBI, Report on Currency and Finance, Mumbai (various issues).

Co-Operatives:

The Indian Co-operative Act was passed in 1904 by the Imperial Council to provide credit facilities to the farmers and to eradicate the rural indebtedness. The co-operative banking structure is pyramidical in character. There are the primary agricultural credit societies at the village level upon which the entire edifice of co-operative finance is based. These societies are federated at district level into "Central Co-operative Banks" and at State level into "Apex Bank". The Apex or State Co-operative Bank in its turn is closely linked with the NABARD, which provides considerable financial assistance to co-operative credit societies. The loan is to be advanced from State Co-operative Banks to the Central Co-operative Banks at the district level and from there to Primary Agricultural Credit Societies which ultimately provide credit to the farmers. This arrangement is followed only for short-term financing. There is a separate institutional arrangement for providing long-term agricultural credit. Such loans are granted by State Co-operative Agriculture and Rural Development Banks at the state level and their affiliated Primary Co-operative Agriculture and Rural Development Banks at lower levels.

State Co-operative Banks (SCBs):

There were 30 State Co-operative Banks during the year, 2015-16. Deposits rose from Rs. 35500 crores in 2001-02 to Rs. 58065 crores in 2015-16. Total loans advanced increased from Rs. 34287 crores to to Rs. 128655 crores for the same period. The percentage of recovery to demand decreased from 71 to 68 over the period under study.

Central Co-operative Banks (CCBs):

Over a period of 15 years from 2001-02 to 2015-16 the deposits with CCBs registered a growth of 165 per cent from Rs. 68090 crores in 2001-02 to Rs.180305 crores in 2015-16. The loans issued by CCBs increased from Rs. 55998 crores to Rs.172640 crores. The loans outstanding showed an increase of 1.54 times i.e., from 59269 crores in 2001-02 to Rs.150618 crores in 2015-16. The percentage of recovery to demand declined marginally from 66 to 64 during the same period.

State Co-operative Agriculture and Rural Development Banks (SCARDBs):
The deposits of 20 SCARDBs increased by 98 per cent from Rs. 2753 crores in 2001-02 to Rs. 5467 crores in 2015-16. Loans outstanding went up sharply by 101.27 per cent from Rs. 14172 crores to Rs.37846 crores. The percentage of recovery to demand decreased from 60 to 58 per cent for the same period.

Primary Agricultural Credit Societies (PACS):
The number of PACS decreased from 99000 in 2001-02 to 91874 in 2015-16 due to reorganization. The deposits increased from Rs. 13481 crores to Rs.33848 crores for the same period. Loans outstanding showed a significant increase of 110 per cent during the period under study. The percentage of recovery to demand of PACS decreased from 62 in 2001-02 to 58 in 2015-16, indicating the inefficiency and poor recovery performance of the societies.

Commercial Banks:
As the majority of farmers in this country are poor, they are unable to meet their increased financial requirements pertaining to their farms from their own funds. Although co-operatives were in the field for more than seven decades, they could not meet the vast and expanding credit needs of the farming community. With the nationalization of fourteen major commercial banks on 19thJuly, 1969, commercial banks are providing credit to agriculture in a big way since nationalization. The total credit issued for agriculture and priority sectors by commercial banks is shown in below Table.

Agriculture and Priority Sector Credit by Commercial Banks

(Rs. in crore)

Particulars	2001	2006	2011	2014	2016
Total credit	382046	548417	835076	1230654	1560684
Priority sector Credit	108650	168090	271816	441066	570430
Agricultural credit	62654	86374	133110	208718	272808
Share of priority sector credit to total credit (%)	28.44	30.65	32.55	35.84	36.55
Share of agricultural credit to total credit (%)	16.40	15.75	15.94	16.96	17.48

Source: RBI, Report on Trend and Progress of Banking in India (Various issues).

From the above Table it is clear that the proportion of priority sector credit to total credit constituted 28.44 per cent in 2001 and 36.55 per cent in 2016. Of the total bank credit, agriculture sector alone accounted for 16.40 per cent in 2001 which decreased to 15.94 per cent in 2011. Later, the share of agricultural sector to total credit increased to 17.48 per cent in 2016.

Regional Rural Banks:
A working group was appointed by the Government of India in 1975 under the Chairmanship of Sri M. Narasimhan to review the flow of institutional credit, especially to the weaker sections of the rural community. The working group recommended the setting up of state-sponsored, regionally based and rural oriented banks called Regional Rural Banks. Accordingly the Government of India promulgated the Regional Rural Banks Ordinance on September 26, 1975 setting up five RRBs on a pilot basis at Moradabad, Gorakpur (UP), Bhiwani (Haryana), Jaipur (Rajasthan) and Malda (West Bengal). The RRB Ordinance was later replaced by the Regional Rural Banks Act 1976, which came into force with effect from 9-2-1976. Regional Rural Banks, thus, were formed as an added component of the multi-agency credit system for agriculture and rural development in India.

Branch Network of RRBs:
One of the major objectives of establishing the RRBs was to bring the banking services to the door-step of the rural masses. This calls for a wide network of branches spread over the distant area of operation. There was a rapid growth in the number of RRBs and their branches in different states/ union territories of the country at the end of March, 2005. There were 196 RRBs with 14,484 branches (excluding satellite branches and extension counters) spread over 523 districts in 26 states/8union territories of the country. This was in comparison to 6

RRBs established in 12 districts in 1975, 85 RRBs covering almost 144 districts in 1980 and 196 covering 372 districts in 1990. The maximum number of RRBs (29) was established during 1977. Thereafter, there had been a slower progress in the number of RRBs, though the number of branches continued expanding to 14,543 till 1993. During the period from 1975 to 2005, the number of branches of RRBs increased by 32 times from 17 to 14,484. Since 1988, no further RRB was set up in India.

The Government policy is to cover all districts in the country with RRBs at the rate of one bank per district. The purpose is to bridge gap of beneficiaries in the rural areas uncovered by Commercial Banks and Cooperative Banks system. The number of districts covered by the RRBs increased continuously and reached 642 districts in 2015-16. The average number of districts covered by each RRB is 1.69 in 1980-81. The coverage of district has increased to 2.63 districts during 2002-03. As a result of the reforms the number of RRBs has drastically declined from 196 in 2002-03 to 57 in 2015-16.

Mobilization of Deposit:

The deposits show the potential and financial status of any bank .The importance of deposits from the public as the main source of funds cannot be over emphasized. The larger the amount of funds they can mobilize, the better their position will be to lend to the needy. Deposits are the life blood of banking sector. RRBs have various deposit schemes and accept demand (saving) and time (term) deposits. Most popular deposits are savings deposits and term deposits.

The deposits of RRBs have increased from Rs.42494 crores in 2001-02 to Rs. 81620 crores in 2006-07. Thereafter there is a considerable increase in the total deposits which reached Rs.309676 crore in 2015-16. It is evident from the Table 3.4, that the deposit per RRBs has increased from Rs.216.81 crore in 2001-02 to Rs.1564.02 crore during 2015-16, showing an increase of 6.21 times during the last fifteen years.

Sector-Wise Disbursement of Outstanding Advances by RRBs:

Credit is the most important segment for any banking institution. It is therefore, necessary to study the process of sector wise credit disbursement of RRBs. The government has identified the important sectors which were neglected by the banks before nationalization, as priority sector for banking in the mainstream of the economy. Priority sector comprised agriculture, small scale and village industry, retail trade and small business, small road operators (like auto, rickshaws, bullock carts, road carriers), self-employment schemes and self-help groups (SHGs) etc.

The short-term outstanding advances, mostly the crop loans increased from 31.46 per cent in 2001-02 to 34.48 per cent in 2015-16. On the other hand, the term-loans outstanding have gradually decreased from 30.31 per cent to 8.78 per cent during the same period. It shows that the RRBs mostly concentrated on short-term loans particularly the crop loans, which are comparatively large amounts. There is a significant increase in short-term loans outstanding and term- loans.

Recovery Performances of RRBs:

Credit can generate accelerated economic growth only when the amounts taken are repaid in time. The Problem of accumulated non-performing assets (NPAs) and arrears of interest amount needs to be solved immediately and once for all. The accumulated NPAs have posed a good many problems and, if not solved, they would continue to pose problem in the issuance of future loans". The Regional Rural Banks, being an organization for development, provide cheap credit to the deserving target groups with the objective that the credit so provided will result in incremental income of the loanies, who shall repay the loan in easy installments in accordance with the prescribed repayment schedule.

The financial resources of RRBs are limited. They cannot continuously go on lending without getting them back for recycling. Recovery of loan is a major economic strength for RRBs or to any rural branch of a bank for its survival by which alone it can be in continuous service of pumping the credit to the empty hands of needy small investors and entrepreneurs of the rural sector. Thus, there can be no two opinions about the need for timely recycling of funds. "Inadequate recovery of loans inhibits borrowing by other needy people. Better recovery of loans helps in building confidence of general public.

Recovery of loans plays a very important role in an economy by building confidence among the general public in the soundness of the banking system. It also reduces the cost of credit operations appreciably by avoiding litigation. It also improves the efficiency of the operational staff and helps them to devote more time to development work rather than keeping themselves busy in the recovery of loans.

The principal amount with interest payable to the bank, increased from Rs.8713.29 crores in 2001-02 to

Rs.139669.07 crores in 2015-16, showing a compound growth rate of 18.46 per cent per annum. Similarly, the recoveries of loans also increased from Rs. 6004.33 crores to Rs.120661.18 crores, which shows a compound rate of 25.27 per cent per annum. The NPAs have also increased from Rs. 2708.96 crores to Rs. 37264.34 crores, registering an increase of 2.61 per cent, which is not significant at 5 per cent level. The percentage of recovery also increased from 68.91 per cent to 86.39 per cent during the same period.

CONCLUSION:

Agricultural credit market in India is characterised by separation with its institutional and non institutional sectors functioning with different business practices and rates of interest. The formal sector consists of financial institutions both general and specialised in the sphere of co-operative and commercial banking at all levels and the credit flow from the government at a different levels in the name of both social equity and economic growth. The informal sector comprises of the plurality of credit agencies in rural India ranging from the landlords to the relatives. The link between the formal and informal sectors are weak and hence the persistence of the separation between two markets.

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