DIMENSIONS OF INSTITUTIONAL FINANCE FOR AGRICULTURAL ACTIVITIES : AN ANALYSIS

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ABSTRACT

Agriculture is a way of life, a tradition, which for centuries, has shaped the thought, the outlook, the culture and economic life of the people of India. Nearly 61 per cent of the workforce depend upon agriculture for livelihood. Credit is a vital factor of the production function, more so in Indian agriculture. The present paper aims at studying the institutional finance for agricultural activities, loan outstanding by institutional finance, correlation co-efficient between institutional credit and loan outstanding by credit agencies. Since the multi-agency approach to agricultural credit was accepted, for agencies, consisting of (1) Government; (2) Co-operatives; (3) Commercial Banks; and (4) Regional Rural Banks were financing. It is clear that co-operatives are still dominating inthe field of agricultural and allied credit though the share of institutional credit reduced from 72.5 per cent of 43.5 per cent during the period 1969-70 to 2001-02. The share of Government was on the declining trend from 8.3 per cent in 1969-70 to 1.1 per cent in 2001-02 to compare the share of institutional credit. The share of commercial banks had increased from 19.2 per cent in 1969-70 to 44.5 per cent in 2001-02. The credit portion of RRBs had increased from 0.1 per cent in 1975-76 to 10.9 per cent in 2001-02. Loan outstanding of all institutional agencies records a quantum jump up of 79.9 times between 1969-70 and 2001-02.

The paper concludes that institutional credit has played a vital role in supporting cultural production in India and the amount of institutional credit for agriculture and allied activities has increased over the years.

INTRODUCTION

The institutional credit system started in India with the passing of the credit Co-operative Act

in 1904. The growth of institutional credit activities was slow till 1950. The financing of All India rural Credit Survey Committee (AIRCSC 1954) revealed the need to reorganize the institutional credit system. The committee also recommended the strengthening of Co-operatives through Government intervention. Eventually, measures like nationalization of Imperial Bank of India and re-organization of Co-operatives were taken up. All India Rural Credit Review Committee (AIRCRC 1969) revealed that the process of institutionalizing rural credit for the benefit of the rural poor continued to be very slow because of the slow response of the Government. Hence, the committee recommended the creation of specialized agencies to take care of the credit needs of the rural poor.

Concepts: Agricultural Finance/Agricultural Credit Christy and Roden (1973) defined finance "as the study of the nature and uses of the mean of payment". According to them, credit might mean, "being worthy of trust with other people's money or having the ability to obtain a loan when needed. But the tangible evidence of credit is simple a loan of money."

To Cooper and Lijri (1983), "Credit referred to the ability to buy or borrow in consideration of a promise to pay within a period." over an interval of time. The transfer was made through a transaction in which, present purchasing power was made available by the creditor to the borrower in exchange for an instrument of debt, which would become an obligation of the debtor. The purchasing power made available to the debtor for the time being would enable him to acquire goods or services formerly beyond his reach.

In addition to the above mentioned concepts, many other studies have been conducted by individuals on the subject, namely, Institutional Finance.

Desai and Namboodri (1992) have analyzed the performance of rural institutional finance system in India and based on that have drawn broad implications for improving the performance.

The author opinion that while the long run performance of the rural institutional finance stem has been good, short run growth rates display a desperate performance and this system has performed better in deposit mobilization that is financing agricultural output and investment.

OBJECTIVES

The main purpose of the study is to assess the role of multi-agency system to agricultural activities. Further, the objectives are set as follows:

- To enquire the importance and strategies of institutional finance to farm sector to serve as an instrument of agricultural development.
- To study the source and amount of institutional finance provided to agriculture and allied activities.
- To highlight the viability and sustainability of multi-agency system.
- To analyze loan outstanding by financing agencies to agricultural activites.

INSTITUTIONAL FINANCE FOR AGRICULTURAL ACTIVITIES

(i) The Government

The first action of the then British Government in the provision of agricultural loan directly to the farmers could be traced back to the (i) Land Improvement Loans Act of 1883; and (ii) Agriculturists Loans Act of 1884. Under these laws, long-term loans or `taccavi' loans were given to the farmers for understanding land improvement measures like embankment, tanks, water-sources and the like with a maximum repayment period of 35 years. Under the later stage, short-term loans were provided for the purchase of sees, cattle, manure and implements. `Taccavi' loans played an important role during times of famines, floods and droughts. These loans were routed through the revenue department of the State Government. In 1969-70, the government loans were Rs. 80 crore, which were further raised to Rs. 442.8 crore in 2001-02. The share of state government was on the declining trend from 8.3 per cent in 1969-70 to 1.1 per cent in 2001-02 to compare the share of institutional credit.

(ii) The Co-operatives

Co-operative movement owes its origin to England, where a great philosopher, Rober Owen (1771-1858), gave the idea of 'Self-Help through Mutual Help' to mitigate the suffering of the exploited class of the society. The Cooperative movement was introduced in India in the early years of 20th century with the main object of relieving the peasantry's burden of debt and for providing credit through a local agency on the principles of thrift, self-help and mutual aid. The Co-operative Societies Act 1904. Was introduced on the recommendation of the Law Committee appointed by the then government of India under the Chairmanship of Edward law. The Co-operative movement in India was a move against private moneylenders, notorious for charging exorbitant rate of interest and oppressive practices, forcing the peasant borrowers into a perpetual state of indebtedness. Indian Co-operative movement picked up momentum especially after the World War. By 1950 the co-operative credit movement had emerged as a developed, sound satisfactory banking system in most of the Indian Union, the Co-operative banking structure consists of two wings that is short-term and long-term.

(a) Short-term Co-operative Credit - The short-term Co-operative credit structure, in each State comprieses a three-tier structure with State Co-operative Bank at the State or apex level, District Central Co-Operative Banks at the district level and Primary Agriculture Credit Societies at the bottom level, Viz. at the village level. At present there are 31 State Co-operative Banks, 365 District Central Co-operative Banks (DCCBs) and 1,05,735 Primary Agriculture Credit Societies (PACS) operating at the village level. These provide short-term credit and medium-term credit to farmers directly and also extend loan facilities through Farmers Service Societies (FSS) and Large-Sized Adivasi Multi- purpose Societies (LAMPS).

(b) Long-term Co-operative Credit Structure - The long-term co-operative credit structure consists of two-tier system, 20 State Co-operative Agriculture and Rural Development Banks (SCARDBs) at State level, 2258 Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) at District and Taluk level. Out of 20 SCARDBs, eight were having a unitary structure with branches, twelve were having a federal/mixed structure with affiliated to PCARDBs. The SCARDBs had 863 branches, while the PCARDBs had 1008.

In the Unitary Structure, State Co-operative Agriculture and Rural Development Banks operate at State level through their branches. Under the Federal system, PCARDBs operate as independent units and federate into SCARDBs at State level. In the Mixed Structure, both the unitary and Federal types operate in one form or another. In the integrated structure, there are no long-term credit banks, as this was taken by long-term section of the State Co-operative Banks. As at the end of 2003-04 under Unitary Structure, there are 8 State Co-operative Agriculture and Rural Development Banks having network of 752 branches working at grass-root level. Under the Federal structure, there are12 State Co-operative Agriculture and Rural Development Banks, 111 at District level 768 and 1008 branches of Primary Co-operative Agriculture and Rural Development Banks. It is clear that co-operatives are still dominating in the field of agricultural and allied credit though the share of institutional credit is reduced from 72.5 per cent to 43.5 per cent between 1969-70 and 2001-02.

(iii) Regional Rural Banks :

Regional Rural Banks, which came into existence in 1975, played a considerable role in rural credit delivery system. It came into existence mainly for supplementing the efforts made by commercial banks and co-operative banks. During the period of seventies, it was felt that both commercial and co-operative banks consisted of well-to-do farmers; and small and marginal farmers credit requirements were seldom met in village economies, dominated by feudal and caste ridden systems.

The objective of Regional Rural Banks was to provide finance to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs on rural areas. Banking Commission in 1972 recommended the need for rural banks. Thus, RRBs were established in 1975 by the joint efforts of Central and State Governments and Commercial Banks. While preparing the institutional framework, the planners aimed at molding an institution having a rural feel and professional touch of commercial bank.

The Government of India has sponsor banks and state governments were sponsors of RRBs with an equity share of 50:35: 15. During the last three decades the progress of RRBs was remarkable. Most of the RRBs are situated in remote villages where commercial banks would not venture iii the near future. The credit for agriculture and allied activities of Regional Rural Banks had increased from Rs. 2 crore in 1975-76 and Rs. 4556 in 2001-02 and the portion of RRBs had increased from 0.1 per cent in 1975-76 to 10.9 per cent of 2001-02.

CONCLUSION

The trend in institutional credit for agriculture and allied activities during 1969-70 to 2001- 02 has been analyzed in the paper. Institutional credit has played a vital role in supporting agricultural production in India. Amount of institutional credit for agriculture and allied activities has increased over the years. Several weakness have affected the viability and sustainability of these institutions, viz. mounting over dues, deterioration of the profitability, external interference and Government intervention in the management, incompetent and non-cadre based management, apathy of the State Government, etc. These have been harmful for the flow of credit and development of strong and efficient credit institutions.

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