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AGRICULTURAL GROWTH AND NABARD

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Abstract
The NABARD is the apex organization with respect to all matters relating to policy, planning and operational aspects in the field of credit for the promotion of, agriculture and allied activities in rural areas. The bank provides refinance to various banks for their term lending operations for the purposes of agriculture and rural development. The National Bank of Agriculture and Rural Development (NABARD) has emerged as an apex refinancing institution for agricultural and rural credit in the country since July, 1982. It has taken over the refinancing functions from the Reserve Bank of India with respect of State Cooperative Banks and Regional Rural Banks. It has also taken over the ARDC (Agricultural Refinance and Development Corporation), developing a strong and efficient credit delivery system which is capable of taking care of the expanding and diverse credit needs for agriculture and rural development was a task that received the attention of NABARD. NABARD, is involved in the implementation of projects assisted by World Bank and its affiliate, the International Development Association (IDA). There are some other International Aid Agencies which provide assistance to NABARD in respect of various projects. NABARD has been associated with the implementation of 42 projects with external credit out of which 38 projects are assisted by World Bank and its affiliate, i.e. IDA and International Bank for Reconstruction and Development (IBRD).

Key Words: Agricultural, (IBR), International Development Association (IDA).

Introduction

In India there is an immense need for proper agricultural credit as the economic condition of Indian farmers are very poor. From the very beginning the prime source of agricultural credit in India was money lenders. After independence the Govt. adopted the institutional credit approach through various agencies like co-operatives, commercial banks, regional rural banks etc. to provide adequate credit to farmers, at a cheaper rate of interest. Moreover with growing modernization of agriculture during post-green revolution period the requirement of agricultural credit has increased further in recent years.

Now a days the long term and short term credit needs of these institutions are also being met by National Bank for Agricultural and Rural Development (NABARD). It is the evolution of agricultural finance. It was established in the year 1982, with head office at Mumbai and 16 regional offices throughout the country. It has the objective of promoting the health and the strength of the credit institutions which are in the forefront of the delivery system namely, cooperatives, commercial banks and regional rural bank. It is, in brief, an institution for the purpose of refinance; with the complementary work of directing, inspecting and supervising the credit- flows for agricultural and rural development.

The scope of the operations of NABARD is large indeed. Besides providing finance to credit institutions, it is providing innovations in regard to formulation of schemes, monitoring of implementation, evaluation of results and evolution of suitable supporting structures of all kinds of agricultural activities. It is performing the various functions assumed by it smoothly and efficiently. A rural infrastructural development fund (RIDF) was established under NABARD in 1995-96. Every year the resources of RIDE have been augmented to finance rural infrastructure development project by States. The outstanding refinance from NABARD by State Co-operative Banks, RRBs and State Governments was Rs. 7,075 crore as at end June 2002, which was a little higher than Rs. 6,857 crore as at end June 2001. Farm mechanisation got the highest amount of assistance and the second place went to minor irrigation. The rest of the amount was distributed for forestation/Plantations, Land Development, sheep-rearing, poultry farming, dairy farming etc. The National Bank has vigorously continued its efforts for promoting investments in the agricultural sector in the less developed/under banked states. U.P., Bihar, M.P., Rajasthan and Orissa in that order, have been the biggest beneficiaries.

Thus NABARD is taking the necessary steps to revitalise and rejuvenate the rural economy of India by developing agriculture, small scale and cottage industries and trading activities in all possible ways.

In earlier years, sums aggregating Rs. 1500 crore was received from RBI and Government of India as advance towards capital. But in 2001-02 by a notification of GOI, these amounts were credited to capital account of NABARD. It was proposed to increase it further to Rs. 2000 crore in future. It performs the various functions.

1. It provides refinance facilities for agriculture, small scale industries, artisans; cottage and village industries, handicrafts and other allied economic activities so that production may be increased.
2. It can borrow from RBI and the Government of India. It can arrange funds from the World Bank and other multilateral and bilateral financial agencies.
3. It can advance loans up to a period of 20 years to State Governments so that they may participate in the share capital of cooperative credit societies. It can provide credit facilities for the short, medium and long term to State Co-

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operative Banks, Commercial Banks, Regional Rural Banks and other financial institutions.

4. It coordinates the work of the Government of India, Planning Commission and State Governments for Village and small scale industries.
5. It finances research on agriculture and rural development.
6. It supervisor the work of Regional Rural Banks, Commercial Banks and other Cooperative Bank.

In this way NABARD acts as an apex body for the development of agriculture and other activities related to agriculture sector.

The role of Commercial Banks in financing the agricultural sector has been very small. Of the total agricultural credit their share was as low as 0.9% in 1951-52 and 28% in 1981-82. Since the nationalisation of Banks, this share has been increasing. There has also seen a phenomenal increase in the number of branches of commercial banks in rural areas. The proportion of new rural branches to the total number of new bank offices has increased. The percentage of rural branches on 30th June, 2003 was 49% of the total branches of all commercial banks in the country.

The public sector banks have increased their lending under priority sector advances since June 1969. The amount outstanding under this head has increased from Rs. 441 crore at the end of June 1969 to Rs. 2,57,916 crore at the end of March 2002. The share of priority sector lending in total banks credit was 34.6% as an end March 2002.The Reserve Bank of India being the Central Bank of the country does not provide finance directly to the farmer, but it provides the facility of agricultural credit through State Cooperative Banks.

The Reserve Bank of India provides two types of short-term financial assistance to the State Cooperative banks: -

a. Short-Term credit, and
b. Rediscounting Facilities.

Both these facilities are provided at a concessional rate of two per cent below the bank rate. Loans are made against specified Government Securities, approved debentures of recognised Rural Development Banks, (formerly Land Development Banks) promissory notes of Approved Cooperative Marketing Societies endorsed by the State Cooperative Banks, etc.

Short-term loans are granted by the Reserve bank of India to the State Cooperative banks for seasonal agricultural operations and marketing of crops. Besides this, Reserve bank of India also gives medium-term loans to the State Cooperative Banks for being advanced to the farmers for such purposes as construction of wells, minor irrigation schemes, purchase of machinery and agricultural tools.

The Reserve Bank of India has also started undertaking long-term financing for agricultural purposes, though indirectly, by subscribing to debentures of the Rural Development Banks, which are guaranteed by the State Governments.

The Reserve bank of India also undertakes research investigations and surveys relating to rural finance. The bank has been giving very valuable advice to the Central and State Governments and to the State Cooperative Banks on matters relating to rural finance. With this aim in view, the Reserve Bank of India has set up a separate Agricultural Credit Department whose functions are as follows:

1. To maintain the expert staff for studying all the problems of agricultural credit and to provide expert advice to the Central and State Governments, State Cooperative Banks and other banking organizations.
2. To finance the movement of agricultural crops and other agricultural operations through the medium of State Cooperative Banks and other agencies of rural credit.

In addition to financial assistance, the RBI has also played an important role in conducting research on rural credit problems.

Thus, we may conclude that the Reserve Bank of India has been playing an important role in meeting the country's need in respect of rural credit and in making the position of State Cooperative Banks and Rural Development Banks strong. In order to benefit fully from the services of the Reserve Bank of India, the government must have a properly organized rural banking system. The State Governments have assigned due place to these institutions in the planning process.

Commercial banking system is expected to play an important role in forecasting the future framework of institutional finance in agriculture. Before nationalization in 1969, the commercial banks in India had confined their banking operations mainly in urban areas by receiving deposits and financing trade and industry. One of the long standing complaints against commercial banks was their failure in financing agriculture. Before their nationalization in 1969, they were hesitant to provide short term, medium and long term credit for agricultural purposes. The uncertain character of Indian agriculture, small amounts of individual loans, inadequate security for loans, difficulty in recovery of loans' from farmers and lack of business experience of working with rural sector, were some of the factors which discouraged the commercial banks from taking interest in agricultural finance.

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Farmers" needs for funds were mainly met by the private money lender and co-operative credit institutions. The co-operative credit societies, Land Mortgage Banks, Land Development Banks and the Government Taccavi loans were the main sources of institutional credit available to the farmers. These agencies, however, did not have enough resources to meet all the requirements of the farmers which had increased with introduction of new farm technology.

Regional disparity in the distribution of commercial bank credit to agriculture cannot possibly be studied without reference to the level of agricultural productivity, and divergence in agricultural development potential and socio-economic structure of different regions of the country. The growth rate of agriculture production for the period 1995-96 to 2009-06 has shown that the progress of agriculture during recent years has been quite impressive* The growth rate of agricultural production are higher than the growth rate of population (2.14) during the same period. The cumulative effect of the higher growth rate of production had led to create a feeling that we had made satisfactory progress in agricultural, at least in production of foodgrains. A detailed examination of this growth in output of agriculture needs to be done to see if all the states have experienced a uniform Pattern of growth in agricultural production. It is a fact that the uneven growth of crops had led to the regional imbalances in the rural prosperity.

In India whatever industrial development has taken place, it has had varied degrees of impact on the agriculture sector of different regions. The recipient classes of economic surplus from agriculture have variations in character in different regions depending on the nature and degree of technological transformation of agriculture in any region. An increase in regional disparities in the wake of technological change is, of course, a-common feature of agriculture growth in many parts of the world. These disparities, however, are derived partly from the character of technological change which is dependent on the nature of change in the mechanism of surplus capital germination and partly from regional differences in resources endowment - physical and institutional infrastructure and entrepreneurship.

Institutional credit has to go a long way in bridging the regional imbalances in the flow of credit. The policies initiated so far in this direction have at best arrested the widening of the gap. Unless the structural defects in agriculture and the risk factors are cushioned off, coupled with credit guarantee scheme to the less developed areas susceptible to natural credit guarantee scheme to the less developed areas susceptible to natural calamities, the regional gaps are likely to be continued, irrespective of the measures initiated to rectify the defects on the institutional front. Furthermore, earmarking of a certain percentage of credit to the less developed regions within the country or a State or district, might help to augment the flow of credit to these regions.

One of the most intriguing features of India's agrarian economy in recent years is the persistence of agrarian distress in many regions, even while agricultural credit flow has risen sharply. Rising flow of credit to agriculture is normally associated with buoyancy in the farm sector. A closer look at the data on agricultural credit reveals that what is termed agricultural credit may have very little to do with agriculture, the way we know it. It is well known that the 1990s were a period of sharp fall in the growth of agricultural credit flow in India. Numerous studies and reports have argued that one of the major factors associated with the agrarian distress in the late-1990s and 2000s was an increase in rural indebtedness, especially to moneylenders. According to the All India Debt and Investment Survey (AIDIS), the share of total debt of cultivator-households taken from formal sources fell from 64 per cent in 1992 to 57 per cent in 2003. In the same period, the share of total debt taken from moneylenders almost doubled from 10.5 per cent to 19.6 per cent. In the 2000s, however, there was a reversal of the slide in agricultural credit flow. From the early-2000s, growth of credit to agriculture began to pick up. Commercial banks and Regional Rural Banks (RRBs) played a major role in the revival of agricultural credit.

The Revival Story

The growth of agricultural credit from commercial banks and RRBs, which was 1.8 per cent between 1990 and 2000, increased to 19.1 per cent between 2000 and 2007. The share of credit supplied by commercial banks and RRBs in total agricultural credit increased from 30.1 per cent in 2000 to 52 per cent in 2007. In part, the revival of agricultural credit was inspired by the announcement by the central government in 2004 that the flow of agricultural credit would be doubled between 2004-05 and 2007-08. Three distinct features of the revival story are worth noting (see R. Ramakumar and Pallavi Chavan, "Revival in Agricultural Credit in the 2000s: An Explanation," *Economic and Political Weekly*, December 29, 2007). First, a significant proportion of the increase in agricultural credit from commercial banks was accounted for by indirect finance to agriculture. Indirect finance refers to loans given to institutions that support agricultural production, such as input dealers, irrigation equipment suppliers and Non-Banking Financial Companies (NBFCs) that on-lend to agriculture. Second, a number of changes were made in the definition of agricultural credit under the priority sector. The definitional changes broadly involved (a) the addition of new forms of financing commercial, export-oriented and capital-intensive agriculture; and (b) raising the credit limit of many existing forms of agricultural financing. To cite an instance, loans given to corporates and partnership firms for agriculture and allied activities in excess of Rs 1 crore in aggregate per borrower was considered as priority sector lending under agriculture, from 2007 onwards. These definitional changes were initiated from around the mid-1990s, during the period of financial sector reforms. According to Y.V. Reddy, former Governor of the

Reserve Bank of India (RBI), "… coverage of definition of priority sector lending has been broadened significantly in the recent years, thus overestimating credit flows to actual agricultural operations in recent years" ("Indian Agriculture and Reform: Concerns, Issues and Agenda," *RBI Bulletin*, May 2001, p. 5). Third, much of the increase in the total advances to agriculture in the 2000s was on account of a sharp increase in the number of loans with a credit limit of Rs.10 crore and above, and especially Rs.25 crore and above. Even within direct agricultural finance, which goes directly to farmers, there was a sharp rise in the number of loans with a credit limit above Rs.1 crore. It seems likely that these large loans were advanced towards financing the new activities added to the definition of agricultural credit. Recent data on banking has brought out a fourth disturbing feature of the revival in agricultural credit. There has been a sharp growth of agricultural finance that is urban in nature. Between 1995 and 2005, the share of agricultural credit supplied by urban and metropolitan bank branches in India increased from 16.3 per cent to 30.7 per cent . The share of agricultural credit supplied by metropolitan branches alone increased from 7.3 per cent in 1995 to 19 per cent in 2005. While there was a moderate decrease in these shares between 2006 and 2008, urban and metropolitan branches continued to supply about one-third of the total agricultural credit in 2008. Concurrently, there was a sharp fall in the share of agricultural credit supplied by rural and semi-urban branches from 83.7 per cent in 1995 to 69.3 per cent in 2005. In 2008, the share of rural and semi-urban branches in total agricultural credit was 66 per cent.

The Period of Introspection and Reforms: 1991 to the Present

Notwithstanding the impressive geographical spread, -functional reach and consequent decline in the influence of informal sources of credit, rural financial institutions were characterised by several weaknesses, *viz*., decline in productivity and efficiency; erosion of repayment ethics and profitability. On the eve of the 1991 reforms, the rural credit delivery system was again found to be in a poor shape (R.V. Gupta Committee, 1998). The Report of the Committee on the Financial System (Chairman: Shri M. Narasimham, 1991) provided the blue print for carrying out overall financial sector reforms during the 1990s. Furthermore, weaknesses in the performance of rural financial institutions since 1991 resulted in setting up of various committees/working groups/task forces to look into their operations such as: "The High-level Committee on Agricultural Credit through Commercial Banks" (R. V.Gupta, 1998), "Task Force to Study the Functions of Cooperative Credit System and to Suggest Measures for its Strengthening" (Jagdish Capoor, 1999), "Expert Committee on Rural Credit" (V.S. Vyas, 2001), and "The Working Group to Suggest Amendments in the Regional Rural Banks Act, 1976" (M.V.S. Chalapathi Rao, 2002).

These committees/working groups/task forces made farreaching recommendations having a bearing on agricultural credit. While the Capoor Task Force suggested adoption of a Model Co-operative Act, setting up of a Co-operative Rehabilitation and Development Fund at NABARD and Mutual Assistance Fund at the state level, the Vyas Committee (2001) recommended restoration of health of Primary Agricultural Credit Societies (PACs) by scrapping the cadre system, selective delayering of cooperatives credit structure and integration of short and long-term structures. The Chalapathi Rao Working Group (2002) had, in addition to suggesting diversification of the business of RRBs, recommended introduction of capital adequacy norms for RRBs in a phased manner, along with the RRB-specific amount of equity based on the risk-weighted assets ratio. The financial sector reforms formed an integral part of the overall structural reforms initiated in 1991 and included various measures in the area of agricultural credit such as deregulation of interest rates of co-operatives, and RRBs; deregulation of lending rates of commercial banks for loans above Rs. 2 lakh; recapitalisation of select RRBs; introduction of prudential accounting norms and provisioning requirements for all rural credit agencies; increased refinance support from RBI and capital contribution to NABARD; constitution of the Rural Infrastructure Development Fund (RIDF) in NABARD for infrastructure projects; introduction of Kissan Credit Card (KCC) and stipulation of interest rate not exceeding 9 per cent for crop loans up to Rs.50,000 extended by the public sector banks.

The present work has, therefore, been undertaken to study pattern of regional distribution of institutional agricultural credit by commercial banks and growth of agriculture. This study attempts to find how far the commercial banks have succeeded in reducing the regional gaps in the supply of farm finance.

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