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ASSESSING THE REGIONAL DISPARITIES IN PROVIDING AGRICULTURAL CREDIT BY SCHEDULED COMMERCIAL BANKS IN INDIA

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ABSTRACT

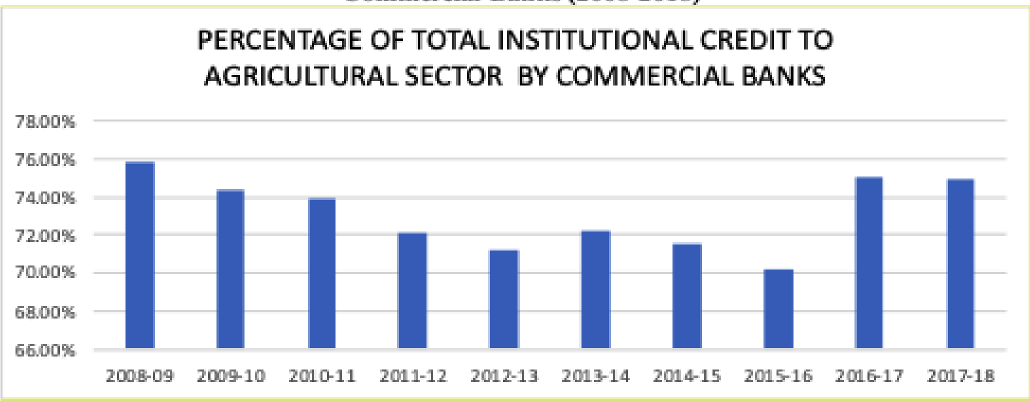
One of the primary objectives of growth and development for economic planning initiated after Independence has been reduction of regional disparities in social and economic development. To achieve this objective, investment by central government and Centrally monitored and regulated private sector investment played a crucial role. During the initial Five year plans, government focused on the growth and development of agriculture sector followed by industrial sector. In terms of institutional agricultural credit, co-operative banks played a major role as Regional rural banks and scheduled commercial banks came later. Agriculture sector requires heavy investment to purchase capital inputs to improve the production and productivity therefore largely dependent on credit. In this paper, the goa; and objective is to understand the regional disparity in the agricultural credit deployed by scheduled commercial banks.

Keywords: *Institutional Credit, Agricultural Credit, Scheduled Commercial Banks, RBI.*

INTRODUCTION

Agriculture sector remains the lynchpin of the Indian economy irrespective of the fact that it's share in GDP is continuously declining. Agricultural sector plays a pivotal role in employment generation. Agricultural growth is the need of the hour for alleviating poverty, reducing unemployment, improving balance of trade in the economy. Besides, given agriculture supply and demand related correlation with other sectors in the economy, sustained and essential growth in agricultural sector not only helps in improving the overall GDP of the country but also brings balance to the growth pattern. Finally, growth in agriculture sector is important for the provision of food security and also to enhance the overall trade balance by reinforcing exports and minimizing food imports. As agriculture sector influences nearly every facet of the Indian economy, it has been the focal point of all the important and major policy initiatives for economic growth and development. Among these initiatives, the banking sector reforms are considered noteworthy. There are economic and social factors that affect the agricultural growth and development like size of operational holdings, agricultural reforms, modern and well equipped technology, better quality of seeds, fertilizers, insecticides and pesticides, capital formation, share in international trade and many more. Among all, Credit is one of the key components for agricultural growth and development. It motivates farmers to adopt new technology and undertake new investment to increase agriculture production and productivity. The provision of institutional credit to agriculture sector was considered as an important factor to take care of production-related needs in agriculture. Agriculture credit is of two types: direct and indirect farm credit. When the farmer if directly responsible to repay its loan to the lender, it is called direct farm credit. Indirect credit is the credit under which agriculture credit is indirectly provided through intermediaries and they are responsible to repay the agricultural loans. In the late 1960s, a multi-agency approach was adopted by India towards agricultural credit, comprising credit disbursed by Regional Rural Banks, Co-operatives Banks and Scheduled Commercial Banks. Scheduled Commercial banks started granting agricultural credit only after the nationalization of fourteen banks in 1969 and additional six commercial banks in April 1980. The commercial banks help the agriculture sector in a number of ways. The modernization and mechanization of agriculture sector resulted in increased need for credit by the farmers. The contribution of Scheduled Commercial Banks in total institutional credit to agriculture sector has expanded since their nationalization. Thus, to meet the credit needs of farmers to improve agriculture production and productivity, commercial banks play an important role.

Figure1: Percentage of total Institutional Credit to Agriculture Sector by Scheduled Commercial Banks (2008-2018)



Source: NABARD Annual Reports

Priority sector lending programme supported Scheduled Commercial banks in adequate disbursement of agricultural credit to improve agricultural activitites. PSL programme was designed to allocate credit to certain sectors of economic and social priority, out of which one is agriculture and agricultural allied activities. The credit to agriculture sector is categorized into (i) Farm Credit (ii) Agriculture Infrastructure and (iii) Ancillary Activities. Despite the liberalization and privatization of various sectors including the banking sector during economic reforms of 1991, the priority sector lending programme remained an integral part of banking sector policy even in current time period. Furthermore, out of 40 percent of total credit to priority sector, 18% of total credit is assigned to agriculture and its allied activities.

During the 2000s, especially after 2004–05, a series of new policy initiatives were taken to tackle agrarian issues elevated since the latter half of the 1990s from various parts of India and to enhance agricultural growth. One of the major and important reason for agrarian distress during the 1990s was stagnation in the expansion of institutional credit to agricultural sector (GoI, 2007). Hence, the improvement and upliftment in institutional credit to agricultural sector was contemplated as a key element of the economic policy initiatives adopted in the 2000s. Some of the policy Initiatives to augment the flow of credit taken by the Government were enhanced farm credit package, interest subvention to farmers, collateral free loan of maximum Rs1,00,000, Kisan credit scheme, promoted Joint Liability Groups, Farm loan waiver and many more.

This research paper will explore the extent to which regional disparities are present with respect to agriculture credit as a part of total credit provided by scheduled commercial banks.

REVIEW OF LITERATURE

Mohan, R. (2006) revealed that despite the significant improvement in the overall flow of institutional credit over the time period, there are various loopholes in the system like lack of access to farm credit and insufficient credit to small and marginal farmers, low rate of medium and long-term lending, low deposit rate and reliance on borrowed funds by major non-institutional credit suppliers.

Rama kumar, R and Pallavi Chavan (2007) examined that agriculture credit disbursed by commercial banks including regional rural banks revived after 2000 instead of 2004 majorly because of increasing share of indirect credit along with direct lending specially to large agri-business enterprises instead of marginal and small farmers.

Sunildro L.S. Akoijam, (2012) examined that agriculture credit plays an important and strategic role for strengthening agricultural production and productivity and to alleviate poverty for the economy as a whole. He analyzed the important strategies adopted by NABARD and RBI to improve and enhance rural credit facilities available for the poor and the challenges associated with the same.

Shantanu De Roy (2017) revealed that Non-price factors like rural credit, agricultural research and development, capital formation in agriculture sector and extension services were not given much weightage in the post-reform period. The author concluded that after liberalization, agricultural terms of trade has not improved significantly. Moreover, diminishing capital formation in agriculture, scarcity of reasonable agriculture credit due to decline in rural branched of scheduled commercial banks and credit-deposit ratio and insufficient irrigation expenditure, resulted in slackening of agriculture growth.

Nisha Bharti, (2018) studied that policy intervention in the area of agriculture credit and finance specially through microfinance. Rather than poverty-lending approach, the agriculture finance model started following the financial system approach with the evolution of microfinance. Microfinance has the good prospects to fulfill the demand for agriculture credit. Government initiatives like PMJDY and PMMY are key steps to achieve this objective. Accessibility of affordable and adequate credit leads to improvement in agricultural production and productivity, and this, in result in agriculture GDP growth and therefore overall GDP growth of India.

Subhendu Datta, Aviral Kumar Tiwari, C. S Shylajan (2018) studied the incidence of indebtedness among rural households of Telangana state, India by collecting the sample of 100 households during 2015-16 and concluded that factors like rate of interest, principal occupation, household medical expenditure, usage of modern technology and source of loan play a significant role in indebtedness among the households. According to the study, incidence of indebtedness can be reduced by adopting modern technology and alternative source of non-farm income in agricultural sector.

Dolly Gaur and Dipti Ranjan Mohapatra (2020) concluded that priority sector lending and GDP growth are positively correlated, whereas priority sector lending and NPA are negatively related from 2004 till 2018. Also, the study has found that there is a two-way causal relationship among PSL and the GDP growth. It implies that for the overall development of the economy, it is important to give loans to government-directed sectors. The enhancement of priority sectors especially agricultural sector will create spill-over effect for other sectors of the economy, and thus, results in balanced economic growth. The findings reflect that priority sector loans do not affect bad loans of banks, and thus, no significant increase in the Non-Performing Assets of banks.

Anjani Kumar, Raya Das, Aditya K S, Seema Bathla and Girish K. Jha (2020) discussed the pattern and trend of credit among agricultural households in Eastern region of India based on National Sample surveys conducted in 2003 and 2013. The study revealed that access and availability of credit is strongly related with the demographic and socioeconomic features of agricultural households. Although, despite of government initiatives and policies in eastern region of India, about half of the farmers households does not have access to institutional agriculture credit. There is a greater need for strategies and government policies to include marginal and small famers to enhance the percentage of institutional credit in agriculture sector.

Navjot Sandhu (2020) has collected a sample of 185 famers of all categories (according to the size of hand holding) and 42 bank managers in Punjab and revealed that financial lending decision is affected by relational bank lending practices and non-quantifiable factors like caste, culture, education, family size etc. which give rise to information asymmetry and moral hazard. This results in rise in financial exclusion for marginal and small farmers and therefore lower growth rate. To reduce asymmetric information and to make sound financial lending decision, banks take into consideration the qualitative factors and an effective level of collateral. The findings estimate a complex relationship between agricultural households (demand-side) and bank managers (supply-side) in an economy like India.

OBJECTIVE OF THE STUDY

1. To examine the regional disparities in providing agricultural credit by scheduled commercial banks in India for the period 2008-2018.
2. To study the region wise disparity in percentage of agriculture credit to total credit provided by scheduled commercial banks for the period 2008-2018

DATA AND RESEARCH METHODOLOGY

The objective of this study is to examine the regional disparities in providing agricultural credit by SCBs and achievement of priority sector lending targets by SCBs in India. For attaining the above mentioned objectives, secondary data have been used which have been taken extracted from various RBI issues report, Economic Survey of India, data from RBI website like basic Statistical Returns of Scheduled Commercial Banks in India, handbook of statistics on Indian economy, handbook of statistics on Indian states. Statistical tools like mean, SD, CV and CAGR have been used. The time series data ranging from 2008 to 2018 has been used in the study.

TOOLS FOR ANALYSIS

Compound Annual Growth Rate: Compound Annual Growth Rate is worked out by using the following formula: $1/(t_n - t_0)$ -1

CAGR (t_0, t_n) = {V (t_n)/V (t_0)}

Where:

V (t_0) = start value

V (t_n) = finish value

$t_n - t_0$ = number of years

Coefficient of Variation: Coefficient of Variation is used for estimating the instability among the data by using the formula: Standard deviation/ Mean

Region Wise Credit Disbursement

Table 1: REGION WISE TOTAL CREDIT AND AGRICULTURE CREDIT BY SCHEDULED COMMERCIAL BANKS (Amount outstanding as at end-March)

(₹ Billion)

YEAR	NORTHERN REGION		NORTH-EASTERN REGION		EASTERN REGION		CENTRAL REGION		WESTERN REGION		SOUTHERN REGION	
	Total Credit	Credit to Agriculture	Total Credit	Credit to Agriculture	Total Credit	Credit to Agriculture	Total Credit	Credit to Agriculture	Total Credit	Credit to Agriculture	Total Credit	Credit to Agriculture
2008	5034	611	197	20	1851	226	1678	469	9160	486	6251	927
2009	6164	726	227	25	2169	243	1981	568	10361	422	7575	1111
2010	7487	882	273	33	2680	331	2459	707	11460	533	9093	1416
2011	9544	1032	314	41	3172	405	2871	757	13883	587	10972	1788
2012	11236	1160	368	55	3709	475	3409	916	16292	711	13020	2302
2013	12860	1310	419	75	4218	576	4084	1088	18648	932	15023	2779
2014	14558	1738	473	87	4723	716	4821	1373	21455	1070	16790	3434
2015	15868	1812	536	99	5173	753	5502	1570	23399	1139	18307	3670
2016	16488	2060	638	130	5529	838	6039	1763	26521	1325	20009	3394
2017	17098	2197	728	144	5812	868	6579	1988	27614	1494	21348	4091
2018	19092	2512	859	159	6280	949	7431	2086	29544	1506	24464	4783
Average	12311.7273	1458.18182	457.454545	78.9090909	4119.63636	580	4259.45455	1207.72727	18939.7273	927.727273	14804.7273	2699.54545
CAGR	14.2599%	15.1855%	15.8651%	23.0373%	12.9940%	15.4292%	16.0448%	16.0952%	12.4236%	11.9744%	14.6193%	17.8317%
CV	0.38713017	0.43913572	0.46806682	0.62392084	0.3688668	0.44849	0.45912027	0.47962406	0.38410408	0.4375203	0.40267235	0.47652906

Source: Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, various issues. RBI handbook of Statistics on Indian states.

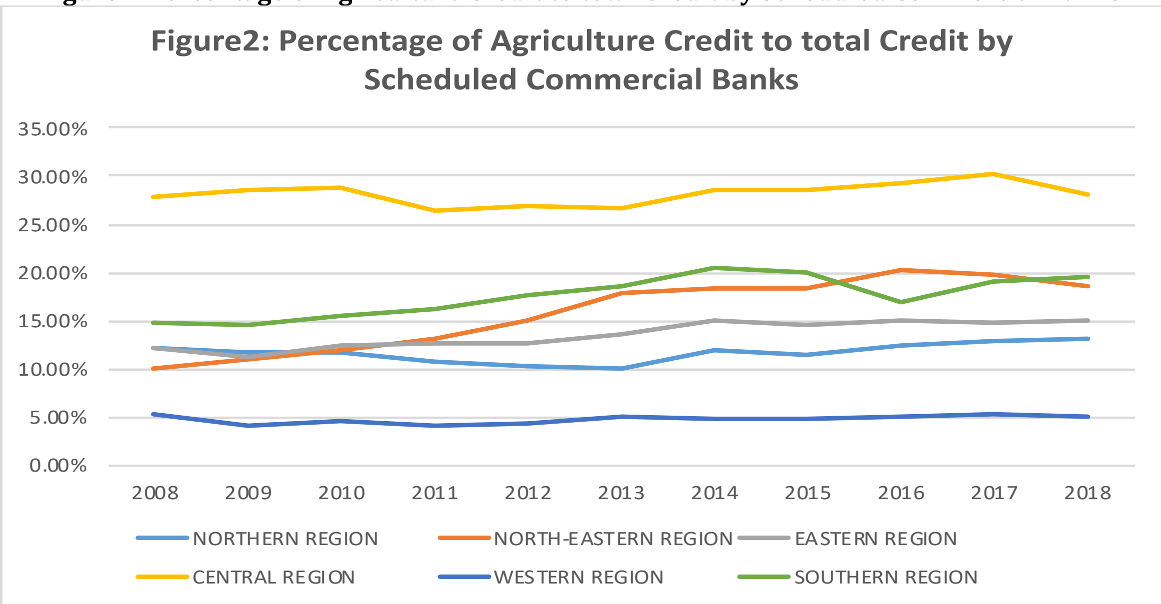
The above table represents the region wise total credit and agricultural credit by scheduled commercial banks during the study period. As far as Northern region is concerned, total credit from 2008 till 2018 increased with CAGR of 14.25% whereas agricultural credit has increased with CAGR of 15.185%. The C.V. of agriculture credit is showing high variation 0.439 as compared to C.V. of total credit which is 0.3971. This result shows that agriculture credit has more disparity as compared to total credit irrespective of higher growth rate.

In case of North-Eastern region, total credit from 2008 till 2018 increased with CAGR of 15.86% whereas agricultural credit has increased significantly with CAGR of 23.073%. Also, the C.V of agricultural credit shows more disparity as compared to total credit despite the significant growth rate. Similarly, in case of Eastern region, agriculture credit shows more disparity along with high CAGR of 15.42% as compared to total credit with CAGR of 12.99%.

The data also reflects that CAGR for both total credit and agriculture credit in central region is almost same whereas in terms of disparity, there is only a small difference between the two. Western region is the only region where growth rate of total credit is higher than agriculture credit but in terms of disparity, agriculture credit has more disparity against total credit. In Southern region both CAGR and disparity is higher in case of agriculture credit in comparison with total credit.

Another key finding from the above data is the variation in the percentage of agriculture credit to total credit given by scheduled commercial banks across the regions. As per the priority sector lending norms, scheduled commercial banks has to lend 40% of Adjusted Net Bank Credit to priority sector out of which 18% is assigned to agriculture sector. The below chart reflects that agriculture credit as a percentage of total credit region wise. It reflects that regions like northern region (13.36 percent in 2018), eastern region (15.11 percent in 2018) and western region (5.10 percent in 2018) have not been able to meet their priority sector lending targets for agricultural sector. Western Region is the only region whose share of agriculture credit in total credit is lowest and almost constant from 2008-2018. Among all, central region has highest percentage of agriculture credit to total credit (28.07 percent in 2018) followed by southern region (19.55 percent in 2018)

Figure2: Percentage of Agriculture Credit to total Credit by Scheduled Commercial Banks



Source: Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, various issues. RBI handbook of Statistics on Indian states.

Reasons for regional disparities.

Among all the regions, North-East regions shows higher disparity in case of agriculture credit. It clearly indicates that states in northeast region are not getting uniform agricultural credit. The status and level of banking operations in North-Eastern Region is below the national mark. On indicators such as the credit-deposit ratio; deposits—the figures are not only low in comparison with the all India numbers, but the progress of region i.e the position during 2018 compared to 2008 is also much slower compared to the economy as a whole.

Table 2: Major Banking Indicators in All Regions

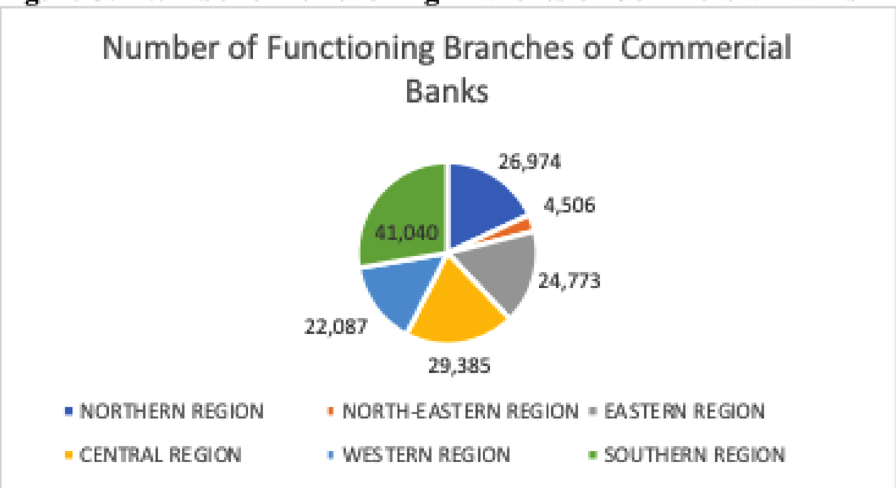
(Figures in Crore

REGIONS	CREDIT-DEPOSIT RATIO		DEPOSITS	
	2008	2018	2008	2018
NORTHERN REGION	67.7	78.1	7432	24437
NORTH-EASTERN REGION	40.7	39.3	4282	11446
EASTERN REGION	51.5	41.6	3592	15112
CENTRAL REGION	46.1	39.4	3639	15500
WESTERN REGION	88.6	98.3	10335	30069
SOUTHERN REGION	89.1	90.5	7017	27039
ALL INDIA	**74.4**	**76.7**	**32499**	**114344**

Source: Basic Statistical Returns of Scheduled Commercial Banks in India, RBI, Various Issues

Disparity in the agricultural credit among regions is also because of difference in the functioning branches of commercial banks across regions. The below diagram shows the figures at the end of the quarter March, 2018. It indicates a lower percentage of functioning offices of commercial banks in North-Eastern Region (3.03%) as compared to all the other regions which is one of the major reasons for low level of credit and poor access to agricultural credit in this region. The highest percentage of functioning offices of commercial banks is in Southern Region (27.59%) followed by Central Region (19.75%).

Figure 3: Number of Functioning Branches of Commercial Banks



Source: Bank Branch Statistics, Database on Indian Economy, RBI
Note: Figures at the end of the quarter March 2018

The table given below reflects the region wise agriculture and total outstanding credit of scheduled commercial banks. Agriculture credit limit as a percentage of total credit limit is highest in Central Region followed by North-Eastern Region and Southern Region whereas Western region is the one which has the lowest percentage of agriculture credit limit to total credit limit. All India agriculture credit limit as a percentage of total credit is just 9.20% which is lower than all regions except Western Region. On the other side, agricultural outstanding credit as a percentage of total outstanding credit is highest in Central Region (24.29%) followed by Southern Region (17.60%) and North-Eastern Region (16.77%) whereas lowest in Western Region (5.03%). Increase in outstanding credit of banks affects their profitability.

TABLE 3: REGION - WISE CLASSIFICATION OF OUTSTANDING CREDIT OF SCHEDULED COMMERCIAL BANKS

(Amount In ` Crore)

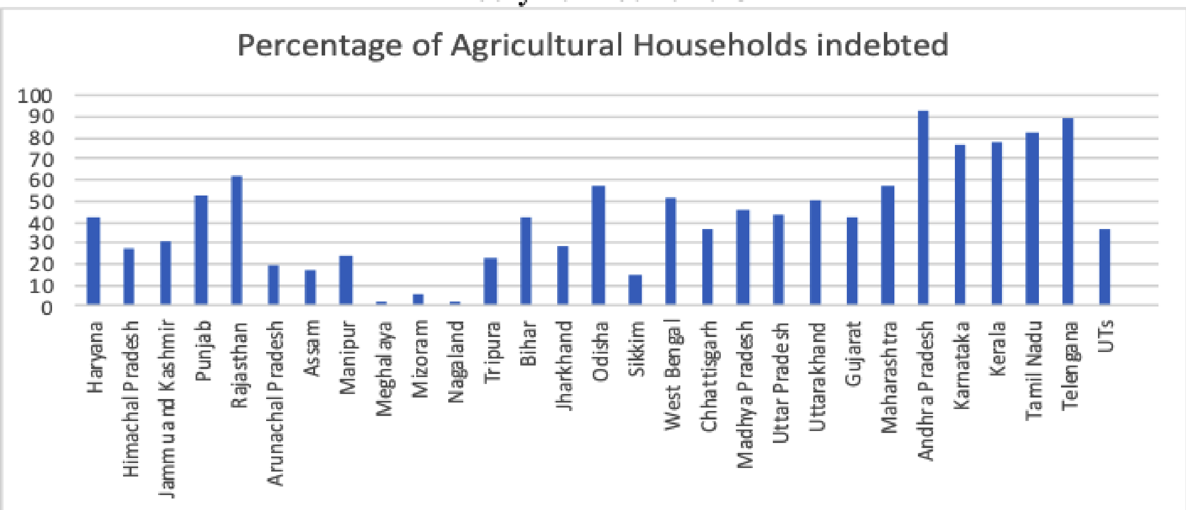
	Credit Limit			Amount Outstanding		
REGIONS	AGRICULTURE	TOTAL	Percentage	AGRICULTURE	TOTAL	Percentage
NORTHERN REGION	267656	3029849	8.83%	221683	1873305	11.83%
NORTH-EASTERN REGION	14363	99499	14.44%	12926	77079	16.77%
EASTERN REGION	85751	840740	10.20%	72970	591699	12.33%
CENTRAL REGION	196058	1016990	19.28%	165626	681790	24.29%
WESTERN REGION	179813	4572403	3.93%	147735	2939716	5.03%
SOUTHERN REGION	468857	3616017	12.97%	413325	2348132	17.60%
ALL INDIA	**1212498**	**13175498**	**9.20%**	**1034265**	**8511720**	**12.15%**

Source: Oustanding credit of scheduled commercial banks, Database on Indian Economy, RBI

Note: Figures at the end of the quarter March 2018

The low level of credit and its poor access in the North-Eastern Region is also emphasized by Agricultural household survey of 2013. According to Situation Assessment Survey of Agricultural Households (Jan-Dec 2013), percentage of agricultural households indebted was lower than the national average (51.9 percent) in all the states except Punjab, Odisha, Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and Telangana. In fact, indebtedness in Meghalaya (2.4 per cent), Mizoram (6.2 percent) and Nagaland (2.5 per cent) was negligible in comparison of the all-India figure of 51.9 per cent—a situation that needs urgent action.

Figure 4: Percentage of Indebted Agricultural Households during the agricultural year July 2012-June 2013



Source: Situation Assessment Survey of Agricultural Households (Jan-Dec 2013), National Statistical Office (NSO), Agricultural statistics at a glance 2019
Note:

1. Separate estimates for the newly formed States of Telangana and Andhra Pradesh are provided in place of erstwhile State of Andhra Pradesh
2. Reference period for Indebtedness is "as on the date of survey"
3. Indebtedness relates to all kind of outstanding loans irrespective of the purpose for which taken

One of the major reasons for poor access to credit is large percentage of operational holdings by marginal and small farmers as compared to large farmers which is negligible. According to Agriculture Census 2015-16, percentage of operational holdings by marginal and small farmers is quite high in states like Assam (86.20 percent), Manipur (83.36 percent and Tripura (96.32 percent). Low operational holding means lack of access of credit as land is a major source of collateral to get loan. Also, small piece of land means less production which can takes care of the needs of farmer only therefore less profitable Therefore, it's a biggest challenge in front of farmers to repay the loan due to non-profitability even if they get access to credit.

CONCLUSION

Agriculture plays a critical and crucial role in the growth and development of the Indian economy. Out of total workforce, nearly 54 percent depends on agricultural sector. Agriculture is always considered above occupation in India. Investing in the agricultural sector helps not only to achieve food security and hunger but also in tackling major problems like poverty; employment; water and energy use; climate change and unsustainable consumption and production.

Regional disparity in terms of credit is increased in recent years. Disparity is highest in case of North-Eastern region as compared to all other regions despite increased CAGR from 2008 till 2018 and increased percentage of agriculture credit to total credit by scheduled commercial banks for the same time period. There are number of reasons like low level of deposits, low credit-deposit ratio, less functioning offices of commercial banks and high percentage of outstanding agriculture credit Central Region is the one which has almost same CAGR and C.V. of agriculture credit and total credit by commercial banks but simultaneously has highest percentage of agriculture credit to total credit by commercial banks and outstanding agriculture credit among all the regions. Western region is the only region which has lowest disparity in agriculture credit, highest credit-deposit ration and lowest percentage of outstanding agriculture credit despite lowest percentage of agriculture credit to total credit by commercial banks. To conclude this section, it will be relevant to state that there is hardly any evidence of reversing the recent trend of underlining regional disparities in the economy in the coming time period. Indeed, almost all the relevant factors and forces are such that the disparities among regions are likely to expand in the coming years. It will require massive work on the part of the Centre and the states in the respective regions to make sure that the gap between the regions does not widen further.

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