Institutional Finance in Indian Agriculture : A Comparative Study of Pre and Post Reform Period

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Abstract

Agricultural credit plays a key role in enhancing agricultural production in India. The Green Revolution characterized by a greater use of inputs such as fertilizers, seeds and other inputs has increased the credit requirements which are accessible for the poor farmers of the country only through financial institutions. No doubt, the outreach and the amount of agricultural credit have increased over the years, but still there exist some weaknesses which have strongly affected the viability and sustainability of these institutions. Study reveals that the large proportion of the farmers of lower strata receives much less credit than its requirement. In this context the study tries to examine the existing credit flow to agriculture and make a comparative analysis of the distribution of agricultural credit in pre reform period and post reform period.

Key words : Agricultural credit, Credit flow, Co-operative, Commercial bank.

1.1 Introduction :

In developing countries like India, the development of agricultural sector is imperative for variety of reasons. Agriculture sector depends more on credit than any other sector of the economy because of the seasonal variations in the farmers returns and over the years, it has been observed a significant change from the subsistence level of production to market oriented commercial production. Diversification and commercialization in agriculture have resulted in shifting of cropping patterns from traditional crops to commercial and high value crops and produced for new markets. Credit may provide all those opportunity

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for pushing the agricultural production to the high horizons consequently raises the living standards of our rural poor farming community. Hence, it plays a pivotal role in development of the economy. In India, with the introduction of green revolution, the capital necessities in agriculture have increased substantially and by many folds. Therefore, there is a greater need for institutional credit as vital input to support agriculture and allied activities for promoting modern methods of production and for sustained farm returns. In developing countries credit structure is of two types i.e., co-existence of institutional (formal) and non-institutional (informal) credit sources. Due to illiteracy farmers find it convenient to approach private moneylenders and other non-institutional sources because of their simple procedures of financing. Moreover most of the farmers are small and marginal, suffer from the problem of lack of required capital. Small farmers usually face cumbersome procedure and collateral problems in availing credit. Evidence suggests that such loans further aggravate rural poverty as the effective rate of interest on informal credits is exorbitantly high.

1.2 The Literature :

Dantwala (1989) in his study dealt with a quick review of the performance of institutional credit since the nationalization of commercial banks revealed that short-term and medium-term institutional credit to agriculture has grown at a compound rate of 14.2 percent and 20.4 percent per annum, respectively during the period from 1974-75 to 1984-85.The share of commercial banks in short-term institutional credit flow rose from 16.3 percent in 1974-75 to 35.8 percent in 1984-85.

Barman, K. K. & Devi, N. (2004) showed in their study that despite of impressive growth bank branches in North East India the credit-deposit ratio is not satisfactory. The low level of credit-deposit ratio is attributed by low level of utilization of advances, poor recovery of loans etc. Absence of close monitoring of loans after disbursement is a serious problem leading to miss-utilization of fund.

Borah and Chakraborty (2004) in their study found that institutional credit flow in North Eastern region is very poor which is reflected by poor credit -

deposit ratio. In 1999 the credit deposit ratio for the region was 30.29 as against national average of 51.66. By using trend equation to see the variation in scheduled commercial banks (SCB's) credit (outstanding) flow to agriculture it is found that during 1990-91 to 2000-01 growth in the percentage share of agriculture out of the total SCB's credit (outstanding) to NER is negative (-0.674).

Choudhury, R.K. (2004) finds that total bank credit in Assam during 1995-2000 increased by more than 50 percent and annual quantum of credit in all the sectors went up except in Agriculture sector where it is declined by 10 percent .The credit deposit ratio declined from 49 percent in 1990-91 to 33 percent in Assam in that period. He has also find out that there has been a vast gap between the official purposes of the farm credit and the purpose it has been put by the farmers.

Sahu and Rajasekhar (2005) find out that from the period 1981-2000 the share of agricultural credit of scheduled commercial bank in total net bank credit had declined from 13.84 percent in 1990 to 8.38 percent in 2000 after introduction of banking sector reforms.

Satish, P. (2006) took the review of institutional credit indebtedness and suicide in Punjab and found that share of co-operative credit decline from 65.05 percent to 47.92 percent and that the share of commercial bank raised 34.91percent to 52.08 percent during the period 1990-91 to 2002-03. He also reflected that indebtedness is not due to the absence of institutional credit supply but it is an outcome of excessive unproductive consumption expenditure and decline return from agriculture.

Golait (2007) finds out that despite of significant improvement in terms of spread and outreach of financial institution, the quantum of Agricultural credit flow in India is still inadequate. He has identified host of the factor responsible for low flow of investment credit to Agriculture such as high transaction cost, structural deficiencies, issues related to credit worthiness etc.

Khan et al (2007) examined the interregional disparities in per hectare flow of short term credit to Agriculture in India .He found that interregional disparities in per hectare flow of institutional credit had increased during pre -liberalization period between 1980-81 to 1990-91.During the post liberalization period (1990-91 to 2001-02) the interregional disparities of credit flow have reduced. But the coverage is still very low.

Panda (2007) made a study of growth trends of the institutional agricultural credit in Orissa. The finding of the study is that the whatever the agricultural credit are supplied by the institutional agencies all are more noticeable only in crop loans. The annual growth rate, in term loans was found to be very low as compared to all India average.

1.3 Objectives :

The objectives of the analysis are—

- To estimate the trend of growth of institutional agricultural credit in India
- To make a comparative analysis of the distribution of agricultural credit in pre reform period and post reform period.

1.4 Data and Methodology :

The entire study is based on secondary sources. Secondary sources are—

1. Credit related issues published in different journals and edited books.
2. Government official website.
3. RBI reports.
4. Statistical Handbooks.

2. Discussion :

2.1 Co-Operative Bank :

The formal institutional credit delivery mechanism in India had marked its beginning, with the introduction of "Land Improvement Act"1883 and "Agricultural loan Act"1884, thereby public funds became open to farmers for obtaining credit. In 1892 the Madras now (Tamilnadu) government placed Mr. Fedrick A. Nicholson on special duty to enquire in to the possibility of agriculture and other land banks. He in his report submitted in 1895 highlighted the weakness of non-institutional sources and advocated the setting up of co-operative credit societies in different parts of the country to develop thrift, prudence and self-reliance in the Peasantry. In 1898 sixty four banks were set up in different parts of the country on the basis of cooperative principle. Thereafter a committee was appointed under Edward Law to make proposal regarding cooperative credit societies. The committee drew model scheme of management for rural and urban societies that formed the basis of the cooperative credit societies Act 1904 heralding the beginning of the cooperative movement in India. On the basis of various committee recommendations in 1944, a three tire system of agriculture cooperative credit came in to existence in India namely-

1. The provincial co-operative bank at the apex level (at present state level)
2. The Central co-operative banks at the intermediate (at present district level)
3. The primary credit societies at the base level (at present village level)

As on 1950-51 there were 15 provincial co-operative bank, 505 central cooperative bank and 1,49,000 primary credit societies. But the cooperative credit system was subjected to a major review in 1950s by All India Rural Credit system which observed a very pitiable picture of share of these sources to total rural credit .This is because a large share of rural credit requirement is fulfilled by traditional sources. In order to stimulate the development of cooperative credit institution The All India Rural Credit Survey Committee (1953-54) recommended the public sector banks which would be responsive to the need of the rural sector in general and cooperative institution in particular.

2.2 Entry of commercial bank :

During the 1950s the share of commercial banks in rural credit was very much negligible as it was concentrated only to class section of the society. The All India Credit review committee chaired by G.D .Gorwala in its report submitted in August 1954 revealed that the share of institutional and non-institutional sources of rural credit were 7.3 percent and 93.7 percent, respectively. As per the recommendation of this committee it was realize that the commercial bank could play a significant role in supplementing the efforts of the cooperative societies to meet the credit needs in agriculture and allied sector. On the basis of recommendation of rural credit survey committee the Imperial Bank of India and certain state associated banks were amalgamated to form State Bank of India with the major objective to provide the vast remittance to cooperative. Accordingly imperial bank was nationalized in 1955 and the new State Bank of India was asked to open 400 branches in semi urban areas and start agricultural lending even if at loss. Moreover on the basis of insignificant credit flow to priority sector like agriculture the government of India introduced Social control in December 1967 and the National Credit Council was set up in February 1968 to advise government and reserve bank of India in budgeting and planning the small credit flow with due consideration of neglected sector of the Economy. As the policy of social control was not effective, the 14 major commercial banks were nationalized in 1969.This was the marked beginning of Multi-Agency approach involving commercial banks of the country to play a dynamic role in providing additional credit to neglected sector like agriculture. Further in 1980 the government of India acquired the ownership of six largest private sector banks bringing the total number of nationalized bank to 20.With the initiation of Green revolution in late sixties the government interest was to channelize credit through formal sources to agriculture sector in rural areas. As a result, the rural branches went up from 1443 in 1969 to 19453 in 1981. But, after 1990 there was a slowdown in branch expansion of schedule commercial banks as the government accepted the recommendation of the committee chaired by Narashinham, which advocated further branch expansion to be based on 'need, business potential and financial viability of location' (Table-2.1).

Table - 2.1

Expansion of Rural Branches of Commercial bank (1969-2013)

Year	No of Rural branches	Percentage of total
1969	1443	22.2
1974	6165	36.5
1979	13333	44.1
1981	19453	56.0
1989	33014	57.2
1994	35329	57.2
1999	32857	50.6
2004	32121	47.80

2007	30592	42.0
2008	30772	40.35
2009	31453	39.20
2010	32473	37.97
2011	33909	37.19
2012	36428	36.94
2013	39336	37.19

Source : Data up to 2007 are based on Banking statistics, Basic statistical returns, RBI Mumbai, 2008, from 2008-13 data are based on Handbook of Statistics of Indian Economy, RBI 2012-13

2.3 Introduction of Regional Rural bank :

Although there was a massive expansion of commercial bank branches during the post nationalization period the working group on rural bank appointed by govt. of India under the chairmanship of M. Narasimhin its report submitted on 31st July, 1975 recommended the setting up of state sponsored region based ,rural oriented commercial bank so as to reach the unreached section of the rural area primarily the small and marginal farmers, landless labourers and all the weaker section of the rural society for their productive credit needs .On the basis of this the government of India accepted the recommendation and the president of India issued the "The Regional Rural bank Ordinance 1975" on September 26, 1975 with immediate effect to facilitate setting up of Regional Rural bank in the country. Finally, the ordinance was replaced as "Regional Rural Bank Act 1976" and the RRB's were set up as poor man's bank (Table-2.2).

Table - 2.2

Progress of Regional rural banks in India from 1975 to 2010

Year	No of bank	No of Branches
1975	6	17
1980	85	3279
1985	188	12606
1990	196	14443

1995	196	14509
2003	196	14400
2008	86	15181
2009	82	15480
2010	82	16001

Source : Consolidated Review of Performance of Regional Rural Banks, As on March 31, 2011, Ministry of Finance, Govt. of India.

3. Distribution of Institutional Agricultural Credit in India: A Comparative Study of Pre and Post Reform Period :

Agricultural credit apparently started to grow after bank nationalization and it has been growing continuously since then with all concerns. Historically Co-operative societies have played a vital role in the provision of institutional credit to agricultural sector. With the entry of commercial bank in rural area, the share of Co-operative credit in total Agricultural Credit had gone down. Considering the disbursement of direct institutional credit in pre-reform period and post reform period the study reveals that the agricultural credit policies and economic reform in general aim to have positive influence on the total volume of institutional credit. The study reveals that Co-operative banks dominated in total agricultural credit disbursement in the pre reform period .The loan disbursement in direct institutional credit was higher for co-operatives in pre-reform period.

Table - 3.1

Direct institutional credit in pre reform period (Rs. In Crore)

Year	Loan issued			Loan outstanding		
	Co-operatives	Commercial bank	Regional rural bank	Co-operatives	Commercial bank	Regional Rural bank
1980-81	1386	517	-	1908	1162	-
1981-82	1796	623	-	2149	1370	-
1982-83	1908	565	98	2225	1351	109
1983-84	2158	872	120	2554	1638	147

1984-85	2323	1035	132	2836	1964	206
1985-86	2747	1252	176	3237	2355	265
1986-87	2620	1482	201	3293	2619	324
1987-88	3120	1672	246	3871	3071	400
1988-89	3594	1765	250	4668	3414	479
1989-90	3974	1898	336	4948	4005	575
1990-91	3448	2048	125	5178	4235	590

Source: Handbook of Indian Economy, Reserve Bank of India 2008

The Co-operative banks provided Rs. 1386 crore in 1980- 81. It has increased to Rs.3448 crore in 1990-91.The schedule commercial banks disbursed Rs. 517 crore in 1980-81, which had gradually increased to Rs. 2048 crore in 1990-91. The direct agricultural credit disbursed from Regional Rural banks was Rs. 125 Crore in the same period (Table-3.1).

Direct institutional credit in post reform period :

Considering post reform period the amount of loan issued by the Co-operative bank in 1991-92 was Rs. 3934 Crore, whereas the Schedule Commercial Bank disbursed only Rs. 2341 Crore. The dominance of Co-operatives in Agricultural loan disbursement was retained till the year 2004-05. In 2005-06, the direct loan disbursement from SCBs was higher than the Co-operative bank. The loan disbursement from SCBs was Rs. 45644 crore, whereas it was Rs 35624 crore for co-operative in 2005-06.The RRBs provide Rs.12816 crore in the same year (Table-3.2).

Table - 3.2

Direct institutional credit in post reform period (Rs. In Crore)

Year	Loan issued			Loan outstanding		
	Co-operatives	Commercial bank	Regional rural bank	Co-operatives	Commercial bank	Regional Rural bank
1991-92	3934	2341	337	5110	4631	679
1992-93	4394	2432	451	5900	4988	799
1993-94	6039	2860	476	6640	5425	887
1994-95	6996	3842	688	7091	6154	1115

1995-96	9243	4628	849	9312	7173	1308
1996-97	9489	5625	1147	9618	8766	1625
1997-98	10084	6233	1457	10060	9522	1914
1998-99	10698	7742	1750	10462	10821	2238
1998-00	17255	9505	2285	16241	12610	2808
2000-01	18556	10704	3095	18168	15442	3692
2001-02	21670	12661	3810	21540	18882	4812
2002-03	23629	16825	4834	24518	232111	6495
2003-04	29326	24134	6133	30808	31982	7664
2004-05	31887	29978	9883	32481	42798	10980
2005-06	35624	45644	12816	34140	59971	13877
2006-07	40796	65245	17031	37764	76006	18707
2007-08	47390	68243	20377	43696	96152	22748
2008-09	48022	107766	22851	45686	126285	26652
2009-10	61951	124646	30529	54970	167623	33663

Source: Handbook of Statistics of Indian Economy, Reserve Bank of India, 2012-13.

Comparison of two periods :

To analyze the agency wise difference in growth of agricultural credit between pre and post reform period compound growth rate is calculated. In pre reform period the Commercial bank achieved 15percent (approx.) compound growth of direct agricultural credit disbursement. It was followed by Co-operatives approximately 10 percent. In pre reform period the regional rural banks were dominant in the growth of direct agricultural credit outstanding.

In post reform period the co-operative had attained less growth of both direct agricultural disbursement and outstanding in comparison to SCBs and RRBs. The highest compound growth rate of direct agricultural advances (both disbursement and outstanding) was attained for the Regional Rural Bank in post reform period followed by Commercial bank (Table-3.3).

Table - 3.3
Compound Growth Rate
(Agency wise difference in Agricultural credit growth)

Banks	Pre reform period		Post reform period	
	Disbursement	Outstanding	Disbursement	Outstanding
CO-operative	9.54 %	10.49%	16.54 %	14.10%
Commercial Bank	14.75 %	13.80 %	24.71%	22.06 %
Regional Rural Bank	3.08 %	23.50 %	28.44%	24.21 %

Calculation based on the data published on Hand Book of Statistics of Indian Economy RBI 2012-13.The Compound Growth Rate is calculated by using following formulae :-

CAGR (Compound Growth Rate) = CAGR (t_n, t_0)=$(V(t_n)/V(t_0))^{\frac{1}{t_n-t_0}} - 1$

$V(t_0)$=Start value, $V(t_n)$=Finish Value, $t_n - t_0$=Number of years.

Status of Institutional Agricultural Credit in India after 2000 :

After the Nationalization of Commercial banks in 1969, India has strongly pursued a policy of "Social and Development Banking" in Rural areas. Particularly the Commercial banks, emerged as an importance source of augmenting the supply of credit in rural areas .one of the main aspect of the post -1969 policy of Social and Development banking was that Commercial banks were required to open four branches in unbanked rural areas for every branch opened in Metropolitan areas. Another aspect was that, according to different interest rate Scheme of 1974, loans were provided at concessional interest rate on advances made by the public banks to selected low income groups engage in productive and gainful activities. But in early 1990; s the policy of social and development banking was criticized by the proponents of financial liberalization. The committee on financial system (Narashinham committee) argued that banks should function on a commercial basis , and profitability should be the prime concern in their activities thus banks should give a free hand to charge rates of interest as well as to be permitted to close rural branches , in the name of the liberalization of branch network. As a consequence, the period of financial liberalization after 1991, there was a - large scale closer of commercial bank branches in rural areas and a sharp fall in the growth of commercial credit flow to agriculture (Chavan, 2005, 2007)

A comprehensive credit policy was announced by the Government of India on 18 June 2004, containing measures for doubling agriculture credit flow in the next three years and providing debt relief to farmers affected by natural calamities. The following are the highlights of this announcement :-

- Credit flow to agriculture sector to increase at the rate of 30 per cent per year.
- Debt restructuring in respect of farmers in distress and farmers in arrears providing for rescheduling of outstanding loans over a period of five years including moratorium of two years, thereby making all farmers eligible for fresh credit.
- Special One-Time Settlement scheme for old and chronic loan accounts of small and marginal farmers.
- Banks allowed extending financial assistance for redeeming the loans taken by farmers from private moneylenders.
- Commercial Banks (CBs) to finance at the rate of 100 farmers/ branch; 50 lakh new farmers to be financed by the banks in a year.
- New investments in agriculture and allied activities at the rate of two to three projects per branch.
- Refinements in Kisan Credit Cards (KCCs) and fixation of scale of finance.

Role of Indirect finance :

Historically, agricultural credit has comprised mainly of credit provided directly to cultivators, which was called "direct finance to agriculture". Within direct finance to agriculture, short-term- credit or credit for seasonal agricultural operations has accounted for a significant share. Short-term loans to agriculture are referred to as "crop loans", as they are advanced for crop cultivation against the hypothecation of the crop to be cultivated by the farmer. Apart from crop loans, direct finance also includes credit for medium and long-term investment in agriculture. The second component of agricultural finance is called "indirect finance", which does not go directly to cultivators but to institutions that support agricultural production in rural areas. In this system rural people were financed by banks through primary agricultural co-operatives, registered societies, Gram Panchayats, NGO's and SHG, etc. The typical forms of indirect finance to agriculture were loans to input dealers for their role in the provision of agricultural inputs and loans to electricity boards for supplying power to cultivators.

One of the main features of the Agricultural credit growth after 2000 is role of indirect finance. Of the total increase in Credit supply to agriculture between 2000 and 2011, about one third was contributed by Indirect Finance. Share of direct and indirect finance to agriculture in total credit to agriculture from scheduled commercial banks in India from 2000 onwards are as shown in the Table-3.4.

Table - 3.4

Share of Direct and Indirect Finance to Agriculture from Schedule Commercial Bank in Total Agricultural Credit (in percent)

Year	Direct Finance	Indirect Finance	Total
2000	84.5	15.5	100
2005	76.1	23.9	100
2006	72.1	27.9	100
2007	74.5	25.5	100
2008	77.5	22.5	100
2009	77.1	22.9	100
2010	76.1	23.9	100

Source: Report of the Working Group on outreach of Institutional finance, Co-operatives and Risk management, for the 12th Five year plan (2012-17), Planning Commission, November 2011.

There has been a distinct shift in the preference of Commercial banks towards indirect finance to agriculture. Of the total Credit outstanding to Agriculture, the share of indirect finance was 15.5 percent in 2000 which increased to 27.9 percent in 2006 and stood at 23.9 percent in 2010.

Agency wise share in Total credit Disbursed :

The dominance of share in total credit disbursed by co-operatives was retained till the year 2003-04. From 2004-05, the share in total credit by Commercial bank was gradually increasing. In 2004-05 the share of commercial bank was 45.9 whereas the share of co-operatives was 42.7 percent. The parentage share of Co-operatives in total Agricultural Credit was 29.6 percent as against the 58.2 percent share of Commercial bank in total Agricultural Credit in 2007-08. The share of RRBs was 12.2 percent in 2007-08.In 2008-09 the percentage share of both Co-operatives and RRBs banks were declined whereas the percentage share of Commercial banks increased by 7 percent as against 2007-08. In 2011-12, the share of Co-operatives was 17.21 percent and the share of Commercial bank and RRBs are 72.13 percent and 10.65 percent respectively. The most significant rise in total Agricultural credit was took place in 2011-12.As against the target of Rs.4, 75,000 crore fixed for 2011 -12, the total disbursement to Agriculture sector was 5, 11,029.09 crore and exceeding the target by 8 percent (approx.). While the Commercial banks and RRBs together extended credit to 99.65 lakh new farmers during 2011-12, Co-operative banks extended Credit to 21.52 lakh new farmers during the same period. Thus taking the total no of new farmers brought under the banking system to 121.17 lakh. The total no of Agricultural loan accounts financed as on March 2012 was 6.47 crore. The credit flow to agriculture during 2012 -13 by Commercial banks, Co-operatives and RRBs together was Rs. 2,39,629 crore till September 2012, accounting for 42 percent of the annual target of Rs.5,75,000 crore set for 2012-12. The annual target for 2013-14 is Rs. 7, 00,000 crore (Table-3.5).

Table - 3.5

Agency wise share in Total credit Disbursed

Year	Share in Total Credit (percent)		
	Co-operatives	SCBs	RRBs
2001-02	56.4	34.4	8.4
2002-03	52.2	38.4	9.0
2003-04	48.0	43.4	8.6
2004-05	42.7	45.9	11.3
2005-06	33.4	56.0	10.6
2006-07	28.5	60.0	10.7
2007-08	29.6	58.2	12.2
2008-09	23.89	65.32	10.77
2009-10	16.51	74.33	9.16
2010-11	16.68	73.86	9.46
2011-12	17.21	72.13	10.65

Source: Handbook of Statistics on Indian Economy, Reserve Bank of India, 2012

Progress of Kishan Credit Card Scheme :

To provide adequate and timely support from the banking system to the farmers for their cultivation needs including purchase of inputs in a flexible and cost effective manner, a Kishan Credit Card scheme was introduced in 1998 for short term and medium term loans.

Banks issued 9080374 cards in 2004-05 where the commercial bank had the highest share with 45.4 percent as against the 36.8 percent and 17.86 percent share of Co-operative bank and RRBs respectively. There is declining trend in the share of Co-Operative bank, as in 2004 -05 the share of Co-operative bank in no of card issued was 36.8 percent which declined to 19.4 percent in 2009-10. However the share of Regional Rural bank declined in 2008-09 but in following years its share progressively improved to 21.65 percent in 2009-10. The Kishan Credit card has been an important initiative for universal access of farmers to institutional credit. The number of operative KCCs issued by Co-operative banks and RRBs in the country as on August 31 ,2012 was 406 lakh against outstanding loan amount was Rs. 1,12,33.90 crore. As reported by RBI, Commercial Banks had issued a total of 547.49 lakh cards (Cumulative since inception) as on March 31, 2012 with a sanction amount of Rs. 3,53,144.82 crore (Table-3.6).

Table - 3.6

Agency-wise & Year-wise Kisan Credit Cards Issued Along with Loan Amount Sanctioned [Rs. Crore]

Year	Commercial Bank		Co-operative Bank		Regional Rural bank		Total	
	No of Card issued	Amount (Crore)	No of Card issued	Amount (Crore)	No of Card issued	Amount (Crore)	No of Card issued	Amount (Crore)
2004-05	4395564 (45.40)	14756	3555783 (36.8)	15597	1729027 (17.86)	3833	9680374 (100)	34186
2005-06	4164551 (52.0)	18779	2598226 (32.4)	20339	1249474 (15.6)	8483	8012251	47601
2006-07	4807964 (56.5)	26215	2297640 (27.0)	13141	1405874 (16.5)	7373	8511478	46729
2007-08	4605775 (54.4)	59530	2091329 (24.69)	19991	1772498 (20.93)	8743	8469602	88264
2008-09	5833981 (67.89)	39009	1343845 (15.6)	8428	1414647 (16.5)	5648	8592473	53085
2009-10	5313085 (59.0)	39940	1743253 (19.4)	7606	1949785 (21.65)	10132	9006123	57678

Source: Microfinance Gateway, Figure in the parentheses indicates percentage in total.

Interest Subvention Scheme :

The interest subvention scheme is being implemented by Government of India since 2006-07 to make short term crop loans up to Rs 3 lakh for a period of one year available to farmers at the rate of interest rate 7 percent per annum. The government of India has since 2009-10 been providing additional interest subvention to farmers who repay their loans in time. The additional subvention which was 1 percent in 2009-10 was gradually increased to 2 percent in 2010-11 and 3 percent in 2011-12 and 2012-13

Demand -Supply Gap :

Despite the vast expansion of the formal credit in the country the dependence of rural poor on the money lenders continues in many areas especially for meeting the credit requirement. Such dependence is pronounced in the case of marginal farmers, landless labourers belonging to socially and economically backward class.

India's economy is based on rural sector because more than two third of the population is depended upon the Agriculture. Finance being the lifeline of every venture, availability of funds at reasonable terms is mandatory to ensure rapid economic development. In India the institutional finance to Agriculture is inadequate. A review of the performance of Agricultural Credit in India reveals though the overall flow of institutional credit has increased over the years , there are several gaps in the system like inadequate provision credit to small and marginal farmers , paucity of medium and long term lending etc. This has major implication for reducing the gap between credit requirements and credit supply. So the biggest challenge for the development of Indian Agriculture is demand supply gap of Agricultural Credit. In recent years the demand -supply gap increases gradually. Even after taking the comprehensive credit policy of 2004 with the objective of doubling agricultural credit in next three years demand-supply gap was exist. During the period 2002-03 the credit gap was 4.0 percent which increased to 33.1 percent in 2007-08. The average increase of demand-supply gap from 2002-03 to 2007-08 was 11.4 percent (Table-3.7).

Table - 3.7

Agricultural Credit (Demand- Supply Gap)

Year	Actual Supply of Total Agricultural Credit (in billion)	Estimated Demand For Agricultural Credit (in billion)	Demand- Supply Gap (in Percent)
2002-03	2562	2665	4.0
2003-04	3004	3260	8.5
2004-05	3583	3811	6.4
2005-06	4411	4944	12.1
2006-07	5361	6745	25.8
2007-08	5817	7741	33.07
Average (Geometric Mean)			**11.4**

Source : Calculation based on the data published in written speech delivered by Dr. Duvvuri Subbarao, Governor, and Reserve bank of India, at the thirty anniversary celebration of NABARD at Mumbai on July 12, 2012.RBI Monthly Bulletin August 2012.

Formula for Calculating Demand- supply gap

= {[Estimated Demand for Agricultural Credit - Actual Supply of total agricultural credit] ÷ Actual Supply of Agricultural credit} × 100

4. Suggestions & Conclusion :

The flow of Agricultural credit witnessed a rapid increase after the bank nationalization. The Co-operative system was unable to provide adequate support to the needy farmer's .As per the recommendation of All India Credit Survey Committee constituted in 1966, the Government of India nationalize leading banks 1969. Between 1971-72 and 2001-12, the agricultural credit witnessed around 578 times jump from merely 883 crore in 1971-72 to Rs5,11,029 crore in 2011-12. The opening up of rural bank branches led to decline in the role of informal agencies. The commercial bank occupies major share of institutional credit to agriculture. But still the objective of easy accessibility of rural finance has not been reached to desired extent. Thus the financial institution as well as the government has to make some remarkable step for enhancing credit facilities to the rural areas.

1. Role of institutional credit to Agriculture cannot be viewed just as a support to food producing activity but simultaneously it should considered as a tool to improve the overall economic well being of the farmers. Thus the banks and other financial institution are seemed to be very active in flowing credit facilities to needy farmers of the rural area
2. However question arises because in most of the cases people misuse the loan amount and again some the genuine farmers are not able to get credit due to cumbersome and complicated procedure. Therefore, the government and other financial institution who are the provider of rural credit should pay attention in this regard.
3. Majority of the farmers are not well informed about the formal process, and they always depend on mediator. Considering this bank should undertake

such a policy so that all the farmers become well informed about the formal procedure of obtaining credit.

4. Financial Agencies should try to make credit available on time. Transaction cost of credit should also be reduced. Credit is a condition that enables a person to extend his control over ownership of resources. It plays the role of an accelerator in agricultural development and thereby reducing poverty provided it is adequate in quantity, cheap and development oriented and fully utilized. Land, soil, fertilizer, HYV, irrigation and rainfall are treated as the major component for determining the productivity of agriculture. Management of agriculture sector is essentially related to all. Credit is an essential pre-requisite for carrying all those activities.

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