CHAPTER -1

INTRODUCTION

The objective of this chapter is to provide an introduction to the agricultural sector and agricultural finance in India. It describes agriculture finance and its evolution in India in a brief manner. This chapter also takes a look at agricultural institutional finance from the pre-nationalization era to the nationalization era and post reform period. The chapter provides a brief description of different institutions that offer agricultural credit. A summary of the distribution of direct loans to small and marginal farmers by commercial banks is given in this chapter. An overview of the various institutions that provide credit to the agriculture sector is included in this chapter.

The agricultural sector is vital to all regions of the globe. Agriculture is an important sector of the economy. A large size of population depends on agriculture for food, raw materials for industries and employment. Throughout the world, agriculture has been recognized as an essential industry for food production as well as raw materials for industries etc. Other sectors also use agricultural materials in their production, besides feeding themselves. The agriculture sector contributes less than 20 percent to India's Gross Domestic Product yet it continues to employ more than half of the workforce. In light of the rapid rise of the population, there has been an unprecedented increase in the number of people engaged in agriculture in recent years. A rise in agricultural activity has been a consequence of increased growth over time. For low income people, the susceptible and the poor in society, agricultural activities remain an important source of livelihood and it plays a substantial role in diminishment of poverty. Food demand is increasing hastily in developing countries as a result of heavy population pressure. In these countries, because of the way everything is set up, food consumption is extremely low in volume and with a slight increase in per capita income, the demand for food in these countries increase sharply. As a result, the agriculture sector is limited in its ability to increase marketable surpluses of food grains. There is no sustainable way of producing surplus food using the same inputs and resources. Agriculture is influenced by climate conditions. It is the climate that determines whether an agricultural operation succeeds or fails. Current circumstances indicate that the agricultural sector's decline is not only due to climate conditions but is also due to increasing poverty, which is difficult to realize and very challenging to eradicate. Due to chronic poverty and the crushing debt burden of the Indian farmers, agricultural productivity suffered in turn results in low levels of production, which aggravates the poverty and debt burdens of the peasants. The Indian peasantry continues to suffer from chronic poverty and crushing debt. The existence of poverty among India's rural populations is one of the most distinctive features of rural economy.

Agricultural products usually require the use of fertilizers, agricultural machinery, manure etc., along with marketing services. To maximize agricultural production, agricultural producers need financing to purchase seeds, fertilizers, agricultural equipment, livestock, repairs to wells, manure, improve their land and market their products. Many farmers are unable to buy the seeds and fertilizer they need for their crops because of financial constraints. Due to insufficient financial resources and the inability to obtain timely credit facilities at fair interest rates, many farmers are unable to acquire high variety seeds, fertilizers and implement better practices despite their willingness to do so. Works of minor irrigation channels like wells owned by the agricultural cultivators either get into the state of disuse or are inadequately utilized for want of capital.

To achieve food security and reduce poverty, it is imperative to increase financial support and investment in rural areas. Aiding rural communities can enhance food security. The World Food Summit 1996 declares that all people must have adequate access to nutrition, safe food and energy at all times, both economically and physically. Institutional agencies need to provide credit support to farmers in order to achieve food security and sustainable development in the agricultural sector. The development of credit support systems will ensure agricultural sustainability in the future. Equity capital and non-equity capital make up the two main classes of capital. Non-equity capital is the major source of liquidity in rural areas where farmers lack sufficient equity capital to invest in agriculture. Agricultural production is not directly dependent on credit; however, it allows farmers to make the most of what they have and to access the resources, thereby alleviating financial restrictions. Because money is not wealth, credit cannot be income, but once properly lent it can result in income, thereby serving as an impel for economic growth and development (Reddy, et. al., 2006). The needs of farm families will increase over time and a demand will also be created by the potential borrowers, so the establishment of an institutional credit network is essential for the welfare of the farming community and the institutions as well. Agricultural finance refers to the credit granted for the promotion of any line of agriculture (Pantulu, 1944).

Agriculture finance is the economic study of the borrowing of funds by farmers; of the organization and operation of farm lending agencies; and society's interest in credit for agriculture (Murray, 1953). Different credit instruments are used to encourage the agriculture and industrial sectors in India. Farmers have always benefited from the availability of concessional credits by adopting new technologies, investing in machinery, irrigation and adopting quality inputs. Higher agricultural productivity is possible through the application of new technologies which may be obtained through credit. A large scale of financial investment has contributed to the growth of agricultural assets and farm infrastructure, which resulted in increased income levels and general improvements in living standards for farmers. Increasing level of investments has increased agriculture's profitability. Additionally, the living standards of farmers have improved due to various initiatives. In response, banks were encouraged to open rural branches and to provide additional loans to agriculture. It led to an increase in rural branch locations and farm loans. In the years prior to 1935, loans from money lenders and cooperative societies were exclusively used to finance agriculture. Through various initiatives, India's Reserve Bank of India has actively contributed to providing agricultural credit to farmers after 1935. A variety of channels were used by the Reserve Bank of India to extend loans to farmers. The Reserve Bank of India established a cooperative credit system, which eventually split into two distinct arms the first for short-term credit, the second for long-term credit. Reserve Bank of India implemented a cooperative credit system as a component of agricultural sector lending reform. After nationalization, Agricultural credit by commercial banks has increased consistently from 38.4 percent in 1980 to 75.8 percent in 2008, as a result, the share of cooperative societies reduced from 61.6 percent in 1980 to 15.3 percent in 2008. In the year 2011, the share of cooperative societies rose somewhat to 17.2 percent while the share of commercial banks stood at 72.1 percent. Commercial Banks are those banks which have been established as per the Indian companies' Act 1913. In India, these banks emerged following the ingress of the East India Company. In India, the first commercial bank was Bank of Hindustan. Commercial Banks are divided into two major categories, scheduled commercial banks and non scheduled commercial banks. As per the Reserve Bank of India Act 1934, scheduled banks are the banks that are listed on the second schedule of RBI and that have at least Rs. 5 lakhs in paid-up capital and reserves and a non-scheduled bank is one that does not meet the minimum capital requirement of Rs. 5 lakh and does not qualify for inclusion in the second schedule of the Reserve Bank of India. This study is confined to agricultural finance provided by scheduled public and private sector commercial Banks in India.

1.1 Evolution of Agriculture Finance in India:

The agriculture sector was subject to various phases of institutional credit. Three distinct phases can be distinguished as Pre-Nationalization (1904–1969), Nationalization (1969–1991) and Post-Reform.

1.1.1 First Phase – 1904 to 1969 (Pre- Nationalization)

Cooperation was introduced in India mainly as a means to fight the problems of rural indebtedness. In 1904, the Cooperative Credit Societies Act was passed, which led to the creation of cooperative credit societies (Chausse, 1982). Cooperative credit movement was led by the farmers themselves. With the passing of Cooperative Society Act, 1904 by the government of India, many cooperative credit societies came into existence but its progress was very slow till the twenties. In India cooperative movement grew and nourished with government involvement. Over the past several decades, cooperative banks/credit societies have been established in India with the specific aim of financing the unorganized sector of the economy, particularly agriculture (Bhole, 2009). As per the survey of Rural Credit (1950), cooperatives provided only 3.1 percent of total rural credit, but after 1950 the share of cooperatives in rural credit increased to 15.5 percent in 1961 and 22.7 percent in 1970. During the period 1950 to 1969 more importance was given to the promotion of cooperatives. Government of India always gives more importance to rural finance through institutional sources with the purpose of protecting the farmers from the clutches of money lenders. So the Government of India tries to provide crop loans and investment credit to the farmers in rural areas at reasonable interest rates. In the year 1913 Chamberlain Commission raised the issue regarding the foundation of the Reserve Bank in the country. In India, the need for central bank to participate in rural finance was felt as early as in 1930, when the central banking inquiry committee expressed the hope that the proposed Reserve Bank would tend to increase the volume of credit available for Trade, Industry and agriculture and to mitigate the evils of fluctuating and high charges for the use of such credit (Arunachalam, 1961). In the year 1931 Central Banking Inquiry Committee made a strong recommendation for the establishment of the Reserve Bank. As early as 1926, the Hilton Young Commission recommended that the country's central bank be referred to as the Reserve Bank of India.

In the Schumpeterian framework of development, bank credit has an immense role to encourage innovation in terms of finding new products, new markets, new technologies, new resources and a new organization to initiate development process (Dasgupta,2002). Under the Reserve Bank of India Act, 1934, the Reserve Bank of India was established based on the recommendations of the Hilton Young Commission, which had been formally known as the Royal Commission on Indian Currency and Finance. The Reserve Bank of India Act 1934, as part of its responsibilities gave the Reserve Bank responsibility for establishing and developing an institutional credit system for the agricultural sector in India. It was on April 1, 1935, that the Reserve Bank of India began its operations. In the same year, the agricultural credit department of the bank was also established with the objective to fulfil the finance requirement for agricultural operations through cooperative banks and other agencies that are engaged in rural credit. The Agriculture Credit Department is primarily responsible for developing cooperative credit structures for rural development, assisting State Governments to strengthen the cooperative structure and giving suggestions concerning agricultural and rural lending to both the Central and State Governments. Except for the supervision and control of urban cooperative banks, all agricultural credit functions were transferred to the National Bank for Agriculture and Rural Development in the year 1982. Later on, this responsibility shifted to the Department of Banking Operations and Development. Before the commencement of the Central Bank, the Imperial Bank was acting as a bank to government and government agencies and also as a banker's bank to banking institutions within the country, which was a total meager. At one time, the Reserve Bank of India was the only institution governed by the government yet acted independently, but on 1st January 1949, it became a nationalized institution. In 1948 the government of India passed Reserve Bank of India Act to nationalize the Reserve Bank. The nationalization of India's Reserve Bank occurred on 1st January 1949, after the nationalization of Reserve Bank of India, the Central Government obtained all shares of the bank's capital, in exchange for adequate compensation (TOI, 23rd march 1948). In 1937 the statutory report submitted has drawn the attention towards the predominance of money lenders in the supply of finance to the agriculture sector. This report suggested legislation for the regulation of money lending and it also focused on the reconstruction of the cooperative movement. After independence, the main objective of rural credit policy in the Indian economy was to increase institutional financing with an aim to curtail the role of financial agencies like money lenders. To support the bank's rural financial activities, the All India Rural Credit Survey Committee was established in 1951. The activities of banks in agricultural finance expanded after the All India Rural Survey Committee was appointed. The committee submitted a report in 1954 recommending that rural credit be integrated into a national program for intensified cooperative credit movement in rural areas for the promotion of cooperative credit relations in rural areas. In the All India

Rural Survey Credit Committee's report, cooperatives did not perform significantly when it came to channelizing agricultural credit. A report of the Reserve Bank of India Committee on the All India Rural Credit Survey (1954), states that from the total of the amounts borrowed by cultivators from the different credit agencies in 1951, 7.3 percent of these loans were received from institutional credit, only 0.9 percent of these loans were from commercial banks, and the rest were contributed by cooperatives (Shajahan, 1998). According to the report, 92 percent of rural credit is originated from non-institutional credit agencies, of which 41.9 percent is provided by professional money lenders and 23.9 percent by agricultural money lenders. In 1951, non-institutional sources provided the highest farm credit; this committee also noted that domestic lending accounted for the largest share within the total agricultural credit, therefore this committee stated that “cooperation has failed, but cooperation must succeed”. A rural credit integrated scheme calls for state participation by contributing to the share capital of the cooperative credit institutions. There was also an emphasis on the need for an efficient and adequately trained staff in administration in order to meet the financial needs of the rural population. Essentially, it was primarily focused on production-oriented loan policy within agriculture and the rural sector. The State Bank of India was established in the year 1955, with the aim of increasing the flow of funds to the priority sector with special attention to the agricultural sector. The committee All India Credit survey (1954) and the committee on Cooperative credit (1960) have mentioned that the lack of institutional financing for long-term investment is a major challenge that affects the development of agriculture in the country. Agricultural Refinance Corporation was established by the Reserve Bank of India in 1963 under an act of parliament and on 1st July 1963, it began providing long-term and medium-term credit to the agricultural sector for the purpose of upliftment of rural population. As of 1975, the corporation is now known as the Agricultural Refinance and Development Corporation.

Table1.1: Sources of Agricultural credit (Percentage share)

Source	**1951-52**	**1961-62**
Government	3.3	2.6
Cooperative societies	3.1	15.5
Commercial Banks	0.9	0.6

Money lenders	90.9	67.4
Others	1.8	13.9

Source: Report of the All India Credit Review Committee, 1969

Figures presented in the above table depict the relative position of different financing agencies in India from 1951 to 1961 period. It shows there has been the marginal reduction of government share in total agricultural credit. On the other hand, cooperatives share steadily increased from 3.1 percent in 1951 to 15.5 percent in 1961. The share of money lenders and other traditional sources accounted for 67.4 percent in 1961.

Agricultural Finance Corporation was founded in 1968 by the Indian Banks Association in order to facilitate the financing of agricultural projects and to make an active contribution to agricultural development. Agricultural Finance Corporation later embarked on several initiatives for the growth and development of the agriculture sector, such as command areas development, sericulture, watershed management, and fisheries. The Reserve Bank of India appointed the All India Rural Credit Review Committee in 1966, to review the developments that took place in the area of rural finance after 1954. This committee suggested that more efforts are required to solve the problems of agricultural finance through cooperatives as well as commercial banks. In 1969 All India Rural Credit Survey Committee recommended the adoption of the 'Multi-Agency Approach' to fulfil the credit requirements of rural sector. Under multi-Agency approach cooperatives as well as other institutional agencies like commercial banks, regional rural banks and land development banks are considered as supporting means of institutional credit in rural areas.

1.1.2 Second Phase (Nationalization): In 1969 fourteen major commercial banks were nationalized. This was followed by the nationalization of six more banks in 1980. Before nationalization gross domestic share from the agriculture sector was around 46 percent and the workforce engaged in the agriculture sector was around 70 per cent. But this key sector of the economy was neglected in terms of the supply of institutional credit by commercial banks. This step of nationalization of commercial banks made a historic landmark in the Indian banking system and banking moved from class banking to mass banking (Patil, 2005). Before nationalization commercial banks were more concentrated to fulfil the demand for credit of the industrial sector. There was an insignificant contribution of commercial banks in rural credit in India, the share of commercial banks in rural credit was 0.9 percent in 1951 and 0.7 percent in 1961. Among the positive results of the nationalization of banks was the availability of more agricultural credit, opening of new commercial banks in rural areas, and financing of the priority sectors by the banks. Since nationalization, bank lending to priority sectors has become a key component of banking. It was suggested to increase the share of direct farm lending to 18 percent of net bank credit by March 1990 (Sahu and Rajasekhar, 2005). India's government substantiated a working group on rural banks on July 1, 1975, under the supervision of Shri. M. Narasimham. Notably, the group recommended the substantiation of Regional Rural Banks that would be owned by public sector banks, which would include technical and managerial support for these banks (Reddy, 2006). To enlarge institutional credit towards the rural and agricultural sector, regional rural banks were set up in October 1975 under the Regional Rural Banks' Ordinance, 1975. The major objective of regional rural banks is to provide loans and advances to the agricultural labourers, small and marginal farmers, cooperative societies, cooperative farming societies, artisans and other purposes which are related to the agricultural sector. In June 1977 reserve bank of India constituted a committee to review the working of RRB's headed by Prof. M L Dantwala. This committee recommended the change in the share of the capital of the Regional Rural Banks i.e. 40 percent by sponsoring bank, 25 percent by Reserve Bank of India, 15 percent by the State Government and 20 percent by local participation. Earlier the share capital of Regional Rural Banks' was 50 percent by the central government, 15 percent by the State Government and the remaining 35 percent by sponsoring bank. In the year 1978 Reserve Bank of India appointed the working group on the Multi-Agency approach in agricultural financing. This group in its report stressed that cooperatives should play major role in providing finance for agriculture and other allied activities in the rural areas because only cooperatives have potential of dealing with millions of farmers throughout the rural sector of the economy, other institutional credit sources like commercial banks and regional rural banks play a supplementary role in the field of rural credit.

Table 1.2: Pattern of Bank Lending Before Nationalization (Percentage of total bank advances)

Sector	**Lending by Banks**
A. **Industries and commerce**	79
a. Industries	32
b. Commerce	47
B. **Agriculture**	2.2

Source: Report on trend and progress of banking in India, RBI bulletin, various years

Table 1.3: Pattern of Bank Lending After Nationalization (Percentage of total bank advances)

Sector	1969	1976	1982	1988
A. **Industries (Large)**	78.2	43.4	38.3	36.3
B. **Wholesale Trade**	-	7	7.6	4.9
C. **Priority Sector**	14	24.2	36.6	41.5
a. Agriculture	5.2	9.8	15.8	17.1
b. Small scale Industries	7.9	10.5	13.4	15.5
c. Others	0.9	4.3	7.4	8.9

Source: Report on trend and progress of banking in India, RBI bulletin, various years

Above tables show the pattern and percentage of lending before nationalization and after the nationalization of banks. The banking sector extended its lending to the agricultural sector after nationalization phase. At the beginning of economic planning advances to agriculture sector stood at around 2.2 percent of total bank advances before nationalization phase. In 1969 banks provided 5.2 percent of their total credit to the agricultural sector. During the period 1969 to 1988, the banking sector made quite impressive progress in expanding their quantum of credit towards the agriculture sector. The share of agriculture in the total bank credit expanded from 5.2 percent in 1969 to 17.1 percent in 1988, while the share of large scale industrial sector in the total bank credit dropped from 78 percent in 1969 to 43.2 percent in 1976, touching 36.3 percent in 1988. The same trend was also noticed in the case of the combined share of medium and large scale industries. The combined share of medium and large scale industries in total bank credit declined from 52 percent in 1969 to 36.7 percent in 1988, while the share of small scale industries in total bank credit increased substantially from 7.9 percent in 1969 to 10.5 percent in 1976 and touched 15.5 percent in 1988. The share of priority sector in total bank credit grew from 14 percent in 1969 to 41.5 percent in 1988.

Table 1.4: Changing Share of Different Institutional Agencies in Agricultural credit

Year	Cooperatives	Scheduled Commercial Bank's & Regional Rural Banks's
1971	85.6	14.4
1981	55.8	44.2
1985	42.8	57.2

Source: Handbook of statistics on the Indian economy, different issues

Above table includes percentage share extended by cooperatives, Scheduled commercial banks and regional rural banks credit in total agricultural credit. The contribution of cooperatives was 85.6 percent of total agricultural credit in 1971 but it declined to 42.8 percent in 1985. Correspondingly commercial banks including regional rural banks have substantially increased their shares from 14.4 percent in 1971 to 57.2 percent in 1985. Agricultural finance was traditionally handled by cooperatives, the oldest and most dominant institution for agricultural finance before the banking sector was nationalized. Commercial banks, however, became a major source of agricultural finance after the banking sector was nationalized.

Table 1.5: Direct Institutional Credit for Agriculture Sector (Loans issued) as a Proportion of Agricultural GDP

Year	Agricultural Credit as Percentage of Agricultural GDP
1970-71	4.5
1971-72	4.8
1972-73	5.7
1973-74	4.4
1974-75	4.7
1979-80	7.8
1980-81	7.3
1981-82	8.1
1982-83	7.6
1985-86	9
1986-87	9.1
1987-88	9.7
1988-89	8

Source: Handbook of statistics on the Indian economy, different issues

Above table indicates total agricultural credit as a percentage of the value of agricultural GDP. It shows remarkable improvement in credit intensity in the Indian economy. The credit GDP ratio of the banking sector in India has increased during the period 1969 to 1988. The credit GDP ratio was 4.5 percent in 1971 which increased to 9.7 percent in 1987.

Table 1.6: Ratio of Agricultural Credit (short term and long term) to Agricultural GDP

Year	Ratio of Agricultural Credit			
	Cooperatives	Scheduled Commercial Bank's	Regional Rural Bank's	All Financial Institutions
1983	0.093	0.070	0.005	0.169
1986	0.089	0.095	0.010	0.193
1989	0.088	0.117	0.014	0.219

Source: Reserve bank of India report on currency and finance

The figures presented in the above table indicate the ratio of agriculture credit to agricultural gross domestic product (GDP). It shows that the ratio of agricultural credit provided by cooperatives to agricultural GDP went down. On the other hand scheduled commercial banks(SCB's) and regional rural banks (RRB's) credit ratio to agricultural GDP increased from 0.070 in 1983 to 0.117 in 1989 in case of scheduled commercial banks and 0.005 in 1983 to 0.014 in 1989 in case of regional rural banks. However, the ratio of agricultural credit supplied by financial institutions together to agricultural GDP rose from 0.169 in 1983 to 0.219 in 1989.

Table 1.7: Changing Share of Institutional Agencies (Percentage)

Year	Share in Total Rural Credit	
	Institutional	Non institutional
1951	6.4	93.6
1961	15	85
1971	29	71
1978	35	65
1981	61	39

Source: Reserve bank of India: multiagency approach in agricultural finance 1982

The above table shows that total agricultural credit from institutional sources had steadily increased from 29 percent in 1971 to 61 percent in 1981. On the other hand, the share of non-institutional sources like money lenders, landlords, traders, commission agents etc accounted for 71 percent in 1971 which slumped to about 39 percent in 1981. Prior to 1971 non-institutional credit to the agricultural sector was around 93 percent of total agricultural credit, which showed downfall after the nationalization of banks. It indicates the relative share of non-institutional credit sources go on declining as the institutional agencies developed and spread a significant role in the agrarian economy.

Rural Planning and Credit Department was established in 1982, this Department is basically concerned with the issues related to district credit plans, lead bank scheme and providing guidance of general lines of credit for short term credit advances. In 1982 National Bank for Agriculture and Rural Development (NABARD) was established on the recommendation of B.Sivaraman committee in order to provide credit for promotion of agriculture and other economic activities in rural areas. Earlier it was a corporation named as Agricultural Refinance and Development Corporation started in 1963. But in 1982, Agricultural Refinance and Development Corporation was replaced by National Bank for Agriculture and Rural Development (NABARD). The result of government efforts was evident in terms of the total quantum of agricultural loans provided through institutional agencies like cooperatives, commercial banks and regional rural banks at subsidized rates to the farmers. The total quantum of agricultural loans increased substantially from Rs. 6794 crores in 1985 to Rs. 11752 crores in 1988 (Economic survey of India 1989).

Direct agricultural finance is the credit that is provided directly to cultivator or grower. Direct agricultural finance is usually a short term credit for crop loans. Crop loan is short term loan to agriculture for seasonal agricultural activities and these advances are mostly provided against primary security of hypothecation of the crop to be cultivated by the farmers. These crop loans are normally provided as cash to farmers for purchase of fertilizers, seeds and pesticides etc.

Table 1.8: Size-wise Direct Finance to Farmers by Scheduled Commercial Banks (outstanding)

(Rs. Billion)

Year	**Marginal Farmers**	**Share of Marginal Farmers**	**Small Farmers**	**Share of Small Farmers**	**Medium and Large Farmers**	**Share of Medium and Large Farmers**	**Total**
1980-81	4.8	*20.60%*	4	*17.17%*	14.5	*62.23%*	23.3
1981-82	6.1	*21.48%*	5.1	17.96%	17.2	*60.56%*	28.4

1982-83	7.6	*22.42%*	6.7	19.76%	19.6	*57.82%*	33.9
1983-84	9.5	*22.09%*	9.1	21.16%	24.4	*56.74%*	43
1984-85	11.6	*22.05%*	11.6	22.05%	29.4	*55.89%*	52.6
1985-86	15.3	*22.87%*	14.8	22.12%	36.8	*55.01%*	66.9
1986-87	16.8	22.76%	16.8	22.76%	40.2	*54.47%*	73.8
1987-88	20.1	22.14%	20.4	22.47%	50.3	*55.40%*	90.8
1988-89	23.2	22.99%	23.1	22.89%	54.6	*54.11%*	100.9
1989-90	27.3	22.96%	26.7	22.46%	64.9	*54.58%*	118.9

Source Handbook of Statistics on Indian Economy
Note: figure indicated as Percentage share, Authors own calculation
**Marginal farmers: land holding size up to 2.5 acres*
** Small farmers: land holding size from 2.5 acres to 5 acres*
** Medium and large farmers: land holding size above 5 acres*

Table 1.9: Size-wise Direct Finance to Farmers by Scheduled Commercial Banks (Disbursed) (Rs. Billion)

Year	**Marginal Farmers**	**Share of Marginal Farmers**	**Small Farmers**	**Share of Small Farmers**	**Medium and Large Farmers**	**Share of Medium and Large Farmers**	**Total**
1980-81	2.5	24.75%	1.7	16.83%	5.9	58.42%	10.1
1981-82	1.3	27.08%	1	20.83%	2.5	52.08%	4.8
1982-83	2.9	29.59%	2.1	21.43%	4.8	48.98%	9.8
1983-84	4	26.32%	3.7	24.34%	7.4	48.68%	15.2
1984-85	5.1	26.29%	4.8	24.74%	9.5	48.97%	19.4
1985-86	6.2	27.68%	5.9	26.34%	10.4	46.43%	22.4

1986-87	7.6	27.74%	7.1	25.91%	12.8	46.72%	27.4
1987-88	8.2	27.89%	7.6	25.85%	13.6	46.26%	29.4
1988-89	8.8	27.59%	8.4	26.33%	14.7	46.08%	31.9
1989-90	10.3	29.18%	8.9	25.21%	16.1	45.61%	35.3

Source Handbook of Statistics on Indian Economy, Various issues
Note: figure indicated as Percentage share, Authors own calculation
**Marginal farmers: land holding size up to 2.5 acres*
** Small farmers: land holding size from 2.5 acres to 5 acres*
** Medium and large farmers: land holding size above 5 acres*

The total direct credit disbursed by scheduled commercial banks to marginal farmers was Rs.2.5 billion in 1980 which increased to Rs.10.3 billion in 1989. The amount of loans disbursed by scheduled commercial banks to small farmers increased from Rs.1.7 billion to Rs.8.9 billion in 1989. The sum total of direct credit given by the scheduled commercial banks to medium and large farmers in 1980 was Rs. 5.9 billion, which increased to Rs. 16.1 billion in 1989. The share of credit to marginal farmers in the direct finance (disbursed) provided by scheduled commercial banks registered the increasing trend from 1980 to 1989 i.e. 24.75 percent to 29.18 percent. An upward trend was also observed for credit disbursements to small farmers, which increased from 16.83 percent in 1981 to 25.21 percent in 1989. As of 1989, the share of direct bank loans for medium and large farmers fell from 58.42 percent in 1980 to 45.61 percent. There were Rs. 4.0 billion outstanding loans from scheduled commercial banks to small farmers in the year 1980 which increased to Rs. 26.7 billion in 1989. The above tables show that large and medium farmers are supplied with a large amount of agricultural direct credit by scheduled commercial banks. Farmer groups with medium to large landholdings logged the highest number of outstanding loans

Table 1.10: Coverage of Small and Marginal Farmers in Agriculture Credit Flow by Scheduled Commercial Banks (outstanding) (Rs. Thousands)

Year	Total Number of Accounts (All Farmers)	Number of Accounts of Small and Marginal Farmers	Percentage Coverage of Small and Marginal Farmers
1980-81	6593	4663	70.71
1981-82	7142	5023	70.33

1982-83	8224	5720	69.55
1983-84	9007	6593	73.2
1984-85	10046	7398	73.64
1985-86	11796	8661	73.42
1986-87	12050	8934	74.14
1987-88	13603	10061	73.96
1988-89	14020	10427	74.37
1989-90	14140	10433	73.78

Source Handbook of Statistics on Indian Economy, Various issues
Note: figure indicated as Percentage share, Authors own calculation
**Marginal farmers: land holding size up to 2.5 acres*
** Small farmers: land holding size from 2.5 acres to 5 acres*
** Medium and large farmers: land holding size above 5 acres*

Table 1.11: Coverage of Small and Marginal Farmers in Agriculture Credit Flow by Scheduled Commercial Banks (Disbursed)

(Rs. Thousands)

Year	Total Number of Accounts (All Farmers)	Number of Accounts of Small and Marginal Farmers	Percentage Coverage of Small and Marginal Farmers
1980-81	3070	2279	74.25
1981-82	1349	1014	75.2
1982-83	2571	1955	76.05
1983-84	3738	2903	77.66
1984-85	3972	3070	77.28
1985-86	4170	3182	76.3
1986-87	4475	3431	76.68
1987-88	4716	3678	77.99
1988-89	4634	3644	78.63

1989-90	4341	3394	78.19

Source Handbook of Statistics on Indian Economy, Various issues
Note: figure indicated as Percentage share, Authors own calculation
**Marginal farmers: land holding size up to 2.5 acres*
** Small farmers: land holding size from 2.5 acres to 5 acres*
** Medium and large farmers: land holding size above 5 acres*

The above tables indicate the total number of credit accounts of scheduled commercial banks (outstanding and disbursed). The total number of credit accounts indicates the expansion of credit delivery services of banks. It is observed from the above tables that the total number of accounts (marginal, small and medium and large farmers) increased significantly between the periods 1980 to 1989. The number of accounts (disbursed) of small and marginal farmers increased from 2279000 in 1980 to 3394000 in 1989. The number of accounts (outstanding) of small and marginal farmers increased from 4663000 in 1980 to 10433000 in 1989. The number of accounts (outstanding) of all farmers increased from 6593000 in 1980 to 14140000 in 1989. The percentage coverage of small and marginal farmers increased from 74.25 percent to 78.19 percent during the period 1980 to 1989.

1.1.3 Third Phase (Banking Sector Reforms): To improve the efficiency and upgrade the financial sector that is banks, the government of India introduced various banking sector reforms in 1991. For this purpose, a committee on financial system was appointed under the headship of M.Narasimhan. Various committees like the Narasimhan Committee (1991), Verma Committee (1996), Khan Committee (1997) and second Narasimhan committee (1998) were established to improve the financial health of the banking sector. Banking sector reforms are divided into two parts, first-generation reforms and second-generation reforms.

Financial sector reforms which seek to minimize governmental controls on credit institutions, impose stringent accounting norms and give freedom to banks from mandatory rural lending may create conditions not arguing well for rural development, especially for the vulnerable sections (Puhazhendhi and Jayaraman, 1999). In the era of economic reforms, the government commences various initiatives to increase the credit flow towards the agricultural sector. The government started programs like special Agricultural Credit Plans (1994), Kisan Credit Card Scheme (1998) and Self-Help group bank linkage. During 2004, the Government of India initiated the Double Rural Credit Scheme to improve agricultural credit. There was also a government initiative in the sphere of agricultural credit in the year 2008 known as the Agricultural Debt Waiver and Debt Relief Scheme. For the first time since 1990, a large scale Debt Relief Program was created. The main purpose behind the commencement of programs like Kisan Credit Card scheme in 1998 was to fulfil short term credit needs of farmers for cultivation of seasonal crops, harvest expenses and marketing expenses. This scheme provides adequate and timely short –term credit facilities at low cost to the farmers. However, the performance of the scheme was not same across different regions of the country; it was dismal in the northeastern region. The Kisan Credit Card scheme was revised in the year 2012. Under this revision, all banking institutions were suggested to issue smart cards to all farmers. Agency wise distribution of total cards issued from 1998 to 2014 was about 49 percent issued by commercial banks followed by 35 percent by cooperative banks and 16 percent by regional rural banks (Gyanendra Mani, 2016).

A Subvention Scheme for interest was implemented by the Government of India in the year 2006. Through this scheme, the government tried to provide concessional crop loan to farmers up to Rs. 3 lakhs at seven percent rate of interest per annum. It also provides an additional subvention of 3 percent for prompt repayment of loans within a period of one year from the date of advance. For use of own funds, this scheme is granted to public sector banks, private sector banks, cooperative banks and regional rural banks, as well as by NABARD for refinancing of both cooperative banks and regional rural banks (Economic survey,2017-18).

Table 1.12: Share of Various Institutional Agencies in Credit Flow for Agricultural Sector (Percentage)

Year	**Cooperatives**	**Regional Rural Banks**	**Commercial Banks**	**Other Agencies**
1992	61.8	5.5	32.7	-
1993	61.4	5.9	32.7	-
1994	50.2	5.8	44	-
1995	47.5	6.3	46.2	-
1996	45.2	6.4	48.4	-
1997	43.7	6.4	49.5	0.3
1998	43.1	6.7	50.0	0.2

1999	39.5	6.9	53.5	0.2
2000	39.2	8.0	52.6	0.2
2001	37.9	7.8	54.1	0.1
2002	34.0	8.7	57.2	0.1
2003	30.9	8.7	60.3	0.1
2004	24.9	9.9	65.0	0.2
2005	21.9	8.4	69.5	0.2
2006	18.5	8.9	72.6	-
2007	21.7	11.6	66.7	-
2008	15.3	8.9	75.8	-
2009	16.5	9.2	74.3	-
2010	16.7	9.4	73.9	-
2011	16.9	10.7	72.4	-
2012	18.0	10.0	72.0	-
2013	17.0	12.0	71.0	-
2014	16.4	12.1	71.5	-

Source: Annual reports of various issues, NABARD

There are three wings of rural credit structure in India, one is commercial banks second cooperative financial institutions and the third one is regional rural banks. Commercial banks are one of the important wings of the rural credit structure contributing about 40 percent of the total institutional credit to the rural sector. In the year 1991, 51 percent of the total agricultural credit was provided by cooperative banks.

Above table gives the quantum of credit provided by different institutional agencies to the agricultural sector during the period 1992 to 2014. The percentage share of cooperative banks credit towards the agricultural sector in 1992 was 61.8 percent and declined to 39.2 Percent in the year 2000, which further declined to 16.4 percent in the year 2014. The figures in the above table also depict that there was steady and a sharp increase in the percentage share of commercial banks and regional rural banks together in credit flow towards the agricultural sector. During the period 1992, the percentage share of commercial banks towards the agricultural sector was 32.7 percent, which further showed remarkable uptrend and increased to 71.5 percent in year 2014. The share of regional rural banks has risen from 5.5 percent in 1992 to 12.1 percent in 2014.

Table 1.13: Sources of Agricultural Credit Institutional and Non institutional (Percentage share)

Source	**1991**	**2002**	**2010**	**2013**
Institutional	66.3	61.3	68.8	64
Non Institutional	33.7	38.9	29.3	36

Source: All India debt and investment survey, Various Issues, NSSO

The share of Institutional credit in total agricultural credit was 66.3 percent in 1991, it increased to 68.8 percent in 2010, and thereafter it shows a declining trend in 2013 i.e.64 percent. On the other side, the share of non-institutional credit in total agriculture credit was 33.7 percent in 1991; it increased to 38.9 percent in the year 2002 and further declined to 36 percent in the year 2013. In terms of agricultural finance, the institutional credit sources recorded considerable improvement and it is observed that institutional credit sources covered more than 50 percent share of total agricultural credit. It is evident from the above table that there have been fluctuations in the percentage of both institutional credit as well as non-institutional credit in the post-reform period. It is also observed that whenever there is an increase in the share of institutional credit, there is a decrease in the share of non-institutional credit and vice versa.

Table 1.14: Sectoral Credit of Gross Bank Credit (Percentage)

Year	**Share of Agriculture in Total**	**Share of Industry in Total**
1996	12.14	39.62
1997	11.61	39.08

1998	11.59	38.16
1999	11.07	36.75
2000	11.07	34.71
2001	11.32	32.11
2002	10.98	35.12
2003	11.84	32.34
2004	12.03	33.85
2005	11.92	31.75
2009	13.09	32.57
2012	12.08	44.91
2013	11.73	44.63
2014	12.69	43.28

Source: Author's own calculation based on data from Handbook of Statistics on Indian Economy, Various Issues

Above table indicates that from the year 1996 to 2014, the percentage share of agricultural credit in total gross bank credit lies in the range of 11 to 14 percent, while the percentage share of industrial credit in total gross bank credit lies in the range of 31 to 45 percent. The figures above indicate that agricultural credit as a percentage of total bank credit is almost static during the post-reform period.

Table 1.15: Coverage of Small and Marginal Farmers in Agriculture Credit Flow by Scheduled Commercial Banks (Disbursed)

(Percentage)

Year	Marginal Farmers		Small Farmers		Medium and Large Farmers	
	No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1991–92	45.42	28.79	31.43	24.87	23.15	46.34

1992–93	44.47	27.83	31.77	24.56	23.76	47.62
1993–94	42.68	28.79	30.35	25.80	26.97	45.41
1994–95	42.24	27.57	31.54	24.02	26.22	48.40
1995–96	37.38	26.14	31.18	25.50	31.44	48.37
1996–97	37.77	24.25	30.49	25.50	31.74	50.26
1997–98	39.44	24.01	33.95	25.32	26.61	50.66
1998–99	39.48	23.56	32.12	26.89	28.39	49.55
1999–00	40.42	23.82	32.30	24.74	27.28	51.44
2000–01	40.79	25.76	31.85	25.09	27.37	49.15
2001–02	38.43	26.70	27.73	26.81	33.84	46.49
2002–03	38.90	22.12	30.17	25.52	30.93	52.36
2003–04	42.83	24.94	31.10	23.02	26.07	52.04
2004–05	43.97	26.35	31.15	25.66	24.89	48.00
2005–06	40.54	25.06	29.73	26.25	29.73	48.69
2006–07	41.55	24.69	27.93	22.92	30.52	52.39
2007–08	41.28	26.22	27.89	24.01	30.83	49.78
2008–09	38.84	24.42	30.19	23.72	30.96	51.86
2009–10	37.47	26.64	33.08	27.70	29.44	45.66

Source Handbook of Statistics on Indian Economy, Various Issues
Note: In brackets figure indicate Percentage share, Authors own calculation
**Marginal farmers: land holding size up to 2.5 acres*
** Small farmers: land holding size from 2.5 acres to 5 acres*
** Medium and large farmers: land holding size above 5 acres*

The above table shows the distribution of institution credit on the basis of landholding size by the farmers. This table indicates that 54 percent of the institutional credit is disbursed to small and marginal farmers together in the year 1991, while medium and large farmers' accounts 46.34 percent of the total credit flow to the agricultural sector. The share of small farmers having landholding up to 5 acres, the total institutional credit increased from 24.87 percent in 1991-92 to 27.70 percent in the year 2009. Similarly, te share of marginal farmers having landholding up to 2.5 acres, the total institutional credit decreased from 28.79 percent in 1991 to 22.12 percent in the year 2002-03, which further increased to 26.64 percent in the year 2009-10. In the case of farmers having more than 5 acres of landholding (medium and large farmers), the percentage of institutional credit registered a fluctuating trend between 1991 and 2009. This fluctuation range stands between 45 percent and 53 per cent.

Table 1.16: Coverage of Small and Marginal Farmers in Agriculture Ground Level Credit Flow

(Crores)

Year	**2013**	**2014**
Total Number of Accounts (All Farmers)	8.05	8.53
Number of Accounts of Small and Marginal Farmers	5.05	4.86
Percentage Coverage of Small and Marginal Farmers	62.70	57.00

Source Economic survey 2017-18, Chapter 7: Agriculture and Food Management
**Marginal farmers: land holding size up to 2.5 acres*
** Small farmers: land holding size from 2.5 acres to 5 acres*
** Medium and large farmers: land holding size above 5 acres*

The above tables indicates that the total number of credit accounts of all farmers (marginal farmers, small farmers and medium and large farmers) increased from 8.05 crores in the year 2013 to 8.53 crores in 2014. However, the total number of credit accounts of marginal and small farmers decreased from 5.05 crores in the year 2013 to 4.86 crores in 2014. The percentage coverage of small and marginal farmers also decreased from 62.70 percent to 57 percent during the period 2013 to 2014.