

DISTRIBUTION OF AGRICULTURAL CREDIT IN THE PRE AND POST REFORM PERIOD

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ABSTRACT

Agriculture plays a crucial role in the development of the Indian economy. It accounts for about 19 percent of GDP and about two thirds of the population is dependent on the sector. (Economic Survey, 2009). Recognizing the importance of agriculture sector in India's development, the Government and the Reserve Bank of India (RBI) have played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector. The policy measures increased the institutional sources of credit. The policy measures increased the institutional sources of credit. In 1991-1992, the amount of loan issued by the co-operatives was Rs.3934 crore, whereas the scheduled commercial banks disbursed only Rs.2341 crore. The dominance of the co-operatives in the agricultural loan disbursement was retained till the year 2004-2005. In 2005-2006, the direct loan disbursement from the scheduled commercial banks was higher than the co-operative banks. The amount of direct agricultural advances from the scheduled commercial banks was Rs.45644 crore whereas it was Rs.35624 crore for cooperatives in 2005- 2006, the regional rural banks provided Rs.12816 crore in the same year. The agricultural credit policies and the economic reform in general aim to have positive influence on the total volume of institutional credit. However, the rural banking system in India made tremendous quantitative achievement by neglecting the qualitative aspects of the credit delivery system (Shrivastava and Padma Saxena. 2007). Hence an attempt was made to analyze the "Impact of economic reform on the distribution of agricultural credit in India". To findings of the study shows that the co-operative banks dominated in the total agricultural credit disbursement in the pre reform period. The loan outstanding in the direct agricultural credit was

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higher for the co-operatives than the scheduled commercial banks in the pre reform period. The dominance of the co-operatives in the agricultural loan disbursement was retained till the year 2004-2005. In 2005-2006, the direct loan disbursement from the scheduled commercial banks was higher than the co-operative banks. The distribution of agricultural credit in the post reform period was significantly higher than in the pre reform period. The economic reform 1991 had significant impact on the distribution of agricultural credit.

INTRODUCTION

Agriculture plays a crucial role in the development of the Indian economy. It accounts for about 19 percent of GDP and about two thirds of the population is dependent on the sector. (Economic Survey, 2009). The importance of farm credit as a critical input to agriculture is reinforced by the unique role of Indian agriculture in the macroeconomic framework and its role in poverty alleviation. Recognizing the importance of agriculture sector in India's development, the Government and the Reserve Bank of India (RBI) have played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector. The policy measures increased the institutional sources of credit. In 1991-1992, the amount of loan issued by the co-operatives was Rs.3934 crore, whereas the scheduled commercial banks disbursed only Rs.2341 crore. The dominance of the co-operatives in the agricultural loan disbursement was retained till the year 2004-2005. In 2005-2006, the direct loan disbursement from the scheduled commercial banks was higher than the co-operative banks. The amount of direct agricultural advances from the scheduled commercial banks was Rs.45644 crore whereas it was Rs.35624 crore for cooperatives in 2005- 2006, the regional rural banks provided Rs.12816 crore in the same year. The agricultural credit policies and the economic reform in general aim to have positive influence on the total volume of institutional credit. However, the rural banking system in India made tremendous quantitative achievement by neglecting the qualitative aspects of the credit delivery system (Shrivastava and Padma Saxena. 2007). Hence an attempt was made to analyze the "Impact of economic reform on the distribution of agricultural credit in India". The following are the specific **objectives** of the study.

1. To analyse the trends in the distribution of agricultural credit in the pre and post economic reform period.
2. To assess the growth of agricultural credit in the pre and post reform period.
3. To compare mean difference in the distribution of agricultural credit between pre and post reform period.

MRTHODOLOGY

Data for the study were collected from the secondary sources. The secondary data on direct and indirect advances of agricultural credit, short term agricultural credit, state wise and union territory wise distribution of agricultural credit, determinants of disparity in the distribution of agricultural credit were collected from the Handbook of Indian economy, (2009), Reserve Bank of India, Bombay. The distribution of agricultural credit was classified into pre and post economic reform period. The pre economic reform period was considered the period between 1970-1991. The post economic reform period was between 1991-2008. In order to analyze the trends in the distribution of agricultural credit, compound growth rate was employed.

The form of the equation used in the study was,

$$Y = AB(x)^t$$

Y = The variable under study for compound growth rate

a = constant

x = time period

b = co-efficient of time trend

Compound growth rate = $\text{Antilog}(\beta - 1) * 100$

To compare the distribution of agricultural credit between pre and post reform period, paired t test was applied.

$$t = \frac{\bar{X}_{1i} - \bar{X}_{2i}}{\text{Standard error}}$$

\bar{X}_{1i} = Mean of agricultural credit in the pre-reform period.

\bar{X}_{2i} = Mean of in agricultural credit in the post-reform period.

RESULTS AND DISCUSSION

TRENDS AND GROWTH OF DIRECT INSTITUTIONAL CREDIT FOR AGRICULTURE AND ALLIED ACTIVITIES

Direct institutional credit is issued directly to the farmers to meet the cultivation and capital expenses in agriculture. Direct institutional credit to agriculture and allied activities is mainly provided by co-operative banks, commercial banks and regional rural banks. The table (1) shows the direct institutional credit for agriculture and allied activities in the pre reform period.

TABLE - 1

**DIRECT INSTITUTIONAL CREDIT FOR AGRICULTURE AND ALLIED
ACTIVITIES IN THE PRE REFORM PERIOD**

(Rupees in crore)

Year	Loan issued				Loan Outstanding			
	Co-operatives	SCBs	RRBs	Total	Co-operatives	SCBs	RRBs	Total
1980-81	1386	517	-	2047	1908	1162	-	3250
1981-82	1796	623	-	2740	2149	1370	-	3792
1982-83	1908	565	98	2759	2225	1351	109	3685
1983-84	2158	872	120	3335	2554	1638	147	4339
1984-85	2323	1035	132	3731	2836	1964	206	5006
1985-86	2747	1252	176	4529	3237	2355	265	5858
1986-87	2620	1482	201	4512	3293	2619	324	6236
1987-88	3120	1672	246	5516	3871	3071	400	7342
1988-89	3594	1765	250	5884	4668	3414	479	8561
1989-90	3974	1898	336	6499	4948	4005	575	9527
1990-91	3448	2048	125	5979	5178	4235	590	10002

Note: SCB- Scheduled Commercial Banks

RRB-Regional Rural Banks

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

The co-operative banks provided Rs.1386 crore in 1980-1981. It had increased to Rs.3448 crore in 1990-1991. The scheduled commercial banks disbursed Rs.517 crore in 1980-1981, which had gradually increased to Rs.2048 crore in 1990-1991. The direct agricultural credit disbursement from the regional rural banks was Rs.125 crore only, at the end of the pre reform period.

The above statistical fact revealed that the co-operative banks dominated in the total agricultural credit disbursement in the pre reform period. The loan outstanding in the direct agricultural credit was higher for the co-operatives than the scheduled commercial banks. At the end of the pre reform period, the outstanding amount of loan for the co-operatives was Rs.5178 crore whereas it was Rs.4235 for the scheduled commercial banks. Direct institutional credit for agriculture and allied activities in the post reform period is shown in table (2)

TABLE -2

**DIRECT INSTITUTIONAL CREDIT FOR AGRICULTURE AND ALLIED ACTIVITIES
IN THE POST REFORM PERIOD**

(Rupees in crore)

Year	Loan issued				Loan Outstanding			
	Co-operatives	SCBs	RRBs	Total	Co-operatives	SCBs	RRBs	Total
1991-92	3934	2341	337	6611	5110	4631	679	10419
1992-93	4394	2432	451	7665	5900	4988	799	11687
1993-94	6039	2860	476	9752	6640	5425	887	12952
1994-95	6996	3842	688	11932	7091	6154	1115	14361
1995-96	9243	4628	849	15273	9312	7173	1308	17793
1996-97	9489	5625	1174	16956	9618	8766	1625	20009
1997-98	10084	6233	1457	18632	10060	9522	1914	21469
1998-99	10698	7742	1750	20610	10462	10821	2238	23521
1999-00	17255	9505	2285	29045	16241	12610	2808	31659
2000-01	18556	10704	3095	32355	18168	15442	3692	37302
2001-02	21670	12661	3810	38141	21540	18882	4812	45234
2002-03	23629	16825	4834	45288	24518	23211	6495	54224
2003-04	29326	24134	6133	59593	30808	31982	7664	70454
2004-05	31887	29978	9883	71748	32481	42798	10980	86259

2005-06	35624	45644	12816	94084	34140	59971	13877	107988
2006-07	40796	65245	17031	123072	37764	76006	18707	132477
2007-08	47272	-	23838	-	44827	-	33216	-

Note: SCB- Scheduled Commercial Banks

RRB-Regional Rural Banks

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

In 1991-1992, the amount of loan issued by the co-operatives was Rs.3934 crore, whereas the scheduled commercial banks disbursed only Rs.2341 crore. The dominance of the co-operatives in the agricultural loan disbursement was retained till the year 2004-2005. In 2005-2006, the direct loan disbursement from the scheduled commercial banks was higher than the co-operative banks. The amount of direct agricultural advances from the scheduled commercial banks was Rs.45644 crore whereas it was Rs.35624 crore for cooperatives in 2005- 2006, the regional rural banks provided Rs.12816 crore in the same year.

The outstanding loan amount in the direct agricultural finance in 1991-1992 was Rs.5110 crore for the co-operatives, whereas it was Rs.4631crore for the scheduled commercial banks. It accounted for Rs.679 crore for regional rural banks.

The direct agricultural loan outstanding amount was higher for the co-operative banks till the year 2002- 2003. In 2003-2004, the direct agricultural loan outstanding amount was greater for the scheduled commercial banks. In 2006-2007, the outstanding amount of direct agricultural advances from commercial banks was Rs. 76006 crore, whereas it was Rs. 37764 crore for the cooperatives.

The compound growth rate of direct agricultural advances in India (disbursement) is shown in table – (3)

TABLE - 3
COMPOUND GROWTH RATE OF DIRECT AGRICULTURAL ADVANCE
IN INDIA (DISBURSEMENT)

Period	Institutional source	Compound growth rate (in percentage)
Pre reform period	Co-operatives	10.0099
	Scheduled Commercial Banks	16.0905
	Regional Rural Banks	10.3294
	Total	11.8177
Post reform period	Co-operatives	18.1872
	Scheduled Commercial Banks	19.5782
	Regional Rural Banks	21.7494
	Total	18.9461

In the pre reform period, the commercial banks achieved 16.0905 percent of compound growth of direct agricultural credit disbursement. It was followed by the Regional Rural banks (10.3294 percent). In the post reform period, the Regional Rural banks were dominant in the growth of direct agricultural credit (disbursement) (21.7494 percent).

In both pre and post reform periods, the co-operatives had attained less growth of direct agricultural advances. The highest growth of direct agricultural advances (disbursement) was achieved in the post reform period (18.9461)

The compound growth of direct agricultural advances in India (outstandings) is shown in table (4)

TABLE - 4

**COMPOUND GROWTH RATE OF DIRECT AGRICULTURAL ADVANCES IN INDIA
(OUTSTANDINGS)**

Period	Institutional source	Compound growth rate
Pre reform period	Co-operatives	11.0488
	Scheduled Commercial Banks	14.6943
	Regional Rural Banks	22.1281
	Total	12.6483
Post reform period	Co-operative	14.855
	Scheduled Commercial Banks	15.1194
	Regional Rural Banks	21.1913
	Total	15.4884

The highest compound growth rate of direct agricultural advances (outstanding) was attained for the Regional Rural banks in both pre and post reform period. In the pre reform period, it was 22.1281 percent. In the post reform period, it was 21.1913 percent. The co-operatives had less percentage growth of direct agricultural advances (outstanding) in both pre and post reform period. In the post reform period, 15.4884 percentage of compound growth rate of direct agricultural credit was attained. Whereas only 12.6483 percent of compound growth of direct agriculture advances was achieved in the pre reform period.

To analyse the difference in the distribution of agricultural credit between pre and post reform period, t test was applied. The results of t test are shown in table.

TABLE-5

**DIFFERENCE IN THE DISTRIBUTION OF AGRICULTURAL CREDIT BETWEEN
PRE AND POST REFORM PERIOD**

Variables	T value	Significant level
Total Loan issued	5.212	Significant at 1% level
Loan issued- Cooperatives	4.655	Significant at 1% level
Loan issued- Scheduled commercial banks	4.068	Significant at 1% level
Loan issued- Regional Rural Banks	5.338	Significant at 1% level
Total Loan Outstanding	5.881	Significant at 1% level
Loan Outstanding- Cooperatives	4.037	Significant at 1% level
Loan Outstanding - Scheduled commercial banks	5.064	Significant at 1% level
Loan Outstanding - Regional Rural Banks	6.038	Significant at 1% level

The table-5 shows that all the selected variables were statistically significant at one percent level. It shows that there was significant difference in the distribution of agricultural credit between pre and post reform period. The distribution of agricultural credit in the post reform period was significantly higher than in the pre reform period. The economic reform 1991 had significant impact on the distribution of agricultural credit.

CONCLUSION

To conclude, the co-operative banks dominated in the total agricultural credit disbursement in the pre reform period. The loan outstanding in the direct agricultural credit was higher for the co-operatives than the scheduled commercial banks in the pre reform period. The dominance of the co-operatives in the agricultural loan disbursement was retained till the year 2004-2005. In 2005-2006, the direct loan disbursement from the scheduled commercial banks was higher than the co-operative banks. The distribution of agricultural credit in the post reform period was significantly higher than in the pre reform period. The economic reform 1991 had significant impact on the distribution of agricultural credit.

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