

**A STUDY ON THE ROLE OF VARIOUS INSTITUTIONS IN  
FINANCING AGRICULTURAL SECTOR IN INDIA**

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**ABSTRACT**

*Finance is an essential requirement for every production activity. Agriculture is no exception. In India, its importance needs no stressing with agriculture being the predominant sector. In order to assess the prevailing situation regarding agricultural finance; it would be useful to form an idea of the various sources which provide it at present. The institutional credit has been conceived to play a pivotal role in the agricultural development of India. A large number of institutional agencies are involved in the disbursement of credit to agriculture. However, the persistence of money lenders in the rural credit market is still a major concern. In this backdrop, the present study has examined the performance of agricultural credit flow and has identified the determinants of increased use of institutional credit at the farm household level in India. The study based on the secondary data compiled from several sources, has revealed that the institutional credit to agriculture in real terms has increased tremendously during the past four decades. But, the declining share of investment credit in the total credit may constrain the sustainable agricultural growth. The quantum of institutional credit availed by the farming households is affected by a number of socio-demographic factors which include education, farm size, family size, caste, gender, occupation of household, etc. The study has suggested simplification of the procedure for a better access to agricultural credit of smallholders and less-educated/illiterate farmers.*

**Keywords:** *Agriculture, Cooperatives, commercial banks, Finance.*

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**1. Introduction**

Agriculture is the largest and most important sector of Indian economy. About 67 percent of the people depend on agriculture, and more than 75 percent live on it in villages. It has an important role to play in the economic development of agrarian economy like that of India. One third of the national income comes from agricultural sector in the Indian economy. It is an unorganized profession. Its success and failure depends, to a large extent, on climatic factors. Further, it is not always possible to distinguish between productive and unproductive loans of the farmers. Because of these factors, banks did not show much interest in advancing loans to agriculture and allied activities for a long time and farmers were forced to depend on

money lenders which led to exploitation of farmers by the money lenders in a number of ways. Hence, the Government of India took various measures to enable the farmers to meet their agricultural credit needs through the nationalization of banks in 1969, establishment of RRBs in 1975 and setting of NABARD in 1982.

***Need for Agriculture Finance***

Finance is an essential requirement for every production activity. Agriculture is no exception. In India, its importance needs no stressing with agriculture being the predominant sector. Credit needs of the farmers can be examined from different angles-(I) on the basis of time, and (II) on the basis of purpose

(I) on the basis of time: Agricultural credit needs of the farmers can be classified into three categories based on time-(I) short –term (II) medium term, and (III) long-term

Short term loans are required for the purchase of seeds, fertilizers, pesticides, feeds and fodder of livestock etc. The period of such loans is less than 15 months. The main agencies for granting of short-term loans are the money lenders and cooperative societies.

Medium-term loans are generally obtained for the purchase of cattle, small agricultural implements, repair and construction of walls etc. The period of such loans extends from 15 months to 5 years. These loans are generally provided by money lenders, relatives of farmers, cooperative societies and commercial banks.

Long term loans are required for effecting permanent improvements on land, digging tube wells etc., and repayments of old debts. The period of such loans extend beyond 5 years. Such loans are normally taken from Primary Co-operative Agricultural and Rural Development Banks.

(II) on the basis of purpose: Agricultural credit needs of the farmers can be classified based on the purpose into the following categories-(I) Productive, (II) Consumption needs and (III) unproductive

### ***Sources of Agricultural Finance***

In order to assess the prevailing situation regarding agricultural finance; it would be useful to form an idea of the various sources which provide it at present. Sources of agricultural finance can be divided into categories: (I) non-institutional sources and (II) institutional sources

The non-institutional sources are the following-

(I) moneylenders, (II) relatives, (III) traders, (IV) commission agents, and land lords

The institutional sources comprise of

(I) the co-operatives, (II) Scheduled commercial Banks and (III) Regional Rural Banks

## **2. Review of Literature**

Jugal (1997) inferred that the term loan for agricultural purpose granted by zonal developmental banks enable the borrowers to improve from mechanization by purchasing tractor, tillers and IP sets for irrigation. The term loan also enabled the farmers in increasing irrigation area by 22.4 per cent of land holding as well as cropping pattern and cropping intensity from one crop to two crops a year.

Veerashkarappa (1997), in his study on institutional finance for rural development concluded that institutional finance was instrumental in acquiring productive form assets and development of irrigation facilities resulting in changes in the cropping pattern. Increase in the cropping intensity and adoption of HYVs.

Choudhary (2002), in his study on credit flow to agriculture felt that the recycling of funds is not possible due to mounting of over dues.

Hitesh Viramagami (2003) suggested that the RBI should provide financial support to PACs and coordination between financial institutions should be maintained to avoid multiple financing.

Singh et.al, (2004) analyzed the availability, utilization and repayment of crop loan in Rajpur district of Chhattisgarh. 40 per cent of the non-defaulter group and 60 per cent of the defaulter group misapplied the crop loan for unproductive uses, affecting the repayment of loan.

## **3. Objective of the Study**

The objective of the study is to assess the quantum of loans issued and outstanding by institutional agencies in India.

## **4. Scope and Limitations of the Study**

The scope of the study is confined to studying the role of various institutions in financing agricultural sector in India. Secondary data pertaining to the period 2000-2001 to 2014-2015 have been used for the purpose of the study. So, all the limitations of secondary are found in the study.

### 5. Methodology

The focus of study is on analyzing the progress of institutional credit to agricultural sector in India. The time series data on institutional credit in India to agricultural sector were collected from Handbook of Statistics on the Indian economy published by Reserve Bank of India and Report on trend and progress of banking in India.

### 6. Data Analysis and Interpretation

Finance is an essential requirement for every production activity. Agriculture is no exception. In India, its importance needs no stressing with agriculture being the predominant sector. Agricultural credit is an essential input for augmenting agricultural productions and helping the poverty stricken farmers of India in meeting their investment requirements.

**Table-1 : Direct Institutional Credit for the Agriculture and Allied Activities-Short Term**

(Rs.in crores)

Year	Loans Issued				Loans outstanding			
	Cooperatives	SCBs	RRBs	Total	Cooperatives	SCBs	RRBs	Total
2000-01	18556	10704	3095	32355	18168	15422	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	47390	68243	20377	136010	43696	96152	22748	162596
2008-09	48022	107766	22851	178639	45686	126285	26652	198623
2009-10	56946	124646	30529	212121	35717	167623	33663	237003
2010-11	69038	146063	38560	253661	49645	193262	40663	283570
2011-12	81829	217897	47011	346737	44517	269030	46580	360127
2012-13	102592	N.A.	57757	N.A.	76622	353425	55255	N.A.
2013-14	113574	N.A.	70646	N.A.	N.A.	333572	68267	N.A.
2014-15	N.A.	N.A.	84686	N.A.	N.A.	N.A.	82620	N.A.

Source: 1. Reserve Bank of India 2. NABARD

SCB: Scheduled Commercial Banks

RRBs: Regional Rural Banks

Table 1 depicts that the direct loans issued increased gradually from Rs.323.55 crores in 2000-2001 to Rs.3467.37 crores in 2011-2012. The amount of loans issued is the highest in case of Scheduled commercial banks while the lowest was in the case of Co-operatives.

As far as the amount of loans outstanding is concerned, the amount of loans outstanding increased from Rs. 373.02 crores in 2000-2001 to 3601.27 crores in 2011-2012. Scheduled commercial Banks account for the highest amount of loans outstanding while the co-operatives account for the lowest amount of loans outstanding.

**Direct Institutional credit for the agriculture and Allied Activities-Long-term**

**Table -2: Direct Institutional Credit for the Agriculture and Allied Activities-Long-term**

(Rs. in crores)

Year	Loans Issued				Loans outstanding			
	Cooperatives	SCBs	RRBs	Total	Cooperatives	SCBs	RRBs	Total
2000-01	8739	5736	871	15346	27967	22828	3557	54352
2001-02	8899	5977	736	15612	30570	26224	3474	60268
2002-03	10411	8431	1045	19887	34546	30593	3766	68905
2003-04	10723	12069	1042	23834	40595	36121	4058	80774
2004-05	13122	18389	2043	33555	46341	52721	5730	104791
2005-06	12499	34955	2484	49938	48187	75632	7632	131451
2006-07	13223	50021	3198	66442	51679	93012	8745	153436
2007-08	10253	45229	3461	58943	21970	106644	10468	139082
2008-09	10765	52924	3648	67337	18359	129834	10715	158908
2009-10	6551	63607	4111	74269	24074	147813	12619	184506
2010-11	9083	76729	5405	91217	27029	164322	14404	205755
2011-12	6134	94980	6048	107162	28028	174268	17244	219540
2012-13	8611	N.A.	6892	N.A.	27579	169053	19406	N.A.
2013-14	6390	N.A.	7728	N.A.	N.A.	169960	22027	N.A.
2014-15	N.A.	N.A.	13151	N.A.	N.A.	N.A.	27742	N.A.

Source: 1.Reserve Bank of India 2.NABARD

SCB: Scheduled Commercial Banks, RRBs: Regional Rural Banks  
Available

N.A.-Not

Table -2 reveals that the direct loans issued increased from Rs.15346 crores to Rs.107162 crores in 2011-2012. The Scheduled Commercial Banks accounted for the highest increase in respect of loans issued while the lowest was in the case of co-operatives. As far as the loans outstanding are concerned, the loans outstanding increased from Rs.54352 crores in 2000-2001 to Rs.219540 crores in 2011-2012.Scheduled banks accounted for the highest amount of loans outstanding whereas the loans outstanding was the lowest in case of co-operative banks.

**Direct Institutional credit for the agriculture and Allied Activities-(Short Term and Long-term)**

Table -3 reveals that the direct loans issued increased from Rs.48187 Crores in 2000-2001 to Rs.453898 crores in 2011-2012. The Scheduled Commercial Banks accounted for the highest increase in respect of loans issued while the lowest was in the case of co-operatives. As far as the loans outstanding are concerned, the loans outstanding increased from Rs.91654 crores in 2000-2001 to Rs.5,79,666 crores in 2011-2012..Scheduled banks accounted for the highest amount of loans outstanding whereas the loans outstanding was the lowest in case of co-operative banks.

**Table-3: Direct Institutional credit for the agriculture and Allied Activities  
(Short term and Long-term)**

(Rs. in crores)

Year	Loans Issued				Loans outstanding			
	Cooperatives	SCBs	RRBs	Total	Cooperatives	SCBs	RRBs	Total
2000-01	27295	16440	3966	47700	46135	38270	7249	91654
2001-02	30569	18638	4546	53752	52110	45106	8286	105502
2002-03	34040	25256	5879	65175	59064	53804	10261	123129
2003-04	40049	36203	7175	83427	71403	68103	11721	151228
2004-05	45009	48367	11927	105303	78822	95519	16709	191050
2005-06	48123	80599	15300	144021	82327	135603	21510	239439
2006-07	54019	115266	20228	189513	89443	169018	27452	285913
2007-08	57643	113472	23838	191953	65666	202796	33216	301678
2008-09	58787	160690	26499	245976	64045	256119	37367	357531
2009-10	63497	188253	34640	286390	59791	315436	46282	421509
2010-11	78121	222792	43965	344878	76674	357584	55067	489325
2011-12	87963	312877	53058	453898	72545	443298	63823	579666
2012-13	111203	484499	64649	N.A.	112002	522478	74661	N.A.
2013-14	119964	N.A.	78374	N.A.	N.A.	503532	90294	N.A.
2014-15	N.A.	N.A.	97837	N.A.	N.A.	N.A.	110362	N.A.

Source: 1.Reserve Bank of India 2.NABARD

SCB: Scheduled Commercial Banks, RRBs: Regional Rural Banks

N.A.-Not Available

**Indirect Institutional credit for the agriculture and Allied Activities**

**Table – 4: Indirect Institutional Credit for the Agriculture and Allied Activities**

(Rs. in crores)

Year	Loans Issued				Loans outstanding			
	Cooperatives	SCBs	REC	Total	Cooperatives	SCBs	REC	Total
2000-01	91337	3967	4109	99413	79567	18825	14185	112578
2001-02	84092	7990	4722	96803	89092	18238	15936	123266
2002-03	92152	6261	6607	105019	92920	23690	16506	133116
2003-04	93566	8936	6017	108519	102307	28520	18305	149132
2004-05	114132	21728	7441	143301	110132	36071	21062	167265
2005-06	122067	27751	7489	157307	119932	57175	24564	201671
2006-07	135740	38766	10733	185239	136392	82564	31262	250218
2007-08	145778	40278	12953	199009	147982	93443	38615	280040
2008-09	N.A.	73721	17157	N.A.	N.A.	110702	50653	N.A.
2009-10	N.A.	82839	21132	N.A.	N.A.	145554	65979	N.A.
2010-11	N.A.	86732	24519	N.A.	N.A.	146923	81725	N.A.
2011-12	N.A.	69444	27821	N.A.	N.A.	142585	101426	N.A.
2012-13	N.A.	N.A.	39275	N.A.	N.A.	111102	127356	N.A.
2013-14	N.A.	N.A.	N.A.	N.A.	N.A.	264756	N.A.	N.A.
2014-15	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

Source: 1.Reserve Bank of India 2.NABARD

SCB: Scheduled Commercial Banks, REC: Rural Electrification Corporation Ltd.

N.A.-Not Available

Table -4 reveals that the indirect loans issued increased from Rs.99413 Crores in 2000-2001 to Rs.199009 crores in 2008-2009. The Scheduled Commercial Banks accounted for the highest increase in respect of loans issued while the lowest was in the case of co-operatives. As far as indirect loans outstanding are concerned, the loans outstanding increased from Rs.112578 crores in 2000-2001 to Rs280040.crores in 2007-2008.Scheduled banks accounted for the highest amount of loans outstanding whereas the loans outstanding was the lowest in case of co operative banks.

### 7. Conclusion

From the above study of the agencies of agricultural credit, it can be concluded that till recently the credit facilities available to our agriculture were most inadequate and private agencies, rather than institutional sources, accounted for the bulk of the total borrowing of farmers. The study revealed that the institutional credit in India to agriculture sector has increased in its quantum. The credit provided by the various institutional sources has increased the amount of advances. But SCBs have to make efforts to reduce their outstanding so that institutional credit recovered should be pumped into agricultural sector for further growth.

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