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## AN EMPIRICAL ANALYSIS ON THE ROLE OF SCHEDULED COMMERCIAL BANKS IN FINANCING AGRICULTURAL SECTOR IN INDIA

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### ABSTRACT

*Agriculture finance is as important as other inputs being used in agricultural production. The country depends on millions of small farmers for agriculture goods. The commercial banks form the core of the banking system and it comprises of scheduled and non – scheduled banks. The study has shown that the SCBs' credit flow to the agriculture has been increasing for the past decades. The article is based on the secondary data compiled from various sources and growth of loans and advances has been analyzed by using the compound growth rate technique. The agriculture sector is an important component of the Indian economy as it provides livelihood to a large section of the population. The contribution of agriculture has gone down from 52 percent in 1950 to 30 percent in 1990 and 20 percent in 2010. In 2011-12 to 2018-19 the share of agriculture and allied activities was 14.4 percent. Scheduled Commercial banks play a marginal role in providing agriculture assistance. After nationalization of commercial banks in 1969 the banks began to provide direct as well as indirect agricultural credit for short and medium term period. The major sources of finance for agriculture through SCBs are from direct finance and indirect finance.*

### KEYWORDS

SCBs, direct finance, indirect finance.

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### INTRODUCTION

In India, the agricultural sector represents 35 percent of India's Gross National Product and as such plays a crucial role in the country's development. Agriculture is defined as the practice of farming and it is the oldest occupation in the country. The vast majority of the population of the country depends on agriculture which is basically concerned with the production of food and is a basic necessity of life. The major concern of this study is to analyze the role of commercial banks in financing agriculture projects to the recipient i.e., farmers and agriculturists. The scheduled commercial banks are rendering financial assistance since their establishment to agriculturists. The performance of commercial banks can be witnessed in terms of branch expansion and advances to agriculture sector through a number of innovative schemes. In most developing nations due to the problem of capital scarcity in agriculture production, generally causes low involvement. Although in India this cannot be agreed as the most serious bottleneck to agriculture development in India is seasonal, short-term and long-term credit, it is nevertheless clear that an adequate agriculture credit services has to be provided. Credit is an important element in agricultural sector without which the agriculturists can hardly do much. It contributes to agriculturists social welfare, enhances productivity, helps in capital formation and generates income. Agriculture finance is the study of financing and liquidity credit services provided to the farmers. It is also considered as the study of those financial intermediaries who provide funds to agriculture and the financial markets in which these intermediaries obtain their loan able funds.

Agriculture finance is as important as other inputs being used in agricultural production. The country depends on millions of small farmers for agriculture goods. The commercial banks form the core of the banking system and it comprises of scheduled and non – scheduled banks. The deposits and borrowings from the RBI is the source of finance for the commercial banks. Initially commercial banks were not interested in financing for agricultural operation. In 1969 the All India Rural Credit Review Committee suggested that the commercial banks have to enhance their role by providing agricultural credit. After nationalization of the banks the commercial banks are actively involved in the disbursement of agricultural credit. On this background it is witnessed that the Scheduled commercial banks have a role and the one that can be justified.

### SOURCES OF AGRICULTURAL FINANCE

The agriculture sector is an important component of the Indian economy as it provides livelihood to a large section of the population. The contribution of agriculture has gone down from 52 percent in the 1950 to 30 percent in the 1990 and 20 percent in 2010. In 2011-12 to 2018-19 the share of agriculture and allied activities was 14.4 percent. Scheduled Commercial banks play a marginal role in providing agriculture assistance. After nationalization of commercial banks in 1969 the banks began to provide direct as well as indirect agricultural credit for short and medium term period. The agricultural finance is available to farmers and other people working in the farming sector in India from various sources.

**Direct Finance:** Scheduled Commercial banks provide short term credit facilities for financing seasonal agricultural operations. The financial assistance is provided for production inputs such as seeds, fertilizers, pesticides and to meet out the labour charges and irrigation charges during cultivation. Medium term credit is granted for irrigation purposes, repairing old wells and improvement of land. Long term credit is provided for development of horticulture, plantations, etc. Further commercial banks have launched several schemes in promoting agro based industries by providing facilities directly to farmers.

**Indirect Finance:** Scheduled Commercial banks assist agriculture sector indirectly by financing individuals or agencies engaged in the supply of agriculture inputs and other services to agriculturists.

### STATEMENT OF PROBLEM

The financial hindrance is considered as one of the major barriers in agricultural sector. Majority of farmers, especially the small farmers are in need of finance for their projects and in most situations farmers need finance to do their agricultural operations. The problem of agricultural production such as the difference in monsoon conditions and pricing policies, unavailability of bank warranty makes it unattractive for the banks to provide finance to the agriculturists. On this background the study focuses on methods used by scheduled commercial banks in financing agricultural products and also focuses its importance.

### OBJECTIVES OF THE STUDY

1. To examine the loans issued by and outstanding of scheduled commercial banks in India.
2. To identify the growth of scheduled commercial banks in supplying agricultural credit in India.

### RESEARCH METHODOLOGY

#### STUDY PERIOD

The Scheduled commercial banks play a vital role in financing agricultural sector in India. The data collected for the study is from secondary sources. The period of study is taken for the year 2011-12 to 2017-18. The study is restricted to only scheduled commercial banks and the data is collected accordingly.

## TOOLS OF THE STUDY

The study covers the period of 7 years (from 2011-12 to 2017-18). The compound growth rate analysis is used to examine the growth of agricultural credit. Agricultural credit is a vital input for agricultural production and helps the poverty stricken farmers of India in meeting their investment requirement.

## ANALYSIS

TABLE 1: SCBs DIRECT SHORT TERM AND LONG TERM CREDIT FOR AGRICULTURE AND ALLIED ACTIVITIES

| Year    | Short Term Direct Finance |                   | Long Term Direct Finance |                   |
|---------|---------------------------|-------------------|--------------------------|-------------------|
|         | Loans Issued              | Loans Outstanding | Loans Issued             | Loans Outstanding |
| 2011-12 | 217897                    | 269030            | 94980                    | 174268            |
| 2012-13 | NA                        | 353425            | NA                       | 169053            |
| 2013-14 | NA                        | 333572            | NA                       | 169960            |
| 2014-15 | NA                        | 464920            | NA                       | 219049            |
| 2015-16 | NA                        | 520395            | NA                       | 294446            |
| 2016-17 | NA                        | 467025            | NA                       | 201084            |
| 2017-18 | NA                        | 657713            | NA                       | 266371            |
| CGR     | NA                        | 13.62             | NA                       | 6.24              |

The above table reveals the direct short term finance for agriculture and allied activities during 2011-12 to 2017-18. The study of the amount of loan issued and loan outstanding over the study period reveals that there is annual growth in loan outstanding and in case of loan issued the result shows that there is a negative impact. The table indicates that there is no increase in loan issued and hence the CGR on loan issued was negative. On the other side the loans outstanding, for short term direct finance, increased from 2,69,030 crores in 2011-12 to 6,57,713 crores in 2017-18. The long term loans issued were also negative and the long term loans outstanding had grown from 1,74,268 crores in 2011-12 to 2,66,371 crores in 2017-2018. The highest loan outstanding were in the short term direct finance with CGR of 13.62 while the lowest was in the case of long term direct finance with CGR of 6.24 percent.

TABLE 2: SCBs DIRECT SHORT TERM AND LONG TERM ADVANCES FOR AGRICULTURE AND ALLIED ACTIVITIES

| Year    | Total Direct Finance | Indirect Finance                             |                            |   |                                | Total Indirect Finance | Total Direct and Indirect Finance |
|---------|----------------------|--|----------------------------|---|--------------------------------|------------------------|-----------------------------------|
|         |                      | Distribution of fertilizers and other inputs | Loans to Electricity Board | Loans to farmers through PACS/FSS/LAMPS | Other Type of Indirect Finance |                        |                                   |
| 2011-12 | 440758               | NA   | NA                         | 797                                     | 63771                          | 142585                 | 583343                            |
| 2012-13 | 534331               | NA   | NA                         | NA                                      | NA                             | 111102                 | 645433                            |
| 2013-14 | NA                   | NA   | NA                         | NA                                      | NA                             | NA                     | 892067                            |
| 2014-15 | NA                   | NA   | NA                         | NA                                      | NA                             | NA                     | 970575                            |
| 2015-16 | NA                   | NA   | NA                         | NA                                      | NA                             | NA                     | 1173098                           |
| 2016-17 | NA                   | NA   | NA                         | NA                                      | NA                             | NA                     | 1265250                           |
| 2017-18 | NA                   | NA   | NA                         | NA                                      | NA                             | NA                     | 1369456                           |
| CGR     | 2.78                 | NA   | NA                         | NA                                      | NA                             | -3.50                  | 12.96                             |

The above table shows the advances of scheduled commercial banks to agricultural outstanding during 2011-12 to 2017-18. During the study period it was witnessed that the total direct finance to farmers increased from 4,40,758 crores in 2011-12 to 5,34,331 crores in 2012-13 with the CGR of 2.78 percent. The total direct and indirect advances to agriculture outstanding shows gradual increase from 5,83,343 crores in 2011-12 to 13,69,456 crores in 2017-18 with CGR of 12.96 percent.

## CONCLUSION

Agriculture Finance is the input that enables farmers to develop their agricultural activities. From the study it was identified that there is gap in loan issued by scheduled commercial banks after 2011-12. It is argued that small farmers are unable to borrow at high rate of interest. Further loans to small farmers are rationed continuously than loans to big farmers because of lower returns and higher costs of lending to small farmers. This in turn has increased the loan outstanding during the study period.

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