



## A STUDY ON AGRICULTURE FINANCE PROVIDED BY SCBs IN INDIA

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### Abstract

Agriculture finance is one of the important inputs which is being used to support agricultural production. India 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. This study focuses on the credit flow of Scheduled Commercial Banks' (SCBs) to the agriculture sector, from 2010-2011 to 2019-2020, which has been increasing for the past few decades. The secondary data is compiled from various published 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. During 2010-11 to 2019-2020 the share of agriculture and allied activities was 14.4 percent. Initially, the Scheduled Commercial Banks played 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. The period of study is taken from the year 2010-11 to 2019-20. From various published reports it was identified that the SCBs provide highest credit to farmers compared to other institution and hence the study is restricted only to scheduled commercial banks and the data is collected accordingly. From the study it is also identified that during the study period from 2010-2011 to 2019-2020 the agriculture credit was increasing at a faster rate from 2014-2015 to 2019-2020.

**Keywords:** *SCBs, Direct Finance, Indirect Finance*

### Introduction

In India, the agricultural sector represents 35 percent of India's Gross National Product and as such plays a vital role in economic development. Agriculture is defined as the practice of farming and it is the oldest occupation in the country. Majority of the population

in India depends on agriculture, which is fundamentally important as it is concerned with the food production which is the basic necessity of life. The background of this paper is to examine the role of Scheduled Commercial Banks (SCBs) for providing financial assistance to agriculture projects and to the recipients 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 one of the major inputs which is being used in agricultural production. India 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 are 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**

Agriculture Sector is one of the important sectors in which major population depends for their livelihood. According to government reports the contribution of this sector has declined from 52 percent in 1990 to 20 percent in 2010. In 2010-11 to 2019-20 the share of agriculture and allied activities was 14.4 percent. Initially, the scheduled commercial banks played 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 term 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:** Short term financial facilities are provided by SCBs to encourage seasonal agricultural operations. These financial assistances assist farmers in getting inputs such as seeds, fertilizers, pesticides and to minimize their 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:** SCBs assist agriculture sector by providing indirect credit to individual farmers or agencies engaged in the supplying the agriculture inputs and also provide various other services to farmers.

### **Review of Literature**

**Rakesh Mohan (2004)**, has investigated the status, problems and future agenda of agriculture finance in India. The study reveals that the total credit flows of agriculture credit provided by institutions have increased. The trend analysis of the study shows that the agriculture credit has increased the value of inputs and outputs. Further the long-term credit has been increasing which increased the private investment.

**Anjani Kumar et.al., (2010)**, the study examines the institutional credit performance and determinants in India. The credit structure has a significant change and commercial banks are the major source to provide financial assistance in recent period. The study concluded that if there is decrease in share of investment credit in the total credit, there may be an obstacle for the growth of agriculture sector. It is witnessed that the credit provided by institutions affect the socio-economic factors and the study suggests simplifying the procedures to avail agriculture finance to small farmers.

**Ruchi (2018)**, has examined the role and progress of SCBs in providing agriculture credit in India. The study has used variables such as deposit, credit and credit-deposit ratio of SCBs. From the study it was identified that the share of commercial banks agriculture credit is higher compared to other institutions credit. The number of account and amount of credit was higher to marginal farmers and lowest to large farmers. The purpose of credit by SCBs is to enhance the production, investment and marketing in agriculture sector.

## Objectives of the Study

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. The following are the objectives of the study:

- To examine the growth rate of investment credit provided by scheduled commercial banks from 2010-2011 to 2019-20
- To analyze the growth rate of non-food credit provided by the scheduled commercial banks to agriculture sector to support farmers.
- To identify the growth rate of outstanding agriculture credit provided by scheduled commercial banks during the study period.

**Study Period:** The study analyses the agriculture finance provided by scheduled commercial banks in India for the period 2010-2011 to 2019-2020. The data collected for the study are from secondary sources. From various published reports it was identified that the SCBs provide highest credit to farmers compared to other institutions and hence the study is restricted to only scheduled commercial banks and the data is collected accordingly.

## Tools of the Study

The study covers a period of 10 years (from 2010-11 to 2019-20). The tools used to examine the agriculture finance provided by scheduled commercial banks (SCBs) were compound growth rate, mean, correlation, f-test, trend analysis with the following model;

$$Y=a + b(t)$$

where 'Y' being the Total credit provided by SCBs to agriculture sector, 't' is time and 'a' and 'b' are the parameters.

## Hypothesis of the Study

**H<sub>0</sub>:** There is no significance between actual and trend value of components of agriculture finance provided by the Scheduled Commercial Banks.

**H<sub>1</sub>:** There is significance between actual value and trend value of components of agriculture finance provided by the Scheduled Commercial Banks.

### Summary on Findings

**Table 1: Trend Showing the Short-Term Finance Provided by SCBs to Agriculture Sector**

Year	Actual	Trend
2010-2011	228391	-30334937
2011-2012	266928	-2239859
2012-2013	314951	-1444781
2013-2014	364164	-649703
2014-2015	415736	145375
2015-2016	419930	940453
2016-2017	452576	1735531
2017-2018	497078	2530609
2018-2019	483805	3325687
2019-2020	531828	4120765
Mean	397539	
CAGR	8.82	

Source: Department of Agriculture, Cooperation and Farmers Welfare (CAGR- Compound Annual Growth rate)

The above table shows the short-term finance provided by scheduled commercial banks for the period 2010-2011 to 2019-2020. The table states that there was a negative trend from 2010-2011 to 2013-2014, from Rs.30334937 to Rs.649703 crores. The result also shows that there was slow rate of growth in credit from 2014-2015 to 2015-2016. Further after 2016-2017 the growth rate of short-term finance was increasing at an increasing rate till the end of the study period 2019-2020. The compound growth rate is witnessed has 8.82 percent.

**Table 2: Trend showing Medium-Term and Long-Term Finance Provided by SCBs**

Year	Actual	Trend
2010-2011	117486	-1556355
2011-2012	101688	-1035089
2012-2013	117540	-513823
2013-2014	163342	7443
2014-2015	188640	528709
2015-2016	223024	1049975
2016-2017	347205	1571241
2017-2018	380077	2092507

<b>2018-2019</b>	471017	2613773
<b>2019-2020</b>	496315	3135039
<b>Mean</b>	<b>260633</b>	
<b>CAGR</b>	<b>15.50</b>	

Source: Department of Agriculture, Cooperation and Farmers Welfare (CAGR- Compound Annual Growth rate)

The table shows the medium term/long term finance provided by scheduled commercial banks to the agriculturists. During the study period it was examined that there was negative trend from 2010-2011 to 2012-2013. In the year 2013-2014 there was deep trend where the long-term finance was not provided by SCBs and hence there was slow growth rate of Rs.7443 crores. From 2014-2015 there was a positive growth during the study period. Further throughout the study period from 2010-2011 to 2019-2020 the compound growth rate was about 15.50 percent.

**Table 3: Trend showing Non-Food Credit Provided by SCBs to Agriculture**  
(in crores)

<b>Year</b>	<b>Actual</b>	<b>Trend</b>
<b>2010-2011</b>	3667354	-47216957
<b>2011-2012</b>	4289745	-34510159
<b>2012-2013</b>	4869563	-21803361
<b>2013-2014</b>	5529601	-9096563
<b>2014-2015</b>	6002952	3610235
<b>2015-2016</b>	6546903	16317033
<b>2016-2017</b>	7094490	29023831
<b>2017-2018</b>	7688424	41730629
<b>2018-2019</b>	8633418	54437427
<b>2019-2020</b>	9211544	67144225
<b>Mean</b>	<b>6353399</b>	
<b>CAGR</b>	<b>9.65</b>	

Source: Handbook of Statistics, RBI. (CAGR- Compound Annual Growth rate)

The above table shows that in the 10-year period of non-food credit provided by scheduled commercial banks to agriculture sector witnessed a negative trend in the beginning of the study period from 2010-2011 to 2013-2014 from Rs.47216957 to Rs.9096563 crores. Further in the year there was a down trend in 2014-2015 to about Rs.3610235 crores. From 2015-2016 to 2019-2020 the credit level started increasing at an increasing rate from Rs.16317033 to Rs.67144225 crores. The compound growth rate over the study period was about 9.65 percent.

**Table 4: Trend showing Advances – Outstanding Provided by SCBs to Agriculture (in crores)**

Year	Actual	Trend
2010-2011	463321	-6389039
2011-2012	507176	-4498981
2012-2013	583343	-2608923
2013-2014	645433	-718865
2014-2015	892067	1171193
2015-2016	970575	3061251
2016-2017	1173098	4950309
2017-2018	1265250	6841367
2018-2019	1369456	8731425
2019-2020	1580568	10621483
Mean	945029	
CAGR	13.05	

Source: Handbook of Statistics, RBI. (CAGR- Compound Annual Growth rate)

The above table shows the outstanding growth rate of credit provided by scheduled commercial banks to agriculture sector. In the beginning of the study period from 2010-2011 to 2013-2014 the growth rate of outstanding credit was in a negative trend. From 2014-2015 onwards there was a positive and rapid higher growth in the outstanding credit from Rs.1171193 crores to Rs.10621483 crores in 2019-2020. Over the study period from 2010-2011 to 2019-2020 the compound growth rate was 13.05 percent.

**Table 5: Estimates of Trend Co-efficient of Agriculture credit provided by SCBs in India**

$$Y = a + b(t)$$

Y = Components of Agriculture Finance, a = Actual Value, b = Trend Value

S.No.	Components of Agriculture Finance	Y = a + b(t)					
		a	b	R <sup>2</sup>	f-value	p-value	S/NS
1	Short-Term Credit	542914	397539	0.96	2.77	0.001*	S
2	Medium term and Long-term credit	789342	260633	0.98	4.04	0.009*	S
3	Non-food credit	9963634	6353399	0.99	8.20	0.002*	S
4	Advance outstanding	2116222	945029	0.99	2.15	0.004*	S

\*s- Significant at 5% level, NS – Not Significant at 5% level

**H<sub>0</sub>:** There is no significance between actual value and trend value of components of Agriculture Finance provided by SCBs.

The above table shows that the hypothesis is tested by linear regression model. The f- statistic is less than 0.05 which shows that the null hypothesis is rejected. Thus, there is significance between actual value and trend value of short-term credit, medium term and long-term credit, non-food credit and advances outstanding of Scheduled Commercial Banks (SCBs) in India.

### **Conclusion**

Agriculture finance is one of the inputs which assist farmers to promote their activities. From this study it was identified that there is gap in loan issued by scheduled commercial banks after 2011-12. The study concludes that there was higher growth rate of credit to farmers to generate their investment and allied activities. From the study it is also identified that during the study period from 2010-2011 to 2019-2020 the agriculture credit was increasing in faster rate from 2014-2015 to 2019-2020. High rate of interest charged by the commercial banks might discourage the small farmers to get financial assistance from commercial banks. The Scheduled Commercial Banks try to provide loans to small farmers instead of loans to big farmers. This in turn has increased the loan outstanding during the study period.

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