CREDIT FLOW FROM DIFFERENT INSTITUTIONS IN PUNJAB AGRICULTURE

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Abstract: *Strengthening of Indian agriculture is important for elimination of rural poverty, unemployment and sustainable use of natural resources. Due to transformation in agriculture sector from traditionalism to commercialization, the demand for capital has increased. So, agriculture has become highly capital intensive with the introduction of high yielding varieties of seeds especially wheat and rice, chemical fertilizers, pesticides, mechanization and investments in irrigation i.e. on tubewells. These have boosted the demand for agricultural credit in the state. Agrarian credit markets have been at the centre of policy intervention in India since the beginning of the last century, when the co-operative movement was launched in an attempt to provide an institutional alternative to the exploitative moneylenders. Yet, providing adequate and timely institutional finance to farmers continues to be one of the most fixed problems. This paper looks at the falling-out of indigenous institutions, often through substantial government intervention and increasing the number of institutional sources but still farmers have to depend upon non-institutional sources.*

Key words: *Agriculture, Credit, Institutional, Commercial banks, Punjab, Moneylender*

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Agriculture is the backbone of Indian economy as around 54 per cent of the population earns its livelihood from agriculture and an important source of raw materials for many agro- based industries. Punjab agriculture witnessed a breakthrough in foodgrain production with the introduction of green revolution in 1960's. Punjab has observed an increase in per capita income and decrease in levels of rural poverty. With this the demand for capital increased as the agriculture sector transformed from traditionalism to commercialization. Agriculture has become highly capital intensive with the introduction of high yielding varieties of seeds especially wheat and rice, chemical fertilizers, pesticides, mechanization and investments in irrigation i.e. on tubewells (Satish, 2006). These have boosted the demand for agricultural credit in the state. To meet the increased credit demand, an efficient growth of the rural credit system has taken place. Modern agriculture including dairy farming is highly capital intensive and access to institutional credit at affordable rate of interest is central for adequate input use and productivity growth on small farms. Though, overall institutional credit supply has increased, yet availability of credit to small and marginal farmers is proportionately low. Major source of agriculture credit is cooperatives. The institutional lending being inadequate and cumbersome the farmers resort to borrowing from private non-institutional source of finance at very high rate of interest. Thrust should be laid to streamline the working of cooperative credit infrastructure to improve their outreach and to ensure cost effective, adequate and timely flow of agricultural credit to the farmers. Credit facilities at affordable interest should be provided for capital investment in crop and livestock sector (Government of Punjab, 2013). The growth of agricultural credit from commercial banks and RRBs, which was 1.8 per cent between 1990 and 2000, increased to 19.1 per cent between 2000 and 2007. The share of credit supplied by commercial banks and RRBs in total agricultural credit increased from 30.1 per cent in 2000 to 52 per cent in 2007.

Desai et al. (1988) have found density of rural financial institutions and overall amount of credit per hectare to be positively correlated with degree of agricultural progress. Kumar (2007) analyzed the withdrawal system of banks from rural credit due to decline in number of rural branches of scheduled commercial banks, poor monitoring of loans, indifferent attitude of banks to the production process etc. The focus should be shifted to creation of conditions to maintain large scale capitalist production in agriculture. Singh et al. (2007)

highlighted the flow of funds to farmers in Punjab. The commercial banks conquered the inflow of agricultural credit i.e. 50-57 per cent followed by 25 per cent of cooperatives and state agricultural development banks i.e. 16-25 per cent during 1990-91 to 2005-06.

In agriculture basically there is short and long term loans. Crop loans are also termed as short-term loans and production credit as it is used for production purposes. Farmers have to purchase seeds, fertilizers, pesticides, insecticides, fuel for production process but farmers have not sufficient amount of capital to buy it. So they take a loan for short duration of time and repay it after harvesting the crop. Its limit is up to five lakh. The crop loan is supplied by primary agricultural cooperative societies and cooperative banks. Investment loan are also known as long term loan. Farmers demand this type of credit for purchasing farm requirements like tractors, combine, harvester, to construct buildings, for purchase of livestock. Credit is offered in terms from six months to five years. It can be extended up to ten years by request. Payment can be made semi-annually or annually. It is provided by Primary Land Development banks.

NON-INSTITUTIONAL CREDIT:

Despite the significant increase in the availability of institutional agricultural credit, the share of non-institutional finance is still high (Sidhu et al., 2008). It is mainly provided by moneylenders, shahukar, commission agent, relatives etc. Till independence moneylenders dominated the rural society. Farmers borrowed for both productive and non –productive purposes because institutional sources does not provide loan for non-productive purposes.

There are some reasons to depend upon non-institutional credit.

1. Moneylenders provide loan for non-productive purposes also like for marriage, consumption etc.
2. There is no transaction cost.
3. It is easily available.

The commission agent fulfilled the gap in availability of credit from institutional sources with respect to demand. An average farm household in the state has Rs.110828 (61.94%) of that from institutional sources and Rs.68106 (38.06%) from non-institutional sources (Singh et al., 2008).Further the access to institutional credit is not considered to be uniform and small farmers depend on non-institutional credit. But after nationalization of banks, the share of non-institutional credit is declining.

INSTITUTIONAL CREDIT:

Institutional credit has been used as an important policy instrument for growth and development of agriculture sector. The institutional credit agencies in Punjab not only encouraged adoption of green revolution technology but also escape the farmers from moneylenders by providing credit to the farmers at low rate of interest (Satish, 2006).

The share of institutional credit by different agencies has been shown in table no. 1. The spread of institutional agencies has led to a considerable increase in the share of agricultural credit. Over the period of time the share of commercial banks has increased from 17.62 per cent to 78.11 per cent and share of co-operative banks has declined from 82.38 per cent to 15.83 from 1970-71 to 2012-13 respectively. RRBs has also increased to 6.06 per cent.

Table 1: Institutional Credit Flow to Agriculture in Punjab

(in percentage)

Year	Commercial Banks	Co-operative Banks	RRBs
1970-71	17.62	82.38	-
1980-81	37.54	62.46	-
1995-96	38.99	59.02	1.99
2000-01	50.67	46.75	2.58
2004-05	60.15	36.59	3.26
2005-06	55.60	40.70	3.70
2010-11	80.83	14.75	4.42
2011-12	78.62	15.61	5.78
2012-13	78.11	15.83	6.06

Source: (i) EPW Research Foundation 2007-08: Agricultural Credit in India: Changing Profile and Regional Imbalances – Special Tabulations provided by NABARD.

(ii) Gill, A. (2014). (iii) Satish, P. (2006).

Table no. 2 shows the growth of investment credit from 1990 to 2011 through the commercial and co-operative banks which provides indirect and direct finance respectively. It indicates that direct finance has increased from 1661.31 lakhs to 2161284.00 lakhs over the period of time indicating that more credit is financed by co-operatives as there terms and conditions are simple for farmers as well as rate of interest is low.

Table 2: Growth of Investment Credit (Lakhs)

Year	Commercial Banks (Indirect Finance)	Cooperatives (Direct Finance)
1990	1100.71	1661.31
2000	11800.72	11626.73
2005	22493.78	75590.65
2010	836466.92	1844060.19
2011	806467.00	2161284.00

Source: Statistical Abstract of Punjab (Various Issues)

Number of banking offices in different districts of Punjab during the year 2012 shows that commercial banks consist large number of banks followed by co-operative and Punjab national banks. State bank of India and State bank of Patiala has less number of banks. As most of the agricultural credit is provided by co-operative banks and commercial bank due to its easy availability so, this is the main reason of their more branches (Table 3).

Table 3: Number of Banking Offices in Various Districts of Punjab (in 2012)

District	State Bank of India	State Bank of Patiala	Punjab National Bank	Other Commercial Banks	Co-operative Banks
Amritsar	42	23	71	298	57
Bathinda	23	54	26	111	39
Barnala	5	18	13	47	-
Fatehgarh Sahib	5	19	6	77	25
Faridkot	7	16	9	59	24
Fazilka	14	10	19	65	30
Firozpur	16	9	20	78	23
Gurdaspur	20	10	41	142	44
Hoshiarpur	24	21	63	167	65
Jalandhar	64	36	84	437	72
Kapurthala	7	17	38	145	40
Ludhiana	66	55	83	475	54
Mansa	8	17	10	46	22
Moga	16	11	24	103	47
Pathankot	14	9	17	45	-
Patiala	14	82	32	177	42
Rupnagar	6	13	8	88	25
Sangrur	11	47	25	125	63
S.A.S. Nagar	15	20	21	202	21
S.B.S. Nagar	7	13	21	94	47
Shri Muktsar Sahib	14	12	16	63	22

Source: Statistical Abstract of Punjab (2013)

Table no. 4 shows the district-wise classification of outstanding credit of Scheduled Commercial banks. Banks provide agricultural credit through direct and indirect finance. It shows that direct finance provided by banks was larger as compare to indirect finance indicating that farmers need more direct finance to full fill their ongoing operations on farms.

Table 4: District-wise classification of outstanding credit of Scheduled Commercial banks, 2012

District	Agriculture	Direct Finance	Indirect Finance
Amritsar	19470411	12474419	6995992
Barnala	4008905	3912172	96733
Bathinda	12107409	9990113	2117296
Fatehgarh Sahib	6354565	5787198	567367
Faridkot	7062958	5726596	1336362
Firozpur	25412214	21685747	3726467
Gurdaspur	19281808	17276521	2005287
Hoshiarpur	15805873	15163773	642100
Jalandhar	25908970	23690030	2218940
Kapurthala	12165174	11311443	853731
Ludhiana	40024927	35055376	4969551
Mansa	12643841	5502204	652939
Moga	13223519	12493167	730352
Patiala	29052513	23943930	5108583
Rupnagar	7557093	5480471	2076622
Sangrur	23144762	20810735	2334027
S.A.S. Nagar	8873124	2742209	6130915
S.B.S. Nagar	6522794	6307490	215304
Shri Muktsar Sahib	8833337	7700619	1132718
Tarn Taran	8223311	7790356	432955

Source: Statistical Abstract of Punjab (2013)

CONCLUSION

In India, credit plays a considerable role in promoting modern technologies and private investments on the farms by making available sufficient funds for the agriculture sector as the large proportion of population depends on this sector. The study concluded that even though the institutional credit for agriculture has increased rapidly in recent years in Punjab, it still lacks behind the productive needs of the Punjab farmers. Farmers have to depend on non-institutional sources to meet part of their productive as well as un-productive requirements. Punjab economy that once was known as food bowl of the country and the wealthiest state fell on bad days characterized by agrarian misery. Indebtedness, especially

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from informal lenders had a contributory role in this severe situation. Although the institutional agencies has increased the credit facilities to farmers but still they have to depend upon non-institutional credit as there are many paper formalities and gap between the date of applying the loan and its disbursement. So, special schemes should be introduced by institutional banks that will prevent the farmers from money lenders. The role of the state government is very important for distribution of direct finance, not merely because agriculture is a state subject, but also because it is important that the remedial measures be converted into more efficient contributions through proper execution.

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