



# GROWTH OF GROUND LEVEL CREDIT FLOW FOR AGRICULTURE IN PUNJAB

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**Abstract:** Institutions through which agriculture credit can be availed include banks as well as some other financial institutions. The farmers got the flexibility of approaching to the agency of their choice and the major credit needs of the farmers were met by institutional resources. The main objective of the paper was to study the ground level credit flow for agriculture in Punjab. It also analyses the growth of ground level agriculture credit flow in the state during the study period. It was found that the growth of production credit, term loan and total agriculture credit was fluctuating during the study period.

Key Words: agriculture, production, credit.

## INTRODUCTION

In order to meet the capital investment needs, the credit plays an important role and the institutional credit is crucial requirement in order to achieve the required rate of growth in agriculture. The institutional credit enables the farmers to acquire the required capital for procuring the requisite resources. The short-term credit provides farmers capital for purchase of inputs and other services whereas investment purpose is served by long term credit. Agriculture credit requirements of the farmers can be broadly bifurcated into time based requirement and purpose based requirement. Time based credit requirements of the farmers can be classified into short term, medium and long term. Short term loans are required by the farmers in order to finance the expenditure incurred on the purchase of seeds, fertilizers, pesticides, feeds and fodder of livestock, marketing of agriculture produce, payment of wages to labour. Medium term loans can be taken for purchase of cattle, small agricultural implements, repairs and construction of irrigation wells etc. Long term loans are obtained for infrastructure development, heavy investments and permanent improvement such as purchase of land, purchase of large agriculture machinery like tractors, harvesters etc. Further, on the basis of purpose loans can be required for productive, non-productive purposes and even for consumption needs. All kinds of agriculture and allied activities come under the preview of production loans which can be taken to buy

inputs, seeds, fertilizers, manures, livestock, agricultural implements, marketing of agriculture produce, permanent improvements on land etc.

## REVIEW OF LITERATURE

Balishter and Singh (1978) attempted to estimate the credit requirements of the farmers and check the sufficiency of institutional agriculture finance in District Agra of Uttar Pradesh during the period of 1976-77. A sample of 55 farmers comprising small, medium and large farmers were selected through personal interview and questionnaire. It was observed that small farmers require more production credit while the large farmers need investment credit. About 97 per cent of credit was supplied by commercial banks and rest was by co-operatives. The availability of credit was more for large farm holdings as compared to medium and small holdings; which indicates that banks emphasized on financing investment needs ignoring the assistance required to meet current production needs. It was suggested that immediate and sufficient efforts need to be taken to provide adequate credit to small farmers.

Gulati et al. (2002) intended to explore the defaults and policy options of institutional credit to agriculture in India. The paper analyzed the behaviour of deposits, loan outstanding and overdue in co-operatives banks, commercial banks and regional rural banks from 1980 onwards. It was revealed that deposits and loan outstanding had increased to great extent in rural areas but at the same time overdue were also increased manifold. The factors responsible for overdues found to be natural calamities, inadequate income generation, high transaction costs, inappropriate financial policies, poor working of the lending institutions, improper follow up of prudential norms and provisioning of non-performing assets. The measures of government for re-capitalization of regional rural banks, liberalization in the interest rates, increase in commercial freedom of the banks and credit flows to the rural areas, development of local area banks was considered as an effective step towards speedy loan delivery and avoidance of defaults and it enabled commercial banks and regional rural banks to rejuvenate their position. It was suggested that before launching any scheme a pilot project in a selected area should be taken to access the operational efficiency of the model.

Mishra and Samant (2006) studied the utilization and efficiency of credit in agriculture in Banki block of Cuttack district. The two stage random sampling method was used and villages were considered primary units and households as secondary units. Data was collected by using survey, case methods and personal interviews. For the analysis of the data multiple regression, simple correlation and cobb-douglas model was used. It was revealed that use of credit for unproductive purposes was 24.3 per cent and misutilization was more in short term credit than long term credit. The institutional credit was 77.48 per cent of the total and role of co-operatives was 45.71 per cent. It was also revealed that the large farms were benefited more from institutional credit than small and medium farmers.

Golait (2007) attempted to analyze the issues in agriculture credit in India. It was found that the agriculture credit was inadequate and expensive as well as inaccessible to the lower strata of the farming community. It was found that high transaction costs, structural deficiencies in the rural credit delivery system, issues relating to credit worthiness, and low volume of loans with associated higher risks were found to be major problem in the flow of agriculture credit. The initiatives of government in the form of self help groups bank linkage programme, kisan credit card and micro finance were an innovation leveraging models on community-based structures and existing banking institutions but their outreach should be up scaled to higher levels to cover all the eligible needy by creating greater awareness. It was recommended to enhance the concerted efforts to make credit availability for critical infrastructural areas alongside exploring new innovations in product designs and methods.

Sidhu et al. (2008) examined the contribution of institutional credit towards agriculture growth and estimated the demand for production credit and examined whether indebtedness was associated with lack of adequate availability of institutional funds or its over-supply in the state of Punjab for the period 1981-82 to 2003-04. It was found that there was no growth in the production and investment institutional credit during 1984-85 to 1993-94. The supply of production credit increased more than double during 2000-01 to 2003-04, while that of investment credit increased by about 50 per cent only. The association of variable inputs with production credit disbursement was found to be very high and significant. Due to current policy of enhancing flow of agricultural credit in recent years, the demand-supply gap in the

institutional agricultural credit had changed. In 1995-96 the demand exceeded supply by 49 per cent but in the year 2005-06 the supply was found to exceed demand by 122 per cent. It was suggested that in each region demand for agriculture credit is different due to varied crop patterns, current inputs and capital requirements. So, before placing policy framework the demand for agriculture should be assessed instead of increasing the credit supply uniformly in all the states of the country.

**OBJECTIVES OF THE STUDY:** The main objective was to study the growth of ground level credit flow for agriculture in Punjab.

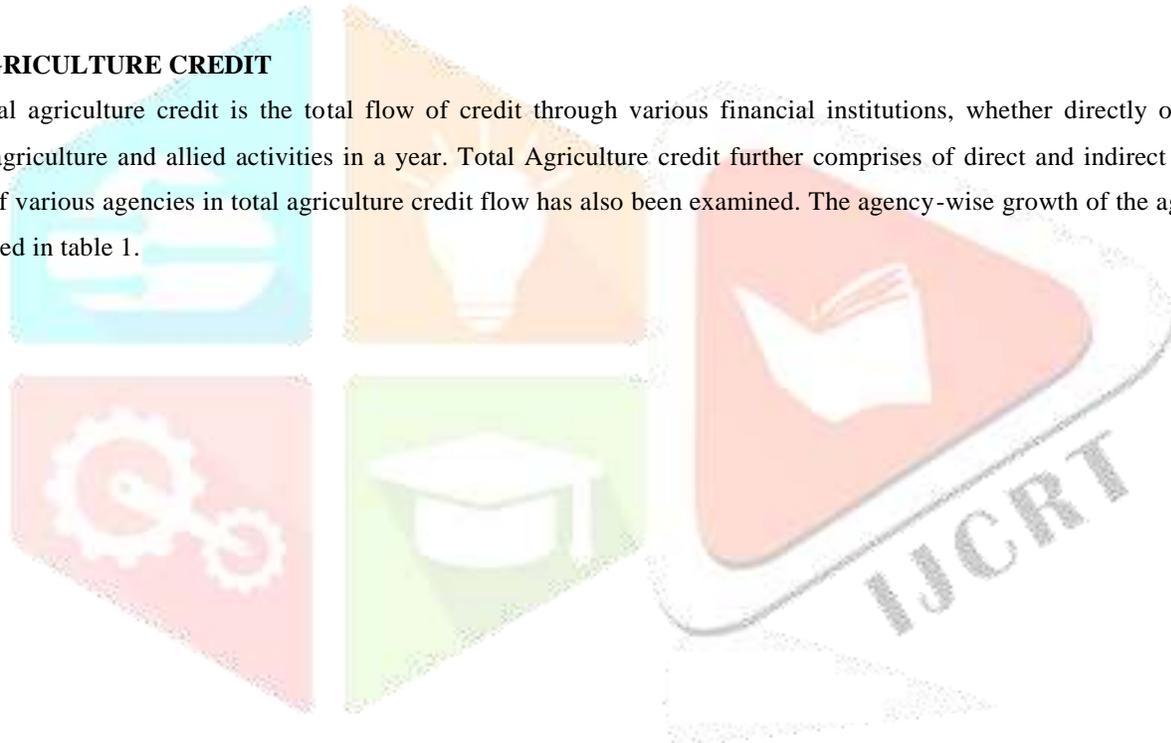
### RESEARCH METHODOLOGY

For the purpose of the study, the growth of credit flow to agriculture has been examined in the terms of total agriculture credit, production credit and term loan. Further, the agency-wise analysis has been done for assessing the ground level credit flow to agriculture. The data has been collected for the years 2003-04 to 2014-15. The secondary data has been collected from the agenda meetings of Punjab State Level Bankers Committee. The analysis has been done by using mean, coefficient of variation and exponential growth rate. The data has been presented in the form of tables and explained thereof.

### ANALYSIS

#### TOTAL AGRICULTURE CREDIT

Total agriculture credit is the total flow of credit through various financial institutions, whether directly or indirectly for the purpose of agriculture and allied activities in a year. Total Agriculture credit further comprises of direct and indirect credit. Further, the proportion of various agencies in total agriculture credit flow has also been examined. The agency-wise growth of the agriculture credit has been presented in table 1.



**Table 1**  
**Growth of Total Agriculture Credit in Punjab**  
**(Amount Rs. in lac)**

Year	Commercial Banks	Proportion in Total (%)	RRBs	Proportion in Total (%)	Co-operative Banks	Proportion in Total (%)	Total
2003-04	395246	48.41	29266	3.58	350706	42.96	816371
2004-05	615885	54.39	41843	3.70	427731	37.77	1132339
	(55.82) <sup>a</sup>		(42.97) <sup>a</sup>		(21.96) <sup>a</sup>		(38.70) <sup>a</sup>
2005-06	915489	58.65	55934	3.58	546441	35.01	1560883
	(48.65) <sup>a</sup>		(33.68) <sup>a</sup>		(27.75) <sup>a</sup>		(37.85) <sup>a</sup>
2006-07	1160754	60.51	71751	3.74	656666	34.23	1918162
	(26.79) <sup>a</sup>		(28.28) <sup>a</sup>		(20.17) <sup>a</sup>		(22.89) <sup>a</sup>
2007-08	1181555	57.03	89988	4.34	780305	37.66	2071772
	(1.79) <sup>a</sup>		(25.42) <sup>a</sup>		(18.83) <sup>a</sup>		(8.01) <sup>a</sup>
2008-09	1405232	58.09	125808	5.20	863977	35.71	2419177
	(18.93) <sup>a</sup>		(39.81) <sup>a</sup>		(10.72) <sup>a</sup>		(16.77) <sup>a</sup>
2009-10	1725932	58.60	162052	5.50	1024757	34.79	2945136
	(22.82) <sup>a</sup>		(28.81) <sup>a</sup>		(18.61) <sup>a</sup>		(21.74) <sup>a</sup>
2010-11	1961677	58.58	199631	5.96	1156244	34.53	3348619
	(13.66) <sup>a</sup>		(23.19) <sup>a</sup>		(12.83) <sup>a</sup>		(13.70) <sup>a</sup>
2011-12	2550775	62.59	264785	6.50	1224469	30.05	4075356
	(30.03) <sup>a</sup>		(32.64) <sup>a</sup>		(5.90) <sup>a</sup>		(21.70) <sup>a</sup>
2012-13	3201875	62.44	423909	8.27	1453616	28.35	5128211
	(25.53) <sup>a</sup>		(60.10) <sup>a</sup>		(18.71) <sup>a</sup>		(25.83) <sup>a</sup>
2013-14	4911210	73.11	532112	7.92	1629049	24.25	6717883
	(53.39) <sup>a</sup>		(25.53) <sup>a</sup>		(12.07) <sup>a</sup>		(31.00) <sup>a</sup>
2014-15	6393242	78.04	628647	7.67	1707249	20.84	8192440
	(30.18) <sup>a</sup>		(18.14) <sup>a</sup>		(4.80) <sup>a</sup>		(21.95) <sup>a</sup>
MEAN	2201512.67	60.87	218810.5	5.50	926578.33	33.01	3360529.08
EGR (%)	24.96	-	32.26	-	15.32	-	21.26

**Note:** Figures given in the parenthesis <sup>a</sup> show the growth rate.

Table 1 shows that the total agriculture credit was Rs. 816371 lac in the year 2003-04 which increased to Rs. 8192440 lac and registered a growth rate of 21.26 per cent. The annual growth rate was the highest (38.70%) for the year 2004-05 during the period of study.

The growth rate of regional rural banks (32.26%) was the highest followed by commercial banks (24.96%) and co-operative banks (15.32%) during the period of 2003-04 to 2014-15. The agriculture credit of commercial banks increased from Rs. 395246 lac in the year 2003-04 to Rs. 6393242 lac in the year 2014-15. The proportion of commercial banks in total agriculture credit increased from 48.41 per cent in the year 2003-04 to 78.04 per cent in the year 2014-15. However, the annual growth rate of commercial banks was the highest (55.82%) for the year 2004-05. The agriculture credit of regional rural banks increased from Rs. 29266 lac to Rs. 628647 lac in the year 2014-15. The proportion of regional rural banks in total agriculture credit increased from 3.58 per cent in the year 2003-04 to 7.67 per cent in the year 2014-15. The annual growth rate for regional rural banks was the highest (60.10%) in the year 2012-13. The agriculture credit by co-operative banks was Rs. 350706 lac in the year 2003-04 which increased to Rs. 1707249 lac in the year 2014-15. The annual growth rate for co-operative agriculture credit was the highest (27.75%) in the year 2005-06. The proportion of co-operative banks in total agriculture credit decreased from 42.96 per cent in the year 2003-04 to 20.84 per cent in the year 2014-15. Further, the proportion of commercial banks (60.87%) in the total agriculture credit was the highest followed by co-operative banks (33.01%) and regional rural banks (5.50%) throughout the period of study. Thus, the agriculture credit grew over the period of time. The agriculture credit by various agencies also witnessed growth during the study period.

### **PRODUCTION CREDIT**

Production credit is the financial assistance which is required to meet the expenses for raising the crops. The credit can be utilized in buying seeds, fertilizers and pesticides, fuel expenses, labour expenses, payment of bills and for irrigation sources etc. The growth of production credit by various agencies for the year 2003-04 to 2014-15 has been presented in table 2.

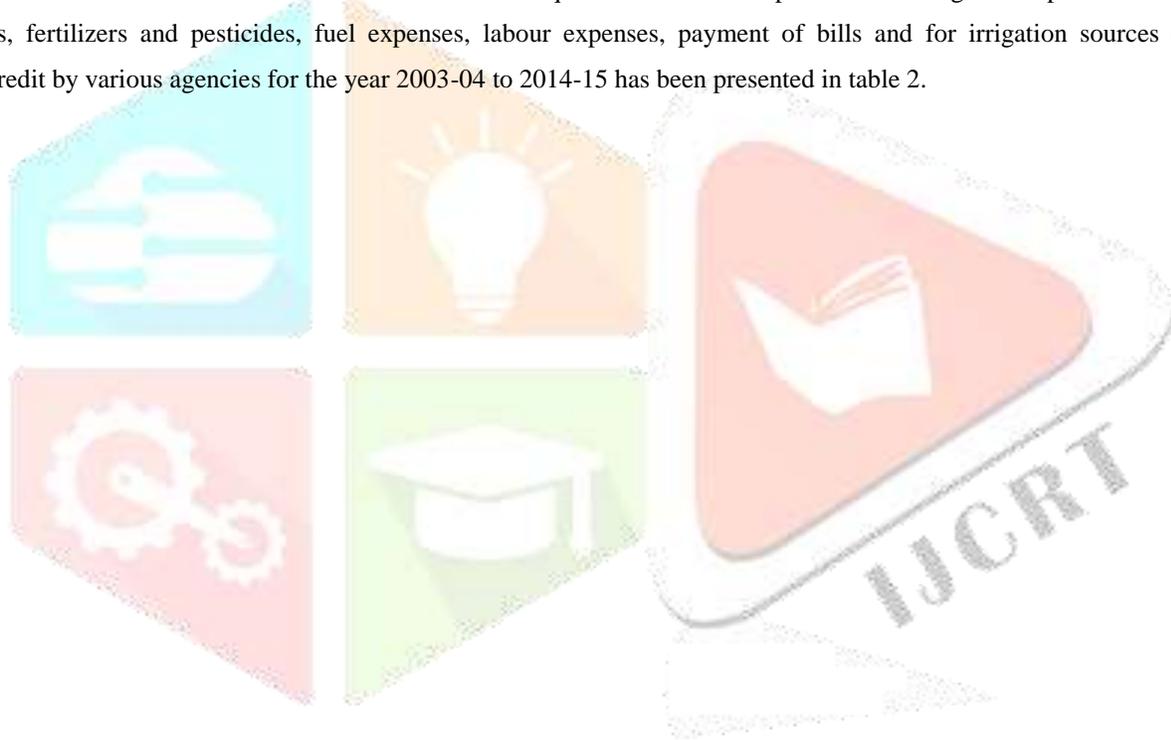


Table 2

**Growth of Production Credit in Punjab**  
(Amount Rs. in lac)

Year	Commercial Banks	Proportion in Total (%)	RRBs	Proportion in Total (%)	Co-operative Banks	Proportion in Total (%)	Total
2003-04	318713	46.39	28502	4.15	336496	48.98	686997
2004-05	477118	52.01	37097	4.04	402636	43.89	917396
	(49.70) <sup>a</sup>		(30.16) <sup>a</sup>		(19.66) <sup>a</sup>		(33.54) <sup>a</sup>
2005-06	649605	52.81	46938	3.82	526687	42.82	1229992
	(36.15) <sup>a</sup>		(26.53) <sup>a</sup>		(30.81) <sup>a</sup>		(34.07) <sup>a</sup>
2006-07	784877	53.47	61001	4.16	622012	42.37	1467890
	(20.82) <sup>a</sup>		(29.96) <sup>a</sup>		(18.10) <sup>a</sup>		(19.34) <sup>a</sup>
2007-08	953820	53.68	78097	4.40	739874	41.64	1776848
	(21.52) <sup>a</sup>		(28.03) <sup>a</sup>		(18.95) <sup>a</sup>		(21.05) <sup>a</sup>
2008-09	1082868	40.22	106208	3.94	748261	27.79	2692594
	(13.53) <sup>a</sup>		(35.99) <sup>a</sup>		(1.13) <sup>a</sup>		(51.05) <sup>a</sup>
2009-10	1388748	39.60	98915	2.82	998910	28.48	3507139
	(28.85) <sup>a</sup>		(-6.87) <sup>a</sup>		(33.50) <sup>a</sup>		(30.25) <sup>a</sup>
2010-11	1526019	55.71	166996	6.10	1038876	37.93	2739013
	(9.88) <sup>a</sup>		(68.83) <sup>a</sup>		(4.00) <sup>a</sup>		(-21.90) <sup>a</sup>
2011-12	2103553	59.98	242621	6.92	1149179	32.77	3506940
	(37.85) <sup>a</sup>		(45.29) <sup>a</sup>		(10.62) <sup>a</sup>		(28.04) <sup>a</sup>
2012-13	2622652	61.18	375064	8.75	1289049	30.07	4286765
	(24.68) <sup>a</sup>		(54.59) <sup>a</sup>		(12.17) <sup>a</sup>		(22.24) <sup>a</sup>
2013-14	3274504	77.10	435221	10.25	962692	22.67	4247130
	(24.85) <sup>a</sup>		(16.04) <sup>a</sup>		(-25.32) <sup>a</sup>		(-.92) <sup>a</sup>
2014-15	4900024	77.14	582452	9.17	1422024	22.39	6352413
	(49.64) <sup>a</sup>		(33.83) <sup>a</sup>		(47.71) <sup>a</sup>		(49.57) <sup>a</sup>
MEAN	1673541.75	55.77	188259.33	5.71	853058	35.15	2784259.75
EGR (%)	24.97	-	31.82	-	12.76	-	20.32

**Note:** Figures given in the parenthesis <sup>a</sup> show the annual growth rate.

Table 2 explains that the total production credit in the state of Punjab was Rs. 686997 lac in the year 2003-04, which increased to Rs. 6352413 lac in the year 2014-15 and registered a growth rate of 20.32 per cent during the period. The annual growth rate of total production credit grew the highest (51.05%) in the year 2008-09. The growth rate of production credit was the highest in regional rural banks (31.82%) followed by commercial banks (24.97%) and co-operative banks (12.76%). The production credit of commercial banks increased from Rs. 318713 lac in the year 2003-04 to Rs. 4900024 lac in the year 2014-15. The proportion of commercial banks in total production credit increased from 46.39 per cent in the year 2003-04 to 77.14 per cent in the year 2014-15. The annual growth rate of commercial banks was the highest (49.64%) in the year 2014-15. The production credit of regional rural banks increased from Rs. 28502 lac in the year 2003-04 to Rs. 582452 lac in the year 2014-15. The proportion of regional rural banks in the total production credit increased from 4.15 per cent in the year 2003-04 to 9.17 per cent in the year 2014-15. The annual growth of regional rural banks was the highest (68.83%) in the year 2010-11. The production credit of co-operative banks increased from Rs. 336496 lac in the year 2003-04 to Rs. 14220204 lac in the year 2014-15 and its annual growth rate was the highest (47.71%) in the year 2014-15. The proportion of co-operative banks in the total production credit decreased from 48.98 per cent in the year 2003-04 to 22.39 per cent in the year 2014-15. The proportion of commercial banks (55.77%) in total production credit was higher than that of co-operative banks (35.15%) and regional rural banks (5.71%). Thus, the total production credit grew over the study period and the production credit by various agencies also showed progress.

#### **GROUND LEVEL CREDIT FLOW FOR AGRICULTURE IN PUNJAB**

Production credit is the major part of the agricultural credit. Production credit is basically crop loan used to raise the crops. It is a short-term loan given by the banks for purchasing of inputs required to produce crops. Term loans are long term loans given for the activities related to agriculture like investment credit, farm mechanization, construction of minors, for buying tractors and harvesters etc. The analyses of the share of production credit in the total agriculture credit for the years 2003-04 to 2014-15 has been shown in table 3.

**Table 3**  
**Ground Level Credit Flow for Agriculture in Punjab**  
 (Amount Rs. in lac)

Year	Production Credit	Production Credit as % to total Agriculture Credit	Term Loan	Term Loan % to total Agriculture Credit	Total Agriculture credit
2003-04	686997	84.15	129374	15.85	816371
2004-05	917396 (33.54) <sup>a</sup>	81.02	214943 (66.14)	18.98	1132339 (38.70) <sup>a</sup>
2005-06	1229992 (34.07) <sup>a</sup>	78.80	330891 (53.94)	21.2	1560883 (37.85) <sup>a</sup>
2006-07	1467890 (19.34) <sup>a</sup>	76.53	450272 (36.08)	23.47	1918162 (22.89) <sup>a</sup>
2007-08	1776848 (21.05) <sup>a</sup>	85.76	294924 (-34.50)	14.24	2071772 (8.01) <sup>a</sup>
2008-09	2692594 (51.05) <sup>a</sup>	111.30	-	-	2419177 (16.77) <sup>a</sup>
2009-10	3507139 (30.25) <sup>a</sup>	119.08	-	-	2945136 (21.74) <sup>a</sup>
2010-11	2739013 (-21.90) <sup>a</sup>	81.80	609606	18.2	3348619 (13.70) <sup>a</sup>
2011-12	3506940 (28.04) <sup>a</sup>	86.05	568416 (-6.76)	13.95	4075356 (21.70) <sup>a</sup>
2012-13	4286765 (22.24) <sup>a</sup>	86.76	841446 (48.03)	13.24	5128211 (25.83) <sup>a</sup>
2013-14	4247130 (-.92) <sup>a</sup>	63.22	2470753 (193.63)	36.78	6717883 (31.00) <sup>a</sup>
2014-15	6352413 (49.57) <sup>a</sup>	77.54	1840027 (-25.53)	22.46	8192440 (21.95) <sup>a</sup>
MEAN	2784259.75	86	645887.66	19.84	3360529.08
C.V. (%)	60.52	-	117.63	-	65.27
EGR (%)	20.32	-	-98.76	-	21.26

**Note:** Figures given in the parenthesis 'a' show the annual growth rate.

Table 3 explains that the growth rate of total agriculture credit (21.26%) was higher than that of production credit (20.32%) and the growth rate of term loan was negative (-98.76%) during the study period. The total agriculture credit was Rs. 816371 lac in the year 2003-04 which increased to Rs. 8192440 lac in the year 2014-15. The annual growth of total agriculture credit was the highest in the year 2004-05 (38.70%) and 2005-06 (37.85%). The production credit increased from Rs. 686997 lac in the year 2003-04 to Rs. 6352413 lac in the year 2014-15. The annual growth of production credit was the highest in the year 2008-09 (51.05%) and 2014-15 (49.57%) while it was negative in the year 2010-11 and 2013-14. The term loan increased from Rs. 129374 lac in the year 2003-04 to Rs. 1840027 lac in the year 2014-15. The annual growth rate of term loan was the highest in the year 2013-14 (193.63%). The proportion of production credit was 84.15 per cent of total agriculture credit in the year 2003-04 which decreased to 77.54 per cent in the year 2014-2015 and it was the highest in the year 2008-09 and 2009-10. In the years 2008-09 and 2009-10, the production credit was more than agriculture credit. This may be due to the reason that production credit includes the sanctioned KCC limits. The proportion of term loan in the total agriculture credit was 15.85 per cent in the year 2003-04 and increased to 22.46 per cent in the year 2014-15. The growth of production credit, term loan and total agriculture credit was fluctuating during the study period. However, the production credit showed more consistency (60.52) as compared to that of term loan (117.63) and the total agriculture credit (65.27) during the period. It can be drawn that the production credit as well as total agriculture credit was growing throughout the period under study. Production credit directly related to the expenses borne to raise the crops which further depend upon weather, use of pesticides, calamities, inflation and other numerous variables.

## CONCLUSION

Thus, the agriculture credit and production credit grew over the period of time. The agriculture credit and production credit by various agencies also witnessed growth during the study period. However, the production credit showed more consistency as compared to that of term loan and the total agriculture credit during the period.

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