

THE BANKING SECTOR IMPACT ON THE DEVELOPMENT OF INDIA'S AGRICULTURE, WITH SPECIAL REFERENCE TO THE MYSORE DISTRICT

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The banking sector has played a pivotal role in the development of agriculture in India, particularly in the Mysore district. It has provided significant financial support, credit facilities, and a range of banking services to farmers and agricultural businesses, contributing to the growth of the agricultural sector. The purpose of this article is to provide an overview of the impact that the banking sector has had on agriculture in India, with a special emphasis on the Mysore district.

The banking sector has undergone significant changes over the past few decades, including a shift in the types of organizations that dominate the industry. Banks have expanded their operations and now have a national presence. This study examines the trends and developments in the Indian banking sector. Although the contribution of agriculture to India's economy has decreased to less than 15%, the sector remains crucial to India's society and economy. Firstly, nearly three-quarters of India's families depend on rural incomes. Secondly, most of India's poor (about 770 million people, or 70%) live in rural areas. Thirdly, India's food security depends on producing cereal crops as well as increasing the production of fruits, vegetables, and milk to meet the demands of a growing population with rising incomes. To achieve these goals, a productive, competitive, diversified, and sustainable agricultural sector must emerge at an accelerated pace.

Key Words: Banking, Financial Support, Credit facilities, Economy, Agriculture, Rural, Population

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Introduction

The banking industry plays a crucial role in a country's financial system as it is the primary source of credit for various economic sectors. Bank credit for agriculture refers to the financial institutions' credit directed towards agricultural investments. This type of credit enables farmers to purchase and use new agricultural technologies, which in turn promotes the growth of advanced technology enterprises in the sector.

Agriculture is an essential contributor to the growth of GDP and the Indian economy. In India, banks and financial institutions play a crucial role in lending to the agriculture sector. However, their role goes beyond just lending, as they provide various services to farmers, especially small and marginal ones. To help farmers understand the financial support provided by banks and the different government-sponsored schemes, banks have established credit counseling Centers. These centers help farmers understand the benefits available to them under these schemes. Additionally, banks implement various government-sponsored schemes for small and marginal farmers, such as the Kisan Credit Card Scheme and Pradhan Mantri Fasal Bima Yojana (PMFBY). There is also a Standing Committee in IBA that deliberates on issues faced by banks in lending to agriculture and allied activities. The committee carries forward its views on such matters to the Government of India, the Reserve Bank of India, and other concerned agencies for resolving the issues faced by the farming community.

According to Abdulai and Bahahudeen (2013), 51.2% of commercial banks' shares are held by the governments in the CEMAC region. The agricultural banks provide agricultural credits to boost agricultural enterprises through cooperatives and invest in the transportation of agricultural products. Agricultural credit plays a vital role in the farm sector development. The farmers require money to keep. The agricultural activity going, say for levelling the land, provide irrigation facilities, purchase of seeds, purchase of fertilizers and towards labour payments. Farmers get loans for agriculture purposes from many sources in the villages like local money lenders, cooperative societies, regional rural banks and other commercial banks. As the banks are governed by the rules and policies framed by the Government, RBI and NABARD in agricultural lending, these are the most trusted source of finance to the farmers in the villages.

Literature review

Parivash and Torkamani (2008) examined the impact of financial markets on agriculture growth in case of Iran using VAR model and Granger causality tests. Their results show that financial markets development has a positive impact on agriculture growth.

Yazdani (2008) probed the cointegration and causal relationship between financial development, capital stock, real interest, international trade and agriculture growth. His findings confirm that variables are cointegrated for a long run relationship.

Sharif et al. (2009) stipulated that Iranian financial markets play their role to stimulate agriculture growth but still financial reforms are needed to improve the performance of financial sector. A developed financial system boosts agriculture economic activity which contributes to the overall economic growth.

Anthony (2010) explored the role of agriculture credit, interest rate and exchange rate for Nigerian economy. The results indicate that agriculture credit improves the efficiency of agriculture sector and agriculture sector promotes economic growth.

District Overview

Mysuru district is located in the southern part of the Deccan Peninsula and is the southernmost district of Karnataka State in India. The district covers an area of 6,854 km², making it the sixth largest district in Karnataka. Mysuru city is the district headquarters and is spread across 7 taluks - Mysuru, Tirumakudalu Narasipura, Nanjangud, Heggada Devana Kote, Hunsur, Piriapatna and Krishna Raja Nagara. The district is mainly drained by the Cauvery River, along with Kabini and Lakshmanathirtha tributaries. Irrigation by canals is a common feature of the district. The climate is moderate throughout the year, making it conducive for horticultural crops to thrive. The district is the second richest district in forest wealth next to Uttara Kannada in the state. Small holdings are the predominant landholdings in the district. The livestock wealth of the district is considerable, and progress has been made in the development of poultry rearing, dairying, and inland pisciculture. With respect to the development and utilization of irrigational facilities, exploitation of forest wealth, and sericulture potentiality, Mysuru district is considered one of the state's prosperous districts. The banking sector in Mysore has played a crucial role in supporting the agricultural sector. It has provided credit facilities to farmers for crop cultivation, land development, and the purchase of agricultural machinery. The banking sector has also established cooperative

banks that cater specifically to the needs of farmers and agricultural businesses, providing them with access to credit facilities and other banking services. It has also extended credit facilities for land development, irrigation, and other agricultural activities, which have contributed to the growth of the agricultural sector. Farmers and agricultural businesses have access to various banking services such as savings and deposit accounts, thereby promoting financial inclusion.

Crops cultivated in Mysuru district

Category	Major crops
Cereals	Ragi, Paddy, Maize, Jowar, Bajra and Wheat
Pulses	Cowpea, Green gram, Horse gram, Black Gram, Bengal Gram and Tur
Oilseeds	Sunflower, Groundnut, Sesamum and Castor
Commercial crops	Sugarcane, Cotton and Tobacco
Plantation crops	Coconut
Spices	Ginger and Turmeric
Vegetables	Tomato, Brinjal and Chilli
Flowers	Jasmine, Crossandra, Chrysanthemum and Marigold
Fruits	Banana, Mango, Guava and Sapota

Problems in Rural Credit System

There is a significant lack of access to credit for rural families. Local moneylenders are still the primary source of credit for weaker sections, as institutional agencies are not reaching them effectively. Providing credit to the 25 million non-farm informal sector enterprises in rural areas is still a challenge for rural financial institutions (RFIs). Although the microfinance scheme has expanded, it has not reached around 70% of the poor. The microfinance sub-sector has not explicitly targeted the agricultural sector, and RFIs have bypassed tenants and sharecroppers. More than 60% of farm families are yet to receive Kisan credit cards. RFIs charge farmers considerably higher interest rates than financial institutions charge urban consumers. This is beyond the means of small or marginal farm owners, who are nonviable or viable at the margin, and the self-employed in the informal sector. Although the Indian Banks Association and the government reached an understanding that crop loans would carry single-digit interest in the presence of the Reserve Bank of India (RBI), banks were reportedly charging 12% to 14% interest.

Role of Banking in Agriculture

In a changing environment, banks are diversifying their role in the agriculture sector in order to get revenue from their significant contribution to agriculture. Some of the new roles that banks have adopted are: Marketing, training and consultancy, insurance and financing for infrastructure via private-public participation.

Kisan Credit Card Scheme

The Kisan Credit Card scheme was first introduced in India by Andhra Bank in 1998 to provide short-term credit access to farmers and simplify the credit mechanism to ensure timely disbursement of credit. The scheme is issued by commercial banks, Regional Rural Banks (RRBs), and cooperative banks. As of September 2002, 271.81 lakh Kisan credit cards had been issued (See Table 1), which is considered a significant achievement. However, rural financial institutions are not integrated well with agriculture support systems, such as R&D, Extension, supply chain, and processing, and their credit policy is too crop-centric. As a result, non-crops and other high-value activities are not given proper attention, and only traditional crops have credit access. Most banks give out only 15% or less of their total portfolio to the agri-sector as against the mandatory 18%. The Kisan credit card scheme was expected to improve the farmers' condition and decrease their dependence on moneylenders. In reality, farmers are more dependent on moneylenders due to the lack of proper implementation of policies laid down for their benefit and bureaucratic hurdles in obtaining credit from banks.

Insurance

Heavy reliance on monsoons makes Indian agriculture vulnerable to abrupt weather changes, leading to crop damage and financial difficulties for farmers. Alarming rates of farmer suicides in Andhra Pradesh and Maharashtra have become commonplace. However, microfinance and general insurance companies have introduced crop and weather policies to help poor farmers cope with these challenges. For instance, Basix, one of India's largest microfinance companies located in Hyderabad, launched the country's first rainfall insurance program in July 2003 in partnership with Krishna Bhima Samruddi Local Area Bank.

The impact of banking crisis in agriculture sector and farmers of rural India

Agriculture plays a critical role in India's rural economy. Therefore, rural credit or agricultural finance is essential for agricultural growth and development. Lending to related parties on preferential terms often results in significant loan losses. Examples of such incidents include Chile in 1981, Mexico in 1994, and Russia in 1998. During banking crises, nonperforming loans tend to surge, averaging around 25% of total loans, and sometimes as high as 75%. The increase in nonperforming loans partly reflects the tightening of prudential requirements in the aftermath of the crisis. In 2008, the Royal Bank of Scotland, which was nationalized, recorded the largest corporate loss of US\$34.9 billion. This event raises concerns about the overall quality of bank governance.

The credit lending pattern of banking sector and sources of agriculture credit.

Commercial banks play a crucial role in the development of the large agricultural sector in many countries. They provide loans to traders dealing in agricultural commodities and establish branches in rural areas to offer agricultural credit. Additionally, they also provide direct finance to farmers for various purposes such as marketing their produce, modernizing and mechanizing their farms, providing irrigation facilities, developing land, etc. Financial assistance is also provided for animal husbandry, dairy farming, sheep breeding, poultry farming, culture, and horticulture. The regional rural banks in India are responsible for providing financial assistance to small and marginal farmers, landless agricultural workers, artisans and petty shopkeepers in rural areas, under the supervision of commercial banks. Therefore, commercial banks cater to the credit requirements of all types of rural people.

The Agricultural Credit Department holds the responsibility of developing an institutional credit system for the agricultural sector in the country, as assigned by the Reserve Bank of India Act, 1934. This department was established along with the Reserve Bank in April 1935, with the primary objective of developing a cooperative credit movement in agricultural finance.

National Bank for Agriculture and Rural Development (NABARD)

NABARD, India's apex development bank, was established in 1982 under an Act of Parliament with the aim of promoting sustainable and equitable agriculture and rural development. Over the past four decades, this premier development financial institution has transformed the lives of people in Indian villages through various means such as agri-finance, infrastructure development, promotion of microfinance, and rural entrepreneurship through SHGs and JLGs. NABARD's interventions have played a crucial role in nation-building by providing financial and non-financial assistance, adopting innovative approaches, leveraging technology, and developing rural institutions.

Conclusion

Various levels of government, along with the Reserve Bank of India and NABARD, must implement necessary reforms in the banking sector to expand institutional credit facilities and achieve inclusive agricultural growth in all the remaining backward rural areas of the country. Financial development has a positive impact on agricultural growth, and the government must focus on increasing agricultural productivity by providing rural populations with access to financial resources at cheaper rates. This will help capitalize the agriculture sector and improve its contribution to overall economic growth. New financial reforms should be launched to encourage agri-based business enterprises, especially in the agriculture sector. Therefore, the government must pay attention to reducing the prices of agri-based products. Agriculture development and economic growth are interdependent. According to the World Bank, agriculture accounts for about 15% of India's Gross Domestic Product (GDP). The importance of long-term finance in agriculture today cannot be overstated. Due to rapid industrialization of agriculture in India, future prospects for agricultural financing are bright. Agricultural finance experts examine the financial aspects of India's farm industry to better understand and analyze their financial implications.

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