

IMPACT OF ECONOMIC REFORM ON THE DISPARITY IN THE DISTRIBUTION OF AGRICULTURAL CREDIT IN INDIA

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ABSTRACT

Agriculture plays a crucial role in the development of the Indian economy. It accounts for about 19 percent of GDP and about two thirds of the population is dependent on the sector. The importance of farm credit as a critical input to agriculture is reinforced by the unique role of Indian agriculture in the macroeconomic framework and its role in poverty alleviation. Recognizing the importance of agriculture sector in India's development, the Government and the Reserve Bank of India (RBI) have played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector. The structure of institutional credit to agriculture includes the cooperative societies, Scheduled commercial banks and Regional Rural banks. The co-operative societies had achieved significant growth in its credit to agriculture. The direct and indirect advances of cooperatives in India increased substantially and steadily from Rs.502 crores in 1969 to Rs.36682 crores in March 2004-2005. (Mohanan et al., 2002). After the nationalization of commercial banks, they were directed to lend more to agriculture. They opened more branches in the rural areas and non banking regions. The Reserve bank of India stipulated subsequent to nationalization that commercial bank should earmark at least 40 percent of their advances for the priority sectors, of which, 90 percent for agriculture and 10 percent for weaker section. (Nair,2002). In 1991-1992, the amount of loan issued by the co-operatives was Rs.3934 crore, whereas the scheduled commercial banks disbursed only Rs.2341 crore. The dominance of the co-operatives in the agricultural loan disbursement was retained till the year 2004-2005. In 2005-2006, the direct loan disbursement from the scheduled commercial banks was higher than the co-operative banks. The amount of direct agricultural advances from the scheduled commercial banks was Rs.45644 crore whereas it was Rs.35624 crore for cooperatives in 2005- 2006, the regional rural banks provided Rs.12816 crore in the same year.

The Eleventh Five year plan makes specific focus on the inclusive growth of the economy. It implies that the growth process that experienced over the years were not sufficiently inclusive of all. Although there had been substantial reduction of poverty over past few decades during the five year plans, the core content of the rural poverty remained intractable. In fact, last Ten Five year plan envisaged balanced regional development and equality and employment. But the growth of population and urban biased industrial development have left out the backward section

of population and the rural sector in general un-addressed. There are four specific areas suggested by the writers in order to enhance the process of inclusive growth. These areas are financial inclusion, small industry expansion, rural and agricultural diversification and development, decentralization of planning. Distribution of agricultural credit focused on financial inclusion. In India, 80 percentage of the farm holding are marginal and small. But they were not able to get adequate credit. Hence an attempt was made to assess the determinants of disparity in the distribution of agricultural credit.

The findings of the study showed that economic reform was statistically significant to determinant the disparity. The economic reform increased the disparity in the distribution of agriculture credit among farmer categories. The area under high yielding varieties was the next significant factor to determine the disparity in the distribution of agricultural credit. Hence the economic reform failed to provide the inclusive growth in agriculture.

KEY WORDS: Agriculture, GDP, nationalization.

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