



ROLE OF RBI ON AGRICULTURE SECTOR

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ABSTRACT

The Reserve Bank of India is the Central bank and the apex monetary institution of the country. It supervises, regulate, control and develop the monetary and financial system of the country. It's main function is to regulate the issue of bank notes and keeping of Reserve with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage. The RBI gave the direct and indirect financial substance to all the sector of the economy i.e. agriculture sector, industrial sector and service sector. Before 1982 the Reserve Bank of India directly supply, control and regulate the credit of agriculture sector through its National Agricultural Credit (Stabilization) Fund and National Agricultural Credit (Long Term Operation) Fund. But after 1982 the establishment of the National Bank for Agriculture and Rural Development (NABARD) the apex organization of agriculture credit take all matters with a respect to all relating to policy, planning and credit promotion of agriculture. The bank provide refinance to other bank for the development of agriculture and rural areas .It has taken over the refinancing function from the Reserve Bank of India with respect of State Co-Operative Banks and Regional Rural Banks . It has inherited its function from Reserve Bank of India i.e. perform the same function as are performed by the RBI.

Key word: NABARD, Agriculture Credit, Financial Assistance Credit Disbursed, RRB's, SCB's

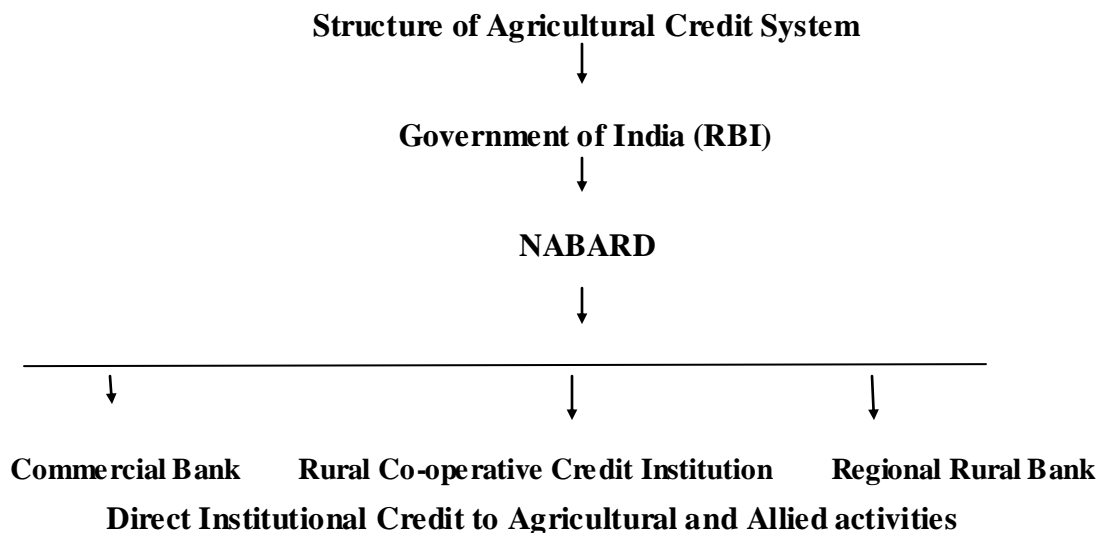
Introduction

Finance has been recognized as the life blood of all economic activities. Like all other producers, agriculturist also needs credit finance. The stimulating the tempo of agricultural production, an adequate and timely credit is most essential.

Generally in underdeveloped or developing countries farmers cannot expect their credit needs to come from saving. It is so because their income from farm operations is sufficient to provide minimum necessities of life. Therefore they have to rely upon outside finance. Credit is needed to adopt new advance technology resulting in ushering of green revolution. In short effective arrangements are needed to provide credit facilities so that agriculture may adopt better techniques of production and more contribution in GDP.

Agriculture has been transformed at a very fast rate during last few decades. Now it is not merely a way of life but now it has been commercialized. Growing crops and raising livestock for milk, meat, eggs etc. have been practiced by mankind .Now the farm practice have been improved to meet the growing demand and improving quality .Agriculture credit in a practical sense is a nucleus of the system of a farm operation. Adequate and timely credit to the farmers is vital and indispensable for the rehabilitation and progress of agriculturist.

In India agricultural credit are being advanced by different sources. The short term and medium term loan requirement are mostly met by the money lenders, co-operative societies and Government but the long term loan requirement by land development bank and NABARD. Sources of agriculture credit can be broadly classified into institutional and non institutional sources.



National Bank for Agricultural and Rural Development

NABARD has emerged as an apex refinancing institution for agricultural and rural credit in the country since 1982. NABARD gave the credit to agriculture sector through various agencies like Co-Operative Societies, Commercial Bank and Regional Rural Banks at a very low interest rate and in a much liberalized way, it increased in recent years.

NABARD providing innovation in regard to formulation of scheme, monitoring of implementation, evaluation of suitable supporting structure of all kind of agricultural activities. A Rural Infrastructure Development Fund (RIDF) was established in 1995-96.

The Reserve Bank of India being a Central Bank of the country does not provide direct finance to the farmers but it provide the facility of credit through NABARD . The Reserve Bank of India provides two type of financial assistance to farmers:--

1. Short term credit
2. Rediscounting facilities
3. NABARD has taken over the functions of the agricultural department of RBI and the Agricultural Refinance and Development Corporation (ARDC). The ARDC had been set up in July 1968 to meet the long term credit needs of the rural areas. It s main function are as follows:

1. NABARD provides short and long term credit to the state Co – Operative, land development banks and other institution approved by RBI.
2. It issue and sells bonds and debentures carrying interest and there will be guaranteed by the Central Government.
3. The bank undertakes inspection of Co –operative Societies and regional Rural Banks.

Objective of the study

The present study has the following objective:-

1. Impact of RBI, s policy on primary sector i.e. agriculture.
2. To analysis the effectiveness of the RBI, s policy and schemes on agriculture.
3. To find out the various sources of finance to agriculture.

Scope of the study

The present study covers the 10 years secondary data of banking finance to agriculture which commencing from 2005-06 to 2014 – 15 and especially the apex institution of agriculture credit i.e. NABARD.

Research Methodology

The present study is based on quantitative and qualitative secondary data to analysis the role of Reserve Bank of India’s policy on agriculture finance. The sources of the data have been taken from various browses i.e. National Sample Statistical organization, Reserve Bank of India Bulletin and RBI’s Report on currency and finance, to test the analytical performance of RBI on agriculture sector. The data are computed for 10 years from 2005 -06 to 2014 -15. Then the mean value of ‘t’ test of each data along with ANOVAs as required are calculated to know about the significant change in the credit financing to the agriculture sector .

The present study consists of three sections. The first section elaborates role of Reserve Bank of India and agriculture credit. Second section elaborates analytical view of agricultural credit finance through RBI by using some statistical measurement and the last section gives the conclusion and the suggestions on agricultural finance by the apex bank of India.

Section --I

The Reserve Bank of India and Agriculture Credit:

The RBI has been playing a very crucial role in the provision of agriculture finance in the country. It has taken a significant part in the growth of Co – Operative Societies and Regional Rural Bank through which it has been actively participating in agriculture finance. Different studies has been conducted to show a strong positive relationship between agricultural growth and availability of credit .

In the last few years the Indian economy has emerged as one of the fastest growing economy in the world. However the Indian economy with respect to the performance of the agriculture sector gaining in strength is well known. India has always been an agro based economy. Agriculture is the main sources of income and employment of Indian population. About 72 percent of population earns their livelihood from agricultural and allied sector .India is the world leader in production of milk and second largest producers of wheat and sugar.

Broadly Credit in agriculture sector may be divided into two parts; short term loan to meet input expenses and medium and long term loan for facilitate the development of fixed farm assets such as land. Need of finance for agriculture can be over emphasized where its productivity is still low due to financial constraints?

The Reserve Bank of India has taken a significant role in the growth of Co-operative societies through which it has been actively participating in agricultural finance.

For agriculture purpose the RBI has a separate Agricultural Credit Development, which was constituted under section 54 of the Reserve Bank of India Act 1934. Statutory functions of this department are:-

- (1) Maintaining an expert staff for studying all questions of agricultural credit.
- (2) Provide expert advice to the Central Government, State Government, State Co-operative Banks and other banking organizations.
- (3) Co –coordinating the operations of the bank in connection with agricultural credit.

The mechanism of the Reserve Bank for refinancing rural credit is the same as it is in relation the other banks .Primary societies may borrow from Central I Co –operative Bank and later may borrow from the apex or the State co-operative Bank which in its

turn may get accommodation facilities from the Reserve Bank on the basis of the papers created by the borrowing of primary societies from a Central Co-operatives Societies accepted later by it.

Funds of RBI

RBI has created two funds for agricultural as recommended by Rural Survey Committee as

(1) **National Agricultural Credit (Stabilization Fund):-** National Agricultural Credit (Stabilization Fund) which was established in 1956 with a capital of rs. 1 (One) core for medium term purposes. The banks have been contributing rs. 1 crore every year to this fund since its inception .But in view of the widespread scarcity. Contribution and the likely consequent demand on it, it contributed Rs. 6 Crore to this fund on June 30, 1966. One important development that took place during recent past was that is sanctioned loans from it for the first time since its inception.

(2) **National Agricultural Credit (Long Term Operation Fund):-**

National Agricultural Credit (Long Term Operation Fund) was set up with a capital of Rs. 5 crore . The total amount standing to the credit of this fund as on 30 June 1966 was 115 crores. The banks made an enhanced contribution of Rs. 15 crore to this fund in 1967 as compared to rs. 14 crores in the previous year.

With a view to accelerate the pace of implementation of the “Crop Loan System “the Reserve Bank published a manual on short term and medium term loans for agricultural purposes in June 1966 .The policy of the bank has been provided agricultural finance mainly through co-operative societies as recommended by the Rural Credit Survey and in conformity with the policy laid down in our five year plans.

Section -II

(Rs. Billion)

Years	Co-operative Societies x		State Co-operative Banks		Regional Rural Banks	
2005-06	125	15625	350	122500	25	625
06-07	132	17424	500	250000	32	1024
07-08	103	10609	452	204304	35	1225
08-09	108	11664	529	279841	36	1296

09-10	65	4225	636	404496	41	1681
10-11	91	8281	767	588289	54	2916
11-12	61	3721	950	902500	60	3600
12-13	86	7396	---	-----	69	4761
13-14	64	4096	----	-----	77	5929
14-15	---	-----	----	-----	131	17161
	Total =835	83041	4184	2751930	560	40218

(Results and calculation of the data totally based on statically tools and technique)

$$C.F = (835+4184+560)2$$

From the ANOVA , it is clear that computed value of "F" ratio is 61.18 while the tabled value of "F" distribution at 5% level of significance on degree of freedom (V1-02 , V2-23) is 3.42 which is much less then the computed value. Hence it is apparent that credit financing by these three different sources having significant variation.

National Bank for Agriculture and Rural Development –Financial Assistance

(Rs. Billion)

Years	Disbursements	(X-X)	(X-X)2
2005-06	85.77	39.88	1590.4
06-07	86.22	39.43	1554.72
07-08	87.95	37.70	1421.29
08-09	90.46	35.19	1238.33
09-10	105.35	20.30	412.09
10-11	120.09	5.56	30.91
11-12	134.86	9.21	84.82
12-13	154.22	28.57	816.24
13-14	176.74	51.09	2610.18
14-15	214.86	89.21	7958.42
Total	1256.52	356.14	17717.40

(Results and calculation of the data totally based on statically tools and technique)

Calculated value of “t” is 8.02 while the tabled value at a degree of freedom on 5% level of significance is 1.83. Hence we can conclude that the disbursement of agriculture finance is significant as the value of tabled is less than the computed value.

Section III

Conclusion

The Reserve Bank of India and its sponsored agricultural credit institution are playing an important role in augmenting the flow of credit for the promotion of agriculture, small and cottage industries and various other allied activities in rural areas of the country. The RBI has collected comprehensive materials from India and abroad. It has also made efforts to control indigenous bankers and money lenders to provide relief to the agriculturist. RBI directly financed the agriculture sector before the establishment of NABARD.

NABARD play an important role in the credit financing to agriculture sector. The credit financing by NABARD is having increasing trend. It shows that NABARD actively disbursing various types of loan through different policies and banks to agriculture sector. In the year 2005-06 the loan disbursed by the NABARD was Rs. 85.77 billion Which increased to Rs. 214.86 billion by the year 2014-15? NABARD indirectly finance the agriculture sector through Co – Operative Societies, State co-operative Banks and Regional Rural Banks but ANOVA shows that the credit financing by these three different sources financing to agriculture sector i.e. Co-operative societies, State Co-operative banks and Regional Rural Banks are having significant variations. State Co-operative Banks gives more loans in compression of Co-Operative societies and Regional Rural Banks. It disbursed Rs. 350 billion in 2005-06 which augmented to Rs. 950 billion by the year 2011-12 but after the year 2011-12 seized to finance the credit to agriculture sector and only two Co-Operative Societies and Regional Rural Banks are financing to the agriculture sector from 2012-13 by a major amount of loan . This shows that the growth and RBI are having reluctant policy to finance the agriculture sector. It is required much more sources of finance to agriculture sector to commentate the other sector and play an important role in augmentation to GDP of the country.

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