Agro Economist - An International Journal
Citation: AE: **9**(03): 201-205, September 2022
DOI: 10.30954/2394-8159.03.2022.2
Peer Reviewed Journal

AAEBM
ASSOCIATION OF AGRICULTURAL ECONOMICS & AGRI-BUSINESS MANAGEMENT

A Study on Fifty Years Journey of Bank Nationalization: Special Reference to Agricultural Credit

Jai Prakash[1*] and R.P. Singh[2]

[1]*Department of Agricultural Economics, TAMC, BAU, Punsiya, Godda, Jharkhand, India*
[2]*Department of Agricultural Economics, RAC, BAU, Ranchi, Jharkhand, India*

*Corresponding author: jaiprakash_111@rediffmail.com

Received: 14-05-2022 **Revised:** 27-08-2022 **Accepted:** 04-09-2022

ABSTRACT

The study revealed that the number of branches of banks per year in rural area has increased more than that of other area during fifty years of banks nationalization, but it is lag behind according to number of rural populations. The banking facility has significantly increased per thousand population from 64000 to 9000 between 1969-70 to 2019-20 in the country. The study also reveals that at the time of bank nationalization co-operative banks contributed more than 85 per cent share in total farm credit which reduced to 17 per cent in 2017-18 that was replaced by commercial banks, and rural banks (87%) in the same year 2017-18, respectively. The share of cooperative banks in investment loan has sharply declined during 1970-71 to 2017-18 at 3 per cent only from 57 per cent. It indicates all most dead of this organization in the country. The growth rate per annum was higher after globalization period in the country. There has been tremendous change in amount of bank credit per hectare net sown area and gross cropped area between 1970-71 to 2017-18. The overall study suggests that rural population need to be special attention for availing better facility of nationalized banks and rural bank branches in village area. In this connection, lead banks of the area can play important role.

Keywords: Production credit, Investment credit, Net area and Gross cropped area

The role of agricultural credit and credit institutions in developing countries like India in very significant due to pressing need for increasing the agricultural output and productivity to meet the needs of increasing population.

A survey of rural credit in 1950-51 showed that cooperative banks could meet barely 3.3 per cent of total credit need of farmers, while money landers accounted for 93 per cent of credit requirement of farmers. The AIRCSC (All India Rural Credit Survey Committee, 1954) stated that cooperation has failed but cooperative banks must succeed while landing rural credit to the farmers to improve food production. On the recommendation of committee, The RBI (Reserve Bank of India) took a series of measures to strengthen cooperative institutions-AIRCSC (1969) recommended the adoption of multi-agency approach to finance the rural sector. The government of India accepted that rural credit could not be met by cooperative banks alone and the commercial banks should play an important role in improving agricultural sector. Branch expansion

How to cite this article: Prakash, J. and Singh, R.P. (2022). A Study on Fifty Years Journey of Bank Nationalization: Special Reference to Agricultural Credit. *Agro Economist - An International Journal*, **09**(03): 201-205.

Source of Support: None; **Conflict of Interest:** None

gained momentum after the introduction of lead bank scheme (L.B.S.). The functions of lead bank are opining bank office in all the important locations providing maximum credit facilities for development in the district and mobilization of the savings of the people in the district. In continuation of banking reform for rural credit aspects in villages, Regional Rural Banks (RRBs) were set up under section 3 of the RRB Act of 1976 to take the banking services to the door step of rural masses especially in the remote areas no access to the baking services. The National Bank for Agriculture and Rural Development (NABARD) was set up on 12th July, 1982 under an Act of the parliament. NABARD has primarily functions to (A) credit disbursement (B) Development, and (C) Regulatory function under which the banking regulation Act 1949 empowers NABARD to under take inspection of RRBs and Cooperative Banks (other than Primary Cooperative Societies). Besides any RRBs and Cooperative Bank seeking permission of RBI for opening branches etc. will have to obtain the recommendation of NABARD.

All these steps in flow of rural credit/ farm credit were might be helpful in the process of availability of agricultural development loan from formal credit institution credit agencies. An attempt has been made to study how much growth in amount of farm loan and rate of annual growth in both type of farm credit has been achieved in fifty years of Banks nationalisation in the country.

MATERIALS AND METHODS

The data on number of branches works in semi-urban, urban, metro-city, and rural areas, flow of agricultural credit for production and investment forms by different financing agency for different periods were collected from various issues of Economic Survey, Data Book on Agriculture, Journals, Monthly Bulletins etc. from 1970-71 to 2017-18 for farm credit flow and from 1969-70 to 2019-20 for branches working in different areas of the country. The compound growth rate per year was estimated by the following model:

$$P_t = P_0\left(1+\frac{r}{100}\right)^t$$

Where:

P_0 = Base year data of credit

P_t = Credit amount in t time period

r = Compound growth rate (CGR)

t = Time period

The number of branches over population shared of financing agencies in total farm credit are presented in tabular form in percentage.

RESULTS AND DISCUSSION

Branch expansion: Under the Reserve Bank of India (RBI) Act 1934, bank was classified as schedule banks and non-schedule banks. The banks which come under 2nd schedule of RBI Act, 1934, were classified as schedule banks. All commercial banks (Indian and foreign banks), Regional Rural Banks, and State Cooperatives are schedule banks whereas non-schedule banks are those which have not included in 2nd schedule of RBI Act, 1934. There are only three non-schedule banks in our country.

Indian banking recorded a rapid progress which was due to planned economic growth, increase in money supply, and growth of banking habit, control and guidance by the RBI. Above all was nationalization of banks in July, 1969. The number of branches in rural, semi-urban, urban, metropolitan city is exhibited in table 1. The table shows that within fifty years after nationalization of banks, there was over 1665 % increase in total number of branches which was on an average 2751 (33 per cent) per year. Among four areas, the major progress is in rural area branches i.e., 1833 to 51543 banks. The rate of expansion of branch per year was 54 per cent, has been unparallel anywhere else in the world. The metropolitan city was second choice for opening of new branches i.e., 34 per cent per year (510 branch). In the semi-urban, and urban areas, the average annual growth rate was 23 per cent and 31 per cent, respectively. At the time of bank nationalization, the working committee has recommended that near about per 10,000 thousand one branch should be opened that has been fulfil at the end of fifty years which was near about 9000 thousand in 2019-20 in the country.

Flow of institutional credit to priority sector: Before nationalization (1969), commercial banks neglected priority sector lending and they are owned by and controlled by big industrialist, but after nationalization of commercial banks started

Table 1: Number of branches of schedule commercial banks operating in India (number)

Year	Rural	Semi-urban	Urban	Metropolitan city	Total	Population per office
1969-70	1833	3342	1584	1503	8262	64000
1975-76	6807	5598	3489	2834	18728	32000
1980-81	15105	8122	5178	4014	32419	21000
1985-86	30185	9816	6578	4806	51385	15000
1900-91	34791	11324	8042	5595	59752	14000
1995-96	33004	13561	9088	7384	63037	15000
2000-01	32734	14407	10052	8219	65412	16000
2005-06	32082	15403	11500	9370	68355	16000
2010-11	30089	21419	15929	17605	85042	15000
2015-06	45157	34915	22396	25417	127885	10000
2019-20	51543	41026	26234	26989	145792	9000
Growth per year in number	994	754	493	510	2751	—
Per cent	54 %	23%	31%	34%	33%	—

Source: Various issues of Economic survey.

Table 2: Flow of institution credit for agriculture and allied sector (Figures in crore)

	Particulars	1970-71	1980-81	1990-91	2000-01	2010-11	2017-18
(A)	Production credit	604 (100)	2043 (100)	4995 (100)	21209 (100)	289508 (100)	754972 (100)
(i)	Cooperative Banks	519 (86)	1526 ()	2822 (57)	4209 (20)	34930 (12)	138348 (18)
(ii)	RRBs	—	—	—	2778 (13)	37805 (13)	119546 (16)
(iii)	Commercial Banks	85 (14)	517 (25)	2173 (43)	14222 (67)	216773 (75)	497078 (66)
(B)	Investment credit	280 (100)	1434 (100)	3989 (100)	16786 (100)	127671 (100)	413531 (100)
(i)	Cooperative Banks	160 (57)	688 (48)	1151 (29)	2191 (13)	5578 (4)	12041 (3)
(ii)	RRBs	—	—	—	1029 (6)	6160 (5)	21413 (5)
(iii)	Commercial Banks	121 (43)	746 (52)	2838 (71)	13566 (81)	115933 (91)	380077 (92)
(C)	Total credit	884 (100)	3477 (100)	8984 (100)	37995 (100)	417179 (100)	1168503 (100)
(i)	Cooperative Banks	679 (77)	2214 (64)	3973 (44)	6400 (17)	40508 (10)	150389 (13)
(ii)	RRBs	—	—	—	3807 (10)	43965 (11)	140959 (12)
(iii)	Commercial Banks	206 (23)	1263 (36)	5011 (56)	27788 (73)	332706 (80)	877155 (75)

financing of priority sectors like agriculture and allied sector, weaker section, small traders etc. The table 2 shows amount of agriculture and allied sector lending of cooperative banks, Regional Rural Banks, and commercial banks from 2070-71 to 2017-18. The total amount of farm credit includes production credit (short term credit), investment loan (medium term and long-term credit). There has been rapid growth in lending of credit between 1970-71 to 2017-18 (from 885.0 crore to 1168503.0 crore) in the country. The role of commercial banks is significantly high in agricultural credit disbursement after 1969. It was 23 per cent in 1970-71, increased to 75 per cent in 2017-18. Against this the role of cooperative banks has declined significantly to 13 per cent from 77 per cent in between 1970-71 to 2017-18. It is also seen from the table.

The share of production credit was nearly double (66 per cent) with the share of investment credit (34 per cent) in total farm credit, respectively during 2017-18. It also appears from the table that the commercial banks have played significant role in both types of credit lending in the country. The figure of the table also clearly indicates that the contribution of cooperative bank has continuously declined after nationalization of commercial banks. It shows that the objectives of set up cooperative banks has completely fallen in the most of the states in the country. It requires special attention of the government to solve the problems of cooperative banks. This organization is association of farmers which know the problems of farmers about farm credit and related matter of farm sector. The subsequent table shows the growth rate per annum of both types of credit.

Growth rate of farm credit: The growth rate over period is presented in table 3 in between 1970-71 to 2000-01 to 2000-01-2017-18 and overall, 1970-71 to 2017-18 of the production credit and investment credit through cooperative and commercial bank lending to agriculture and allied sector in the country. The analysis clearly indicates that during 2000-01 to 2017-18 average growth rate per year was much higher as compared to period 1970-71 to 2000-01 in the distribution of production credit by both credit institutions. The overall average growth rate between 1970-71 to 2017-18 was 16.32 per cent as compound rate per year. The higher growth rate during 2000-01 to 2017-18 was mainly due to certain reform in farm credit policy by central government. The growth rate of investment credit further reveals that higher growth during period 2000-01 to 2017-18 over period 1970-71 to 2000-01, respectively. The overall growth per year was 16.5 per cent between 1970-71 to 2017-18. It was also analysed that growth rate of total farm credit (production and investment) was nearly 16.50 per cent and rate of growth was higher in both credit institution in period 2000-01 to 2017-18 over period 1970-71 to 2000-01. The union finance minister had on 18th June, 2004 announced certain measures for doubling of flow of credit to agricultural sector within a period of three years. The actual disbursement by banks exceeds the targets in

Table 3: Growth rate of flow of institutional credit for agriculture and allied activities (In percentage)

	Particulars	1970-80	1980-90	1990-00	2000-10	2010-17	1970-71 to 2000-01	2000-01 to 2017-18	1970-71 to 2017-18
(A)	Production credit (STC)	12.95	9.34	13.94	31.32	12.30	12.58	23.37	16.32
(i)	Cooperative Banks	11.38	6.33	4.08	31.38	11.50	7.22	22.80	12.57
(ii)	Commercial Banks	19.78	15.43	20.67	31.31	12.60	18.60	22.80	12.57
(B)	Investment credit	17.78	10.76	14.72	22.50	18.23	14.60	20.13	16.51
(i)	Cooperative Banks	15.74	5.27	6.64	12.78	11.60	9.12	10.54	9.60
(ii)	Commercial Banks	19.90	14.28	16.93	23.92	18.50	17.30	21.52	18.74
(C)	Total credit	14.66	10.04	15.51	27.94	14.32	13.34	22.10	16.38
(i)	Cooperative Banks	12.84	5.74	4.88	27.05	11.50	7.76	20.40	12.13
(ii)	Commercial Banks	19.85	14.77	18.68	28.94	14.86	18.24	21.91	17.42

Table 4: Institutional agricultural credit per hectare cultivated and gross cultivated area (In ₹)

	Particulars	1970-71	1980-81	1990-91	2000-01	2010-11	2017-18
(A)	Production credit (STC)						
(i)	Net area	43	142	357	1515	20679	53927
(ii)	Gross area	36	120	294	1248	17030	
(B)	Investment credit (MTC and LTC)						
(i)	Net area	20	102	285	1199	9120	29538
(ii)	Gross area	17	84	235	987	7510	24325
(C)	Total credit						
(i)	Net area	63	248	462	2714	29799	83465
(ii)	Gross area	52	204	529	2235	24540	68375

* Figures are rounded off; STC: Short Term Credit; MTC: Medium Term Credit; LTC: Long Term Credit.

each of the three years. During 2007-08, 76.36 lakh new farmers were financed by commercial banks and RRBs. This decision affected agricultural credit flow and annual rate of all types of farm credit during period of 2000-01 to 2017-18 over 1970-71 to 2000-01.

Disbursement of credit per hectare: The figures in table 4 indicates production credit and investment credit per hectare of net cultivated area and gross cultivated area over different periods in the country from 1970-71 to 2017-18. It reflects that before nationalization of commercial banks the disbursement of total credit was ₹ 63 crore and ₹ 52 crore only per hectare net cultivated area and goss cultivated area in 1970-71, respectively. It has significantly increased within 10 years (294 per cent in the production credit and investment credit of net cultivated area and 292 per cent of gross cultivated area, respectively in 1980-81). The increasing trend was observed throughout periods, however the major changes in amount of credit flow in agricultural sector was shown after 2000-01 and increased from ₹ 2714 to ₹ 29799 and ₹ 2235 to ₹ 24540 per hectare net cultivated and gross cultivated area in 2010-11 in total credit (both production credit and investment credit). During 2017-18, The amount of total credit was reached to the highest level of ₹ 83465 and ₹ 68735 of net cultivated area and gross cultivated area, respectively. The similar trend was found in production and investment credit from 1970-71 to 2017-18. The reason has already been explained in previous table.

CONCLUSION

This study clearly indicates that after fifty years of commercial banks nationalization branches of banks are working and providing services as recommendation of working group, but still rural area which near about 70 per cent population is living, having poor facility of banks and mostly exploited by money lenders and other financing agencies. The commercial banks are contributing major share in total farm credit flow in the country after nationalization. The growth rate in farm credit shows much difference in between before and after globalization periods (1970-2000 to 2001-2018). There has been substantial increase in amount of farm credit per hectare net shown area and gross area shown in the country i.e., ₹ 89465 and ₹ 68735, respectively in 2017-18. The share of production credit is much more than that of investment credit in total credit per hectare. The agriculture development requires infrastructure facility that heavy investment beyond the capacity of majority of Indian farmers. This requires strong attention of the government and banking / financing agency.

REFERENCES

Anonymous, Economic survey, various issues, Government of India, New Delhi.

Bhatt, O.P. 2007. Banking in India, *Yojana,* **51**(8): 83-87.

Dwarkanath, H.D. 2010. Emerging agricultural policies and programme implementation, *Kurukshetra,* **58**(9): 15-18.

Saxsena, J. 2021. Strengthening agricultural sector, *Yojana*, **65**(08): 39-41.