

Agricultural Finance: Future Reforms*

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At the outset, I express my gratitude for having been invited by the Gokhale Institute of Politics and Economics, an Institute of International repute, to deliver the keynote address of the seminar on Agricultural Finance: Future Reforms. I really feel honoured. I distinctly remember even today that I started my formal studies in Economics by reading the landmark article, *Poverty in India* by Professor V.M.Dandekar and Professor Neelkanth Rath of this Institute.

By reform, we mean a change that is made/to be made to a system, an organization to improve or correct it. It means changing the rules of the game without in any way altering the values. The success rate of all reforms has not been uniform, probably, because the forces which lead to the reforms have not been clearly recognized or are not sufficient to lead to professed change. We know that the entire agriculture is in the private sector, therefore, any agenda for reforms in agriculture or in broader terms rural development has to be set by market forces. Even though Agricultural Sector is the dominant sector of the Indian Economy which has generated surplus for the sustenance and growth of other sectors, it has so far been treated as a residual sector claiming only residual attention so far as reform is concerned. There are certain issues here which still haunt us. For example, why should people invest in agriculture, why should people migrate from cities to rural areas, why the human capital in agriculture is not as developed as in the organized sector, to name a few. We have to seek answers to these questions.

Before I proceed on the type of reforms required or having taken place in this sector, I like to go back to the time and circumstances which prompted financial sector reforms.

If we look at the backdrop of financial sector reforms which were in the limelight in 1990-91, we see that Indian economy at that time was growing at a comparatively low rate of 3.5 per cent from 1950-1980. Her economic development was driven primarily by an Import-Substituting Industrialisation Strategy aimed at self-reliance. This strategy led to a plethora of controls, procedures, permits, bureaucratic reforms, etc. Further, India also faced a serious Balance of Payments (BoP) crisis in the middle of 1990-91. Remittances especially in dollars were declining, foreign exchange reserves were dwindling at a rapid rate and there was less of confidence in the international community in India's capability to honour her international obligations. Coupled with it was a situation of fiscal profligacy at home which led to a situation of increasing expenses leading to deficit on the revenue account to be financed by borrowing from both domestic and external sources. It was against this backdrop that the reforms in the financial sector consisting of banks and other financial institutions were introduced in India with three major broad objectives as under: (i) measures aimed at removing the constraints having a bearing on the profitability of banks and financial institutions; (ii) measures aimed at improving the financial health of banks by introducing appropriate

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