Agricultural Finance: Past Performance and Future Reforms
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It is well-known that India's economic reforms were set off by balance of payments crisis of 1991. At the time the banking system both commercial and cooperatives suffered from lack of competition, low productivity, high cost of intermediation, narrow capital base, etc. The financial sector reforms were necessarily set to alter organizational structure and ownership pattern, as well as, to infuse competition. After a decade, the RBI in its Report on Currency & Finance, 2001-02 had taken a review and observed that the financial sector reforms had brought about marked improvement in the financial health of commercial banks in terms of assets quality, capital adequacy and profitability. The cooperative banks, to which the reforms were initiated little later, did not show much improvement in any of these areas.

Apart from ensuring restoration of economic stability in country's balance of payment, the economic reforms were also aimed to increase level of investment, improvement in productivity, efficiency and competitiveness in industrial, agricultural and financial sectors. In the review undertaken in Report on Currency and Finance 2001-02, the Reserve Bank set out certain questions in respect of each sector to assess impact of reforms. As regards Agriculture Sector the report sought to answer questions like: (i) has the agriculture sector been somewhat isolated from economic reforms? (ii) What explains the unprecedented stock pile of food grains in the recent years and what are their macro-economic implications?

While other sectors recorded marked improvement during post reform decade in terms of their growth rates resulting in increased share in GDP and favourable incremental capital to output ratio (denoting improved productivity with increase in investment), Agriculture witnessed decelation in these areas. The reasons were many. Prior to reforms, policies regulating trading in agricultural produce, subsidies on use of fertilizers, irrigation, power, etc., assumed large proportion thereby limiting government spending on rural infrastructure. The policy of fixing minimum support price favouring certain few agricultural produce provided adverse incentive for crop diversification. In other words, the farmers would go only for those crops where MSP has been fixed favourably irrespective of availability of natural endowments affecting quality and productivity. Thus, when world over the prices were falling, fixation of higher MSPs resulted in more procurement by the government and stock piling in warehouses. Such stock piles over the years resulted in locking big chunk of bank credit which could otherwise have been used for necessary infrastructure to help agriculture. Today this phenomenon is very much evident and reveals inadequacies of Reforms in Agriculture sector. In fact, only reforms that were introduced, related to trading/marketing of agricultural produce and gradual removal of subsidies on fertilizers, etc. There have been no specific reforms introduced to accelerate the investment rate in agriculture so as to ensure growth of capital formation.

There has been continued decline in public investment in agriculture. The ratio of capital formation in agriculture through fiscal spending to gross capital formation in public sector declined from 17.7 per cent in pre-reform decade of 80s to 7.1 per cent in 90s and further to 4.9 per cent in 2000-01. As against this, direct institutional credit to

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