Agricultural Credit in India

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Abstract:
The main objective of these initiatives was to improve farmers access to institutional credit. The major milestones in improving the rural credit are acceptance of Rural Credit Survey Committee Report (1954), nationalization of major commercial banks (1969 & 1980), establishment of RRBs (1975), establishment of National Bank for Agriculture and Rural Development (NABARD) (1982) and the financial sector reforms (1991 onwards),Special Agricultural Credit Plan (1994-95), launching of Kisan Credit Cards (KCCs) (1998-99), Doubling Agricultural Credit Plan within three years (2004), and Agricultural Debt Waiver and Debt Relief Scheme (2008). These initiatives had a positive impact on the flow of agricultural credit. However, the inadequacy of credit to agriculture is often a hotly debated topic in India. The persistence of money lenders in the rural credit market is still a major concern. But, most of the discussions on the issue of agricultural credit are, by and large, swayed by emotions and the empirical validation of the issues is often lacking. In this backdrop, this study was undertaken to

(i) Examine the performance of agricultural credit flow including the issues of inequity in the disbursement of institutional agricultural credit flow, and

(ii) Identify the factors that are responsible for increasing the use of institutional credit at the household level.

Keywords: *Agriculture, Agricultural Credit, Farmer. Indian economy, NBFIs*

1. Introduction

Agriculture is the mainstay of the Indian economy. Agriculture is the most important sector of the Indian economy from the perspective of poverty alleviation, and employment generation. Credit is the major factor all of them that affecting the agriculture development. It capitalizes farmers to undertake new investments and/or adopt new technologies. The importance of agricultural credit is further reinforced by the unique role of Indian agriculture in the macroeconomic framework along with its significant role in poverty alleviation. Realizing the importance of agricultural credit in fostering agricultural growth and development, the emphasis on the institutional framework for agricultural credit is being emphasized since the beginning of planned development era in India. A large number of formal institutional agencies like Co-operatives, Regional Rural Banks (RRBs), Scheduled Commercial Banks (SCBs), Non–Banking Financial Institutions (NBFIs), and Self-help Groups (SHGs), etc. are involved in meeting the short- and long-term needs of the farmers. Several initiatives have been taken to strengthen the institutional mechanism of rural credit system.

2. Methodology

2.1 Performance of Agricultural Credit

The performance of agricultural credit system has been assessed in terms of different indicators. The share of agricultural credit in agricultural GDP and overall GDP and the credit per unit of GCA was

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examined to assess the overall performance of institutional agricultural credit flow. Temporal changes in the composition of agricultural credit flow were assessed to examine the structural changes in the sources of agricultural credit. The growth of agricultural credit in real terms was estimated to measure the real growth in the institutional agricultural credit flow.

2.2. Trends in Agricultural Credit Performance Indicators

In spite of impressive increase in the flow of agricultural credit, the recent years have again been characterized by a concern over the falling share of agricultural credit in total credit. It is mainly attributed to the high growth witnessed by the non-agricultural sector in recent years. The share of agriculture in national income has also declined. The correct yardstick to look at the progress of agricultural credit is evaluation of agriculture as a proportion of Ag GDP and trends in real agricultural credit in terms of per unit gross cropped area. The performance of agricultural credit in terms of these indicators seems to be noteworthy. Interestingly, the share of agricultural credit as a proportion of Ag GDP has been rising continuously since 1970. It was only about 5 per cent in TE 1972-73, which rose to about 8 per cent in TE 1981-82 and made a quantum jump in recent years and rose to 31 per cent in TE 2008-09. The agricultural credit as a proportion of total GDP increased during the 1980s, but declined during 1990s. Later on, it increased again and accounted for about 6 per cent of GDP in TE 2008-09. The agricultural credit per hectare of gross cropped area has shown an increasing trend with a tremendous rise in recent years. It has increased from Rs 375 in TE 1972-73 to Rs 5651 in TE 2008-09. About fifteen fold increment has been registered in agricultural credit in real terms during the period 1970-2008. These indicators suggest that the agricultural credit system is geared to the agricultural growth and the availability of credit to the rural cultivators has increased substantially.

2.3 Investment Credit

Investment credit is meant for building productive assets to enhance agricultural production. It plays a significant role in ensuring a sustainable agricultural growth. But, the share of investment credit in total agricultural credit has been declining continuously and it is pervasive across all institutional sources of agricultural credit. The share of investment credit has decelerated from 18 per cent in TE 1991-92 to 12 per cent in TE 2001-02 and further to 6 per cent in TE 2005-06 . It is not favorable to accelerating agricultural growth. A balance between short-term operational credit and long-term investment credit has to be maintained to ensure sustainable agricultural growth. The declining share of investment credit indicates that farmers seem to borrow more short-term credit in order to meet their input needs to maintain continuity in agricultural operation and do not pay adequate attention to the long-term capital formation for agriculture. From the supply side, short-term credit entails a lower credit risk, lower supervision and monitoring cost and a better asset-liability management. These factors probably could induce a faster expansion of the short-term agricultural credit from financial institutions. The compound annual growth rates of institutional investment credit to agriculture in real terms have been estimated and are presented in Table 5. The investment credit in real terms has registered a modest positive growth of 4 per cent / annum. The agricultural institutional credit flow from co-operative banks has registered an annual growth rate of 6 per cent during the period 1983-84 to 2005-06. In fact, SCBs registered a slight decline. The sub-period-wise results are more revealing. The growth rate of co-operative banks was accelerated during the decades of 1980s and 1990s. It was 3 per cent per annum during 1980s and 8 percent per annum during 1990s. But, during the next decade, it registered a sharp fall and was -9.3 per cent per annum. The investment credit disbursement from the SCBs has depicted wide fluctuations. It grew at the rate of only 1 per cent per annum in 1980s, but dropped to - 0.73 per cent per annum in 1990s. However, from 2000 onwards, it has grown again at an impressive rate of 23 per cent per annum. The investment credit flow from RRBs has registered an annual growth rate of 9 per cent from 1983-84 to 1990-91. It has shown a growth rate of 9 per cent perannum in 1980s and of 6 per cent per annum in 1990s, but it has decelerated steeply during 2000s.

2.4 Sectoral Distribution of Agricultural Investment Credit

The sectoral distribution of agricultural investment credit as undergone a significant change during the past two decades. The shares of minor irrigation and government sponsored programs in total investment credit have witnessed a significant decline. The shares of fisheries and plantation & horticulture have also declined. The share of minor irrigation in total investment credit, which was about 28 per cent in TE 1990-91, declined to 11 per cent in TE 2000-01 and further to7.5 per cent in TE 2005-06. The share of farm mechanization was about 15 per cent in TE 1990-91, it went up to 31 per cent in TE 2000-01, but dropped to 14 per cent in TE 2005-06. Similarly, the share of government sponsored programs has declined from 32 per cent in TE 1990-91 to 5 per cent in TE 2005-06. The shares of land development, animal husbandry and non-farm sector have witnessed substantial growths during this period. The most notable change has been observed in the case of non-farm sector. Its share of about 3 per cent in TE 1990-91 has increased to 29 per cent in TE 2005-06.

3. Flow of Credit

A comprehensive credit policy was announced by the Government of India on 18 June 2004, containing measures for doubling agriculture credit flow in the next three years and providing debt relief to farmers affected by natural calamities. The following are the highlights of this announcement:

- Credit flow to agriculture sector to increase at the rate of 30per cent per year.
- Debt restructuring in respect of farmers in distress and farmers in arrears providing for rescheduling of outstanding loans over a period of five years including moratorium of two years, thereby making all farmers eligible for fresh credit.
- Special One-Time Settlement scheme for old and chronic loan accounts of small and marginal farmers.
- Banks allowed extending financial assistance for redeeming the loans taken by farmers from private moneylenders.
- Commercial Banks (CBs) to finance at the rate of 100 farmers/branch; 50 lakh new farmers to be financed by the banks in a year.
- New investments in agriculture and allied activities at the rate of two to three projects per branch.
- Refinements in Kisan Credit Cards (KCCs) and fixation of scale of finance.

Government has increasingly begun to tap institutional finance from banks and other term lending institutions for financing various developmental programmes in the State in view of the need to supplement plan financing. Banks in the State have also played a pivotal role in this regard. However, credit should be utilized in a prudent manner to maximize returns and spread the benefit over wider sections of the population. Successful implementation of socioeconomic developmental programmes calls for effective co-ordination between financial agencies and government departments. It also helps in improvising efficiency of resource allocation & identifying infrastructural gaps. The State Level Bankers' Committee, constituted by the Reserve Bank of India under the Lead Bank Scheme periodically takes up the review performance and monitors progress under special schemes. At the district level the District Consultative Committee with the Chief Executive Officer of Zilla Panchayat as chairperson and representatives of financial institutions and Heads of Government departments at the district level as members monitors the implementation of government sponsored schemes & Service Area Credit Plans. At the block level, Block Level Bankers' Committee chaired by Lead District Manager with bank managers and departmental heads of government at block level as members periodically reviews the implementation of government sponsored schemes & Service Area Credit Plans and sorts out problems encountered in the implementation of various programmes. In order to select & priorities the works for loan assistance from National Bank for Agriculture and Rural Development(NABARD) under Rural Infrastructure Development Fund(RIDF) Scheme, launched in 1995-96, a Cabinet Sub Committee on RIDF has been constituted under the chairmanship of the Minister for Public Works. There is also a High Power Committee chaired by the Additional Chief Secretary and Development Commissioner for reviewing the implementation of RIDF projects. The credit flow to agriculture ,important of financial sector reforms in early-nineties, increased from Rs.2,85,146 crore during the Ninth plan (1997-2002) to Rs.6,91,739 crore (243%) during the tenth plan (2002-2007).Credit disbursement during the Eleventh plan (2007-2012) further shot up to rs.19,20,400 crore (277%).

4. Progress in Kisan Credit Card Scheme

The Kisan Credit Card (KCC) Scheme was introduced in 1998-99 to facilitate farmers' access to short-term credit from the formal financial institutions. The credit under this scheme is sanctioned in proportion to the size of owned land, but thereis some flexibility for the farmers cultivating leased-in land, in addition to their owned holding. The KCC scheme has made a rapid progress and till 31 March, 2009, about 80.8 million KCCs have been issued by the co-operative banks, commercial banks and RRBs . The share of co-operative banks and commercial banks in distribution of KCCs was 44 per cent and 43per cent, respectively; the remaining 14 per cent was issued by RRBs. The growth in distribution of KCCs has been phenomenal. The distribution of KCCs grew at the rate of 44 per cent per annum; the highest growth rate (75%) was witnessed by RRBs. The distribution of KCCs by cooperative banks grew at the rate of 46 per cent per annum during this period. The KCCs issued by the commercial banks witnessed an annual growth rate of 42 percent during this period.2013-2014 RRBs issued amount sanctioned for 5.71 percent.

5. Conclusions and Policy Implications

The agricultural performance engrosses many production factors; agricultural credit is one of them. The performance of institutional credit to agriculture and the determinants of institutional agricultural credit use at households' level have been analyzed. The study has shown that the institutional credit flow to the agriculture has been increasing for the past four decades. However, different patterns in the growth of agricultural credit have been observed during different sub-periods. The structure of the sources of credit has witnessed a clear shift and commercial banks have emerged as the major source of institutional credit to agriculture in the recent years. Further, the portfolio of institutional credit to agriculture has also changed and the share of investment credit in total credit has declined over time. The declining share of investment credit may constrain the agricultural sector to realize its full potential. Regional disparity in disbursement of agricultural credit has been glaring, though in recent years it has shown some evidence of convergence. Inequity in the distribution of institutional credit across different categories of farmers also persists. The choice of a credit outlet and the quantum of institutional credit availed by farming households have been found to be affected by a number of socio-demographic factors. The effect of education has indicated the need for capacity building of borrowing farmers. Imparting training to borrowers regarding procedural formalities of financial institutions could be helpful in increasing their access to institutional credit. Further, procedure for loan disbursement could be made simple so that it may not be difficult for the less-educated and illiterate households to access institutional financing agencies for credit. The weaker sections of the society like SCs, STs and OBCs and smallholders are more exposed to non-institutional sources for their borrowings and thus end up paying higher rates of interest, which have a Negative bearing on their economic situation. This needs to be ameliorated by strengthening the on-going special schemes for these groups.

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