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ANALYTICAL REVIEW OF REFORM IN AGRICULTURAL FINANCE

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ABSTRACT

The development of agriculture sector is important for India economy. Agriculture directly account for about 14 per cent of GDP but a little over half the population still live of agriculture and related activities. It provides demand for industrial good and in India when ever agriculture has grown at 3-4 per cent, Indian economy has grown at above7 per cent. It has been observed that the required growth of productivity in agriculture depends on that more capital must be invested in it. Farmers need much more capital than they can afford to save. If agriculture has to develop, it is imperative that required capital should be provided. In agriculture capital is one of vital inputs contributing to the success of all agricultural development programmer. Therefore, financing for agriculture is an important ask to fulfill the capital demand in Indian agriculture. This is the paradigm of farm finance that credit plays the role of an accelerator for agricultural development. It has also been observed in several studies that agriculture credit in adequate quality, cheep and development oriented become a strong force to best agriculture. The present paper analyzes the agriculture credit in India during economic reform period.

KEY WARDS: Indian Agriculture, Economic, Reform, Finance, Development.

INDIAN AGRICULTURE OVERVIEW

Agriculture is the most important constituent of the primary sector. It plays a basically passive and accommodating role for the requirements of modern industrial sector (Lipton 1977) and has a considerable impact on non agricultural growth (Kilick 1985, Chadha 1986, Biradar 2006). Although a large share of the economically active population in developing countries like India is still active in agriculture, its importance as an income source shows a steady decrease worldwide with significant difference between counties.

Agriculture provided employment opportunities and supplementing of small, marginal farmers and land less labours especially in rain fed and drought prone areas. Dynamic and vibrant agriculture alone will effectively address the problems of rural poverty (RBI 2004). Therefore agriculture is not just a question of economics and trade but of dignity and survival (Swaminathan 2004). So agriculture is the root of prosperity in rural India.

Indian agriculture has undergone structural changes economics reform initiated. The nature of Indian agriculture has geared towards small farmers-Table.

NEED FOR CREDIT

The demand for agricultural credit arise due to (a) Lack of farmer income to realization of expenditure (b) Huge investment in fixed capital formation (c) Surges in capital needs due to technological innovation.

Farmer need adequate and timely credit for purchase of inputs i.e. machines, implements, fertilizers, seeds and modern technology etc, improvements of land and other resources. The costs of inputs tend to increase while the profitability in agriculture tends to decrease in the present area and demand for credit in agriculture has increased.

Credit requirements of the farmers may be classified (s) On the basis of purpose and (b) On the basis of time.

PURPOSE BASED CREDIT

Farmers need credit for productive as well as unproductive purpose

- Productive credit: Productive purposes include all such type activities which help in the improvement of agricultural productivity such as purchase of inputs e.q. seeds, fertilizers and manure, implements and payments of wages and permanent improvements in land etc.
- Unproductive credit: It includes celebration of marriages, birth, death and other social religion festival etc. Indian farmers often need credit to need their basic needs when the farmers do not have sufficient income between two crops internal.

BASED ON TIME PERIOD

Classification based on time period of agriculture credit has three categories.

Short Term- Farmers need credit of short period of less than 15 month for the purpose of cultivation or some domestic expenses.

Medium Term- Medium term credit is generally obtained for the purchase of agriculture tools and implements, cattle, digging and repairing of well etc. The period of such credit extend from 15 month to 5 years, these credit generally provided by cooperative and commercial banks.

Long Terms- The farmers also require long term or more than 5 years for the purpose of buying additional land, to purchase heavy farm machinery like tractor and harvester. Such loans are normally taken from commercial bank and rural development bank.

SOURCES OF AGRICULTURE CREDIT

There are mainly two source of credit to agriculture

(a) Non- Institutional/informal sources.

(b) Institutional/Formal sources.

NON-INSTITUTIONALT

They include money lends traders, commission agents, relatives and land lords. There are rich farmers or land lords, who combine farming with money lending, freely supply credit to farmers for productive and no-productive purpose. Traders and commission agents supply funds to farms for productive purpose especially for crop production. These types of sources of finance are important in the case of cash crops. Farmers often borrow from their own relatives in cash or kind for various purposes.

INSTITUTIONAL

Earlier agriculture credit requirement was depends upon private money lender and they charged high interest rate and land or other assets were kept as collateral. This arise the need for institutional credit arrangement for agriculture.

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COOPERATIVE CREDIT SOCIETY

Commonly known as the primary agricultural credit society, is the gross root arm of the short term credit structure, dealing directly with farmer borrowers and also undertaking farm input marketing and distribution function.

Commercial Banks- They are providing direct and indirect finance to the farmers and distribution firms or agencies and cooperative engaged in supply of farm implements and machinery on a hire purchase basis. They finance the operations of state and central government for procurement and storage of food grains.

CO-OPERATIVE AGRICULTURE AND RURAL DEVELOPMENT BANKS-

They grant loans on the basis of agricultural properties. They provide credit for variety of purpose such as redemption of old debts, land improvement, to purchase expensive agricultural machinery and construction of wells.

REGIONAL RURAL BANKS (RRBS)

RRBs were setup under the recommendation of the working group on rural banks headed by M. Narsimham in 1975 to provide banking facilities in rural and backward areas. The main objective of RRBs is to provide credit and other banking facilities particularly small and marginal farmers, agricultural laboures and rural artisan.

NATIONAL BANK FOR AGRICULTURAL AND RURAL DEVELOPMENT (NABARD)-

Recommendation of the committee to review arrangements for institutional credit for agricultural rural development, The NABARD was set up in 1982 at the apex of rural institutional credit network.

AGRICULTURAL CREDIT: A REVIEW

As we see today, the rural credit system has evolved over the last six decade. During this course, the system witnessed many reforms as recommended and suggested by various committees and export group appointed by government of India and R.B.I. from time to time. The agriculture credit system received its first and significant policy direction from All India Rural Credit Survey (AIRCS) committee, 1954. The committee highlighted that share of institutional and non-institutional credit was 7.3% and 92.7% respectively and proposed new initiatives and financial support to agriculture. The committee recognized the existence of cooperative structure and recommended the establishment of large sized multipurpose credit societies and extending banking services in rural areas.

The emergence of green revolution in the mid 1960 demonstrated the need for effective credit support to farmers and also explored the inability of credit cooperative to meet the challenge. Consequently, the Government of India intervened to encourage commercial banks to play a major role in providing agriculture credit by nationalization of commercial banks in 1969 and 1980. The other major development in agriculture credit from the supply side was establishment of RRBs in 1975 and Establishment of NABARD in 1982.

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All these institutional development of the rural credit structure and initiative brought out significant changes in agriculture credit delivery.

REFORMS IN AGRICULTURE CREDIT

At the Time of the 1991 reform, the rural credit delivery system was again found to be in poor shape. The agriculture credit review committee (ACRC) examined the existing rural credit system and pointed out the wide gap between income generated and cost incurred by rural credit institution. The Narshimham connittee 1991 on financial sector reform recommended a redefinition of a priority sector, gradual phasing out of directed credit to 10 percent from 40 percent and deregulation of interest rate. However, weakness in the performance of credit supply, the Govt. and R.B.I. setting up of various committees/working groups/task force to look into the supply of agricultural credit. These committees/working groups/task force made recommendation and suggestions for enhancement of cost effective institutional agriculture credit supply-Jagdish Kapoor task force (1999) on co-operative credit system, recommended setting up of a co-operative rehabilitation and development fund at BABARD. The Vyas expert committee on rural credit (2001) suggested restoration of the health of primary agricultural credit societies (PACs).

The process of globalization and deregulation of financial have thrown open new challenge and opportunities. In an emerging situation, agriculture sector require higher credit to strengthen primary production base, investment in farm machinery and current inputs, in order to enable it to high value addition and export orientation. Continuing its endeavor to enhance the flow of credit to agriculture by removing delivery bottlenecks, the RBI and Govt. of India implemented on the basis of several committees suggestion and recommendation on flow of agriculture credit, in 1998-99 an innovative credit delivery mechanism to facilitate farmers easy and timely access to short term credit for agricultural operations. For this purpose Govt. of India started “Kisan Credit Card”. In 1998, so as to provide timely and adequate credit from commercial bank and RRBs.

CREDITFLOW TO AGRICULTURE AND ALLIED SECTOR

To get the best from their land, farmers need access to affordable credit. Bank and rural credit institutions have been consistently meeting the target set for agriculture credit flow in the past years. There has been a massive expansion of institutional credit to agriculture over the years [this is clear from the credit flow data present agency-wise in the following table-

Flow of Institutional Credit to Agricultural and Allied Activities

Agemcu-wise in Rs. Crore

Agency	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Co-operative	39786	42480	48258	36762	63492	29450
% share	22	18	19	13	17	15
RRBs	15223	20435	25312	26724	35218	19141
% share	8	9	10	9	9	10
Commercial	125477	166486	181088	228951	285799	145801

bank						
% share	70	73	71	78	74	75
Total	180486	229401	254658	292437	384514	194392

As against the target of Rs. 325000 crore for agricultural credit in 2009-10, the banking system disbursed Rs. 384514 crore to the agriculture sector, there by exceeding the target by aroungd18 percent. Commercial banks and RRBs together extended credit to 77.49 lakh new farmers during 2009-10 and co-operative banks to 13.43 lakh, thus taking the total number of farmers brought newly under the banking system to 90.92 lakh. The total credit flow to agriculture during 2010-11 by commercial banks, RRBs and co-operative up to 30 September 2010 was Rs. 194392 crore accounting 52 percent of the annual target of Rs. 375000.

CONCLUSION

Since 2004, there has been a spurt in agricultural credit due to Govt. of India initiatives such as Doubling of Agriculture Credit in 2004-06, Debt Waiver Scheme and Strengthening of Co-operative. Thus, Agricultural credit scenario has been good in past years bout the average agriculture GDP growth declined to around 2 percent. Although agricultural credit flow data is impressive but the small and marginal farmers are unable to get credit easily. While the overall credit to agriculture has been growing and the interest rates for farmers have also been reduced to 7 percent (4 percent after taking in to the 3 percent interest subvention for timely repayment of crop loans) yet the biggest challenge remains in terms of increasing access to credit, particularly for the marginal and lease based farmers. Therefore more innovative models are needed to reach small and marginal farmers in rural areas.

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