RESEARCH FRONT

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AGRICULTURAL CREDIT IN INDIA: STATUS AND PROBLEMS

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ABSTRACT

Indian agriculture plays an important role in the development of the country; is the main source of livelihood of majority of Indian population .The key problem of agriculture, carried on in rural areas mostly by poor, small and marginal farmers and weaker section of the society. Credit is one of the critical inputs for agricultural development. It capitalizes farmers to undertake new investments and adopt new technologies, production and marketing activities. Also agricultural credit is an important input for improving agricultural production and productivity and mitigating farmer distress. Bank credit is available to the farmers in the form of short-term credit for financing crop production programs and in the form of medium-term/long–term credit for financing capital investment in agriculture and allied activities. In this research paper researchers focused on Indian agricultural credit and credit issues and challenges.

Keywords: Agriculture, Credit, Banks Role, Cooperatives, Commercial, RRBs.

INTRODUCTION

Indian agriculture plays an important role in the development of the country. Agriculture is the main source of livelihood of majority of Indian population. About 72 percent population was working in 1950-51 and 52 percent population is working in agriculture sector at present (Economic survey 2013-14). Agriculture still remains the backbone of our Indian economy. Agriculture sector accounts 13.9 percent of Indian GDP in the year 2013-14. Share of this sector in the GDP has falling since independence, in the year 1950-50 agriculture held 56.5 percent of GDP. In 1970-71 share of this sector was 45.9 percent and in the year 1990-91 it was 34 percent after continue falling it came up to 14.6 percent in the year 2010-11 and in the year 2013-14 it was 13.9 percent. It means trend of agriculture production share in GDP is continuing decreasing till present. Indian agriculture has many crucial problems; Agricultural development in India has been given due importance right from India's First Five Year Plan (1951-56). The key problem of agriculture, carried on in rural areas mostly by poor, small and marginal farmers and weaker section of the society, is credit. Credit is one of the critical inputs for agricultural development. It capitalizes farmers to undertake new investments and/or adopt new technologies, production and marketing activities. Agricultural credit is an important input for improving agricultural production and productivity and mitigating farmer distress. Bank credit is available to the farmers in the form of short-term credit for financing crop production programs and in the form of medium-term/long–term credit for financing capital investment in agriculture and allied activities like land development including purchase of land, minor irrigation, farm mechanization, dairy development, poultry, animal husbandry, fisheries, plantation, and horticulture. Loans are also available for storage, processing and marketing of agricultural

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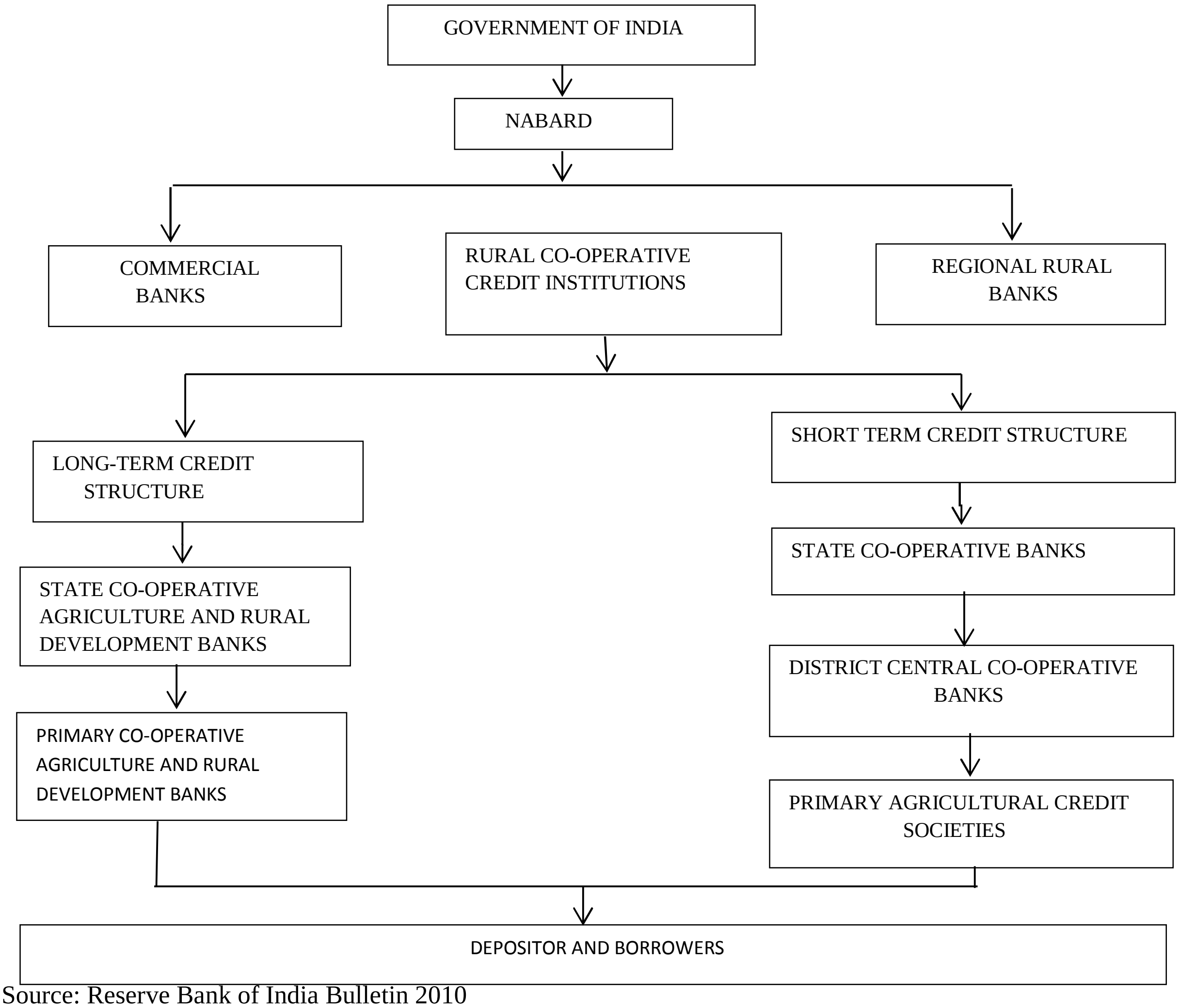
AGRICULTURE CREDIT IN INDIA

The importance of farm credit as a critical input to agriculture is reinforced by the unique role of Indian agriculture in the macroeconomic framework and its role in poverty alleviation. Availability and access to adequate, timely and low cost credit from institutional sources is of great importance especially to small and marginal farmers. All India Rural Credit Survey Committee (1954) observed that "The credit fell short of the right quantity, was not of the right type and did not serve the right people". The flow of credit to the agriculture sector failed to exhibit any appreciable improvement due mainly to the fact that commercial banks were not tuned to the needs and requirements of the small and marginal farmers, while the co-operatives, on the other hand, lacked resources to meet the expected demand. The finance to agriculture is broadly in two parts direct and indirect it is later in which more emphasis has been and thus direct support to agriculture has been minimal. All India Rural Credit Survey (AIRCS) has confirmed that formal credit institutions provided less than 9% of rural credit needs in India. Money lenders, traders and rich landlords accounted for more than 75% of rural credit.

Chart no. 1: structure of Agriculture Credit system in India



Source: Reserve Bank of India Bulletin 2010

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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 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 & prioritise 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. These policy measures have resulted in the increase in the share of institutional credit of the rural households.

ROLE OF COMMERCIAL BANKS IN ARICULTURAL CREDIT

Commercial banks entered the field of agricultural credit in a major way following their nationalisation in 1969. Commercial banks are guided by priority sector lending policy of providing credit to various deserving sectors/sections including agriculture and allied activities. Growth in commercial bank credit to agriculture, which was lower than the growth in aggregate bank credit during the 1990s, picked up sharply in the first half of the 2005s and largely coincided with the growth in aggregate bank credit. There was a downturn in the growth in commercial bank credit to agriculture after 2005/06, when growth in aggregate bank credit also slowed down Previously commercial banks (CBs) were confined only to urban areas serving mainly to trade, commerce and industry. Their role in rural credit was meager i.e., 0.9 per cent in 1951-52 and 0.7 per cent in 1961-61. The insignificant participation of CBs in rural lending was explained by the risky nature of agriculture due to its heavy dependence on monsoon, unorganized nature and subsistence approach. A major

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change took place in the form of nationalization of CBs in 1969 and CBs were made to play an active role in agricultural credit. In the year 1990-91 share of commercial banks increased up to 54 percent. At present, they are the largest source of institutional credit to agriculture. In 2004-05 these banks have accounted Rs 81,481 crore (65 percent) in agriculture credit next year 2005-06 it was Rs. 1,25,859 crore (70 percent). In the year 2006-07 commercial banks supply of credit falls down and reached at Rs. 1,00,999 (67 percent). This fluctuation in commercial bank supply was continuing till the year 2012-13 in this year commercial banks share in credit was Rs. 4,31,543 crore (68 percent).

Progress in regard to flow of agricultural credit is given below:

Table 2: Credit Flow to Agriculture Sector during 2004-05 and 2012-13

(Rs. In Crore)

Year	Cooperative Banks	Share (%)	RRBs	Share (%)	Commercial Banks	Share (%)
2004-05	31,424	25	12,404	10	81,481	65
2005-06	39,404	22	15,223	8	1,25,859	70
2006-07	33,987	24	15,170	10	1,00,999	67
2007-08	35,875	20	17,987	10	1,28,876	70
2008-09	36,165	19	19,325	10	1,32,761	71
2009-10	32,871	18	23,984	13	1,21,879	69
2010-11	78,121	17	44,293	9	3,45,875	74
2011-12	87,963	17	54,450	11	3,68,616	72
2012-13	95,565	18	73,856	14	4,31,543	68

Source: Handbook of Statistics on Indian Economy, various issues.

ROLE OF COOPERATIVE BANKS IN AGRICULTURAL CREDIT

The Cooperative movement was introduced in India in the early year of 20th century with the main object relieving the burden of debt and for providing credit through a local agency on the principles of thrift, self-help and mutual aid. They function with the rule of "one member, one vote". Function on "no profit, no loss" basis. Cooperative banks, as a principle, do not pursue the goal of profit maximisation. Cooperative bank performs all the main banking functions of deposit mobilisation, supply of credit and provision of remittance facilities. Cooperative Banks provide limited banking products and are functionally specialists in agriculture related products Cooperative banks are serving in the field of agricultural credit and rural development. The level of service of cooperative banks is very high. Cooperative banks are playing extraordinary role for agriculture credit and rural development. In India there are now over 92,000 primary agricultural credit societies, 367 central Co- operative banks and 29 state Co-operative Banks operating in India (RBI: 2009). It is a remarkable achievement of Co-operative credit movement in India. Total agriculture credit by Co-operatives has grown from Rs. 31,424 crore from 2004-05 to Rs. 95,565 crore in 2012-13. In the year 2004-05 share of cooperative bank in total agriculture credit

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was 25 percent. These banks provided Rs. 39,404 crore in 2005-06 it was 22 percent of total credit supply, in this year credit supply to agriculture decreased by 3 percent. Next year, 2006-07 credit supply increased by 2 percent which was 24 percent and Rs. 33,987 crore. After this year agricultural supply from cooperative banks were continue decreasing to 2012-13. Total supply was Rs. 95,565 crore and this amount was 18 percent of total agriculture credit.

ROLE OF REGIONAL RURAL BANKS IN AGRICULTURAL CREDIT

Regional Rural Banks were created as a public banking institution in 1974 to cater to the credit needs of marginalised sections of rural population including small and marginal farmers. Regional Rural Banks are guided by priority sector lending policy of providing credit to various deserving sectors/sections including agriculture and allied activities. RRBs were set up in those regions where availability of institutional credit was found to be inadequate but potential for agricultural development was very high. However, the main thrust of the RRBs is to provide loans to small and marginal farmers, landless labourers and village artisans. These loans are advanced for productive purposes. The numbers of RRBs in the country as on 31 March 2014 were 57, with a network of 19,082 branches covering 642 notified districts in 26 States and the UT of Puducherry. In the year 1990-91 share of commercial banks increased up to 0.6 percent. At present, they are in important source of institutional credit to agriculture. In 2004-05 these banks have accounted Rs. 12,404 crore (10 percent) in agriculture credit next year 2005-06 it was Rs. 15,223 crore (8 percent). In the year 2006-07 RRBs supply of again reached at Rs.15, 170 crore (10 percent). Next year this trend was continuing and share was Rs. 17,187 crore (10 percent). This fluctuation in Regional Rural banks supply was continuing till the year 2012-13 in this year commercial banks share in credit was Rs. 73,856 crore (14 percent).

Table no. 1: Agricultural Credit Flow in India 2004-05 To 2013-14
(Rs. in Crore)

Year	Target	Achievement
2004-05	105000	125309
2005-06	141000	180486
2006-07	175000	229400
2007-08	225000	254658
2008-09	280000	287149
2009-10	325000	384514
2010-11	375000	468291
2011-12	475000	511029
2012-13	575000	607375
2013-14	700000	738615*

Source: Press Information Bureau, Government of India, Ministry of Agriculture

The flow of agriculture credit in 2004-005 reached Rs.1, 25,309 crore (as against target of Rs. 1,05,000 crore) and next year 2005-06 it reached Rs. 1,80,486 crore in this year credit target was Rs.1,41,000 crore that means 39,486 crore was extra supply to agriculture . in the year 2006-07 credit supply target was Rs.1,75,000 and achieved Rs. 2,29,400 crore. As against the target of agriculture credit for 2012-13 of Rs.5, 75,000 crore, the achievement during the year has been Rs.6, 07,375 crore. For the year 2013-14, the target of agriculture credit flow has been increased to Rs.7, 00,000 crore and achieved Rs. 7, 38,615 crore. Agriculture credit reached from 1, 25,309 crore to 7, 38,615 crore between the years2004-05 to 2013-14 in this 10 years, this amount increased by 590 percent and almost 6 fold. This is the remarkable achievement in the agriculture credit.

KISAN CREDIT CARD SCHEME (KCC)

The Kisan Credit Card (KCC) Scheme introduced in August 1998 has since stabilized, with major share of crop loans being routed through it. Besides the existing facilities of providing crop loan, the scope of KCC scheme has been enlarged to include term loans for agriculture and allied activities and a reasonable component to meet the consumption needs. Further, to provide adequate and timely credit support from the banking system to the farmers for their cultivation needs and to improve farmers' accessibility to bank credit for production purposes, the credit delivery mechanism is being simplified and more flexibility in the use of credit Kisan Credit Card (KCC) is being introduced. Kisan Credit Card has made rapid progress with the banking system issuing more than 435 lakh cards with cumulative credit of Rs 1,11,459 crore sanctioned up to September 30, 2004(NABARD, 2005). The number of live KCCs issued by commercial banks, cooperative banks, and regional rural banks reached 10 crore, while total loans outstanding amounted to 5, 34,681 crore in March 2013.

PROBLEM IN AGRICULTURE CREDIT IN INDIA

Agriculture in India has always been heavily dependent on the monsoons and has hence been an inherently risky activity. At different times we have also had onerous rural tax systems under different empires, most recently under the British. Indigenous systems of credit had to develop as a consequence of seasonal needs and fluctuations in order to facilitate smoothing of

Consumption pattern of farmers over the year. With the intermittent failure of the monsoons and other customary vicissitudes of farming, rural indebtedness has been a serious and continuous characteristic of Indian agriculture. Because of the high risk inherent in traditional farming activity, the prevalence of high interest rates was the norm rather than an exception, and the concomitant exploitation and misery that often resulted. Development of rural credit systems has

Therefore, been found to be intrinsically very difficult and, as we will see, an issue of continuing official concern for over a century. The large proportion of population in the

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lower strata, which is having major share in the land holdings receives much less credit than its requirements. The growing disparities between marginal, small and large farmers continues to be a cause for concern. This observed phenomenon may be attributed, *inter alia*, to the "risk aversion" tendency of the bankers towards small and marginal farmers as against the large farmers, who are better placed in offering collaterals. The flow of investment credit to agriculture is constrained by host of factors such as high transaction costs, structural deficiencies in the rural credit delivery system, issues relating to credit worthiness, lack of collaterals in view of low asset base of farmers, low volume of loans with associated higher risks, high man power requirements

CONCLUDING REMARK

Agriculture credit situation brings out the fact that the credit delivery to the agriculture sector continues to be inadequate. It appears that the banking system is still hesitant on various grounds to purvey credit to small and marginal farmers. The situation calls for concerted efforts to augment the flow of credit to agriculture, alongside exploring new innovations in product design and methods of delivery, through better use of technology and related processes.

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