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Trends in Agricultural Credit

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ABSTRACT

Agriculture sector is playing a significant role in the development of rural areas in our country. Agriculture is the main occupation and still is a strong means of livelihood and there is necessity for ensuring sustainability in these livelihoods. Agriculture and allied sectors contribute nearly 22% of GDP of India and further 9.93% contribution in total export of India.

Rural indebtedness, agricultural distress, dependency on private money lenders, and farmers suicides are common features surrounding Indian Agriculture. For more than 100 years RBI and Central Government have been making efforts to enhance institutional credit in rural areas particularly to assist agricultural operations. But economic survey (GOI) 2010 shows that out of 27 public sector banks, only 14 sector banks achieved the agricultural credit target of 18% agricultural credit and in case of private sector banks only 8 achieved the target of 18% for lending to agriculture in 2009.

In order to increase productivity a huge investment on agriculture is essential. Farmers need more capital in order to buy qualitative seeds, agricultural implements, power tiller, adoption of latest technology. But Indian agriculturist is not only capital scared but also faces natural vagaries in addition to unfavorable voltaile marketing conditions. Hence he needs credit for the agricultural expansion programmes. Credit enables the agriculturist to extend control over his ownership of resources. The much spoken debt relief and waiver only touched the rich agriculturist leaving small and marginal farmers not caring. Further debt waiver and relief a most ambitious programme did not succeeded as expected and programme could not be carried out successfully because of faulty implementation.

***Keywords*--** Indebtedness, Agricultural Credit, Modernization of Agriculture, Capital Scare, Natural Vagaries

I. INTRODUCTION

Agriculture is the main occupation in India. As per NSSO round 2001, 54.3% work force depended upon agriculture. Agriculture and allied sectors is contributing 22% towards GDP. Agriculture in India is assuming a high rate of significance since it is the most important sector as far as poverty alleviation and employment generation (Rajesh Bharduri et al., 2011).

Adequate timely availability of cheaper organisational finance plays the role of accelerator in the agriculture development (Belshow 1931, Galbrath 1952 and Schultz 1964). credit not only a critical input in agriculture but also an effective means of economic transformation or rural areas. Increasing commercialisation, diversification and capitalisation through the use of modern techniques, driven largely by the forces of globalisation have increasingly enhanced the credit need of the farmers. (Gadgil 1994, Khan Tewari and Shukla 2007).

Rural indebtedness and a high dependence on local money lenders is a chronic problem and is causing lot of administrative, social and political problems which are active in hindering the growth of Indian economy. In recent years multiple efforts have intensified and today there is a vast network of institutions providing credit for agriculture.

Rural indebtedness coupled with agrarian distress is leading the agriculturists to commit suicide which is rampart in Karnataka. Ill quality seeds, unreliable information about the crop, lack of better marketing facilities and lack of timely availability of credit are some of the main reasons for the agrarian distress and farmers suicides. One of the first step taken by GOI towards addressing the problem was the establishment of cooperative credit societies. The cooperative credit Act was passed in 1904 with an intention of providing loans at cheaper rates of interest. Though Maclagan Committee (1915) and Royal commission on Agriculture in India (1928) focused the expansion of cooperatives but there was a slowdown in the cooperative movement and innumerable cooperative societies were suffered on account of heavy overdues in repayment. All India Rural Credit survey in 1951 was constituted by RBI to understand the genuine problems faced by agriculture in India and financing the rural sector.

After the establishment of SBI in 1955 and during 1969, 'lead bank' was introduced by RBI with an intention of specific identification of area and to increase credit flow and to promote overall development in rural area. Another landmark in the part of agricultural credit delivery was the establishment RRBs in 1975 and NABARD in 1982 and these two providing agricultural needs.

II. RESEARCH METHODOLOGY

The present study is based on secondary data different journals, newspapers and websites are the major sources of the present study. Data compiled from different sources are presented in the form of tables in order to arrive at better conclusion.

Review of Literature

Binswanger and Khandker (1992) found in their research work that rural credit has a measurable positive effect on agricultural output. Cooperative credit disbursed has elasticity with respect to output of 0.063. It is larger than the elasticity of crop output with respect to predicted overall rural credit which is near 0.027 but not precisely estimated.

Das et al.(2009). Study shows that there is a positive association between credit and agricultural output but that this varies cross states and further that there a positive association between the number of persons with accounts and agriculture output suggesting the financial inclusion could impact agricultural output positively.

Bhalla and Singh (2010) expresses in their cross sectional analysis using data for 2003-06 that the elasticity of demand for inputs with respect to credit is quite significant. Their findings comes from a simple model that regress the logarithm of inputs per unit of output on logarithm of institutional credit. They find that these elasticity vary across regions and credit elasticity are exceptionally very high for tractors tubewells and irrigation for the technologically backward eastern region.

Subbarao (2012) outlines in his study on 4 states a direct agricultural credit has a positive and immediate impact on agricultural output.

Factors responsible for the Growth of Agricultural Credit

During the previous 19th century commercial banks was concentrated only in urban centers and rural population finding no alternative has to depend upon local money lenders. Banking activities by commercial banks did not surfaced as expected on the rural area until after independence. It was only after the enactment of the cooperative credit societies Act (1904) that cooperative institutions started providing organised financing in rural areas. Further the GOI wanted the commercial banks to play an active role in the development process and development process being concentrated in the urban centers. Village development has become inevitbale in order to achieve equal geographics development in the country. The trend of providing finance to the rural areas was further accelerated with the nationalisation of 14 major commercial banks. Lead bank scheme was introduced for each district to take the lead role in understanding the credit needs of rural population.

Table-1 reveals data on rural branch expansion and fall in the population per branch. Between 1976 and 2014, the number of rural branches of commercial banks increased form 7690 to 44699. During this period banks played an instrumental role to become lead institutional credit agency, accounting for 73% of credit flow in 2012-13. Table-1 highlights about the increase in the number of banks branches and fall in the branch / population ratio helped to improve the farmers to access commercial banks in order to avail agricultural credit.

Establishment of Regional Rural Banks (RRBs)

During the year 1975 government decided to establish RRBs in order to widen the reach of institutional credit particularly to the rural population like small and marginal farmers. The number of RRBs as an March 31, 2014 stood at 57 with a network of 19082 branches covering 642 districts throughout the nation. But they cover only 10% of total credit flow.

Priority Sector Lending

A number of other categories under priority sector other than agriculture and small scale have ben added, namely micro and small enterprises, education, housing, microfinance, export credit, loans to weaker section, drinking water loans etc., The original target of 40% for priority sector lending and the sub target of 18% for agriculture continue to be valid. Indirect agriloans include loan upto Rs. 5 crores to dealers / sellers of agri inputs, loans to set up agri clinics and agri business centers, loans to customs service who provide tractors, bull dozers, well-boring equipment. Table-2 reveals data on rate of interest for shortfall in agriculture lending. RBI fixes targets and subtargets which are enforced on commercial banks. Such of the scheduled commercial banks which fall short of achieving the agricultural sub targets, are allocated targets for contribution to the rural Infrastructure Development Fund (RIDF). These amounts are decided depending upon the shortfall in the achievement of the subtarget for agriculture.

Self Help Groups Bank Linkage Programme (SBLP)

SBLP programme is bringing wonderful results in the microfinance sector through delivering financial services to the poor in a substainable way. Under SBLP, SHGs join together and gain financing access through banks by pooling their common savings. In the beginning the programme progressed slowly but picked up gradually and the number of SHG financial accounts more than

73.18 lakh savings linked SHGs croses over 9.5 crore poor households as on 32, 2013. The total outstanding amount is Rs. 39375 and savings deposits of these SHGs with banks amounted to Rs. 8217.25 crores.

Kisan Credit Cards (KCC)

KCC was introduced in August 1998 and is an innovative credit delivery mechanism to meet the credit needs of the farmer. Besides providing short term and long terms loans a certain component of KCC also covers consumption needs. The outstanding feature of KCC is that when at once documentation and assets of the beneficiaries is done, they could approach financial organisation for simple and hassle free sanction of credit from next year. Now KCC is an ATM plastic card and allows the facility of withdrawal of loan. As per RBI, 12.84 crore KCC had been issued upto 2012-13.

Financial Inclusion Programmes

Financial inclusion is a comprehensive and holistic process of ensuring access to financial services and timely adequate credit, particularly by vulnerable groups such as weaker sections and low income group at can affordable cost. Therefore financial inclusion includes access to mainstream financial products such as bank accounts, credit, remittances and payment services, financial advisory services and insurance facilities. Further, as a part of financial inclusion programme, the government had launched the Swabhiman scheme in 2011 to extend the reach of banking in rural areas initially to 74000 (approx) habitations with a population of more than 2000. Jan Dhan Yojana another step initiated provide access to banking facilities to all households and almost every household has a bank account.

Trends in Short and Long Term Credit

Agriculture credit based on tenure may be classified into long term and short term credit. The amount disbursed as short and long term have been increasing rapidly. Long term credit grew from Rs. 500 to 107162 crores, short terms credit expanded from Rs. 1096 to Rs. 346737 crores during the period from 1975-76 to 2011-12. The percentage of short erm credit increased from 68.7 in 1975-76 to 76.4% in 2011-12. The demand for agricultural credit basically emerged on account of necessity to meet their input needs such as seeds, fertilizers, pesticides, power, irrigation and hired labour. On comparison of total value of inputs used and total credit advanced by the institutions one can decides the proportion of credit needs is being met from institutional sources or not.

Ground Level Credit Flow 2003-2014

Three major policy initiatives in recent years have come to deliver the context of institutional credit to agriculture in India. The first policy initiative introduced in 2004-05 was to double the volume of credit to agriculture over a period of three years, the agricultural debt waiver and debt relief scheme (ADWDRS) in 2008 being the second initiative launched in order to solve the persistent problem of indebtedness and to alleviate poverty and third initiative was interest subvention incentive for prompt repayment of loans, All these three initiatives' have contributed to burgeoning instituional lending to agriculture in the last decade.

The first policy introduced in 2004 sought to double the volume of agriculture credit and it exceeded the target. Against a credit flow target of Rs. 325000 crores during 2009-10, the achievement was Rs. 384514 crore forming 118% of the target. The target for the year 2010-11 was Rs. 37500 crores while achievement on March 2011 is Rs. 446779 crores (GOI 2013). Although the increasing trend of institutional credit flow might have begin in 2000 itself (Ramkumar et al., 2007), credit flow in recent years have stood out for its magnitude, if not for revealing the trend in 1990s. For instance, ground level credit flow as a ratio of the total value of paid out inputs in agricultural sector and allied sector has increased form an average of 21% in 1995-96 to 2003-04 to 69% during the period 2004-05 to 2011-12 as of institutional credit is equal to 85% of paid out inputs (Table-3).

III. CONCLUSION

Despite substantial impressive growth in institutional credit since 1951, the dependence of farmers on noninstitutional sources for agri credit remains as high as 36% in 2013. But a comparison of noninstituional financing from 89.8% in 1951 to 33.7% in 1991 and 38.9 in 2002, and 36% in 2013 reveals a gradual decline in the depending ratio. But there is rising trend in share of private money lenders from 17.2% in 1981, 17.5% in 1991, 26.8 in 2002 and 29.6% in 2013.

Waivers and relief programme declared by the government from time to time acts as a moral hazard and seriously impair the sytem. Such waivers and reliefs create a tendency of future waivers of loan or interest payment and farmers show neutrality to pay bank loans.

Long term loans from institutional sources have also increased substantially, although their shares of total institutional credit has registered a decline from 31.3 to 23.6% betwen 1975-76 and 2011-12. Commercial banks advanced long term loans to the tune of 88% of credit in 2012-13.

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Table -1
Rural Branch and Population per branch

Year	Rural Branches	Population per branch
1975	5598	87442
1981	8471	64650
1991	11344	57992
2001	14597	52319
2011	23097	36335

Source: Handbook of statistics on the Indian Economy, RBI and UN Population division.

Table -2
Rate of interest for short fall in agricultural lending

Shortfall in agriculture lending target for domestic commercial banks	Rate of Interest (%)
Less than two percentage points	Bank Rate - 2 % points
Between two and five percentage points	Bank Rate - 3 % points
Between five and nine percentage points	Bank Rate - 4 % points
Above percentage points	Bank Rate - 5 % points

Source: Anand Reports, NABARD, Various Issues

Table -3
Overview of GLC Flow during 2003-04 to 2013-14 All India

Year	No. of agricultura a/c. in lakhs	Amount disbursed (in crores)	Per A/c. (in Rs.)
2003-04	NA	86981	-
2004-05	NA	125309	-
2005-06	NA	180486	-
2006-07	423.13	229400	54215
2007-08	439.34	254658	57964
2008-09	456.1	301.98	66193
2009-10	482.30	384514	79725
2011-12(IP)	646.57	51029	79037
2012-13(P)	703.57	607375	86328
2013-14	799.68	71164	88981
% growth in 2013-14 over 2012-13	13.66	17.16	3.08

CAGR(2013-14 to 13-14)	9.52	23.39	7.34
CAGR(2004-05 to 2006-07 (Doubling Period)	-	35.30	-
CAGR (2007-08 to 2013-14) (Post doubling)	10.50	18.68	7.21

Source: IBA for Commercial Bank & NABARD for Coop Banks & RRBI
Note: Derives the CAGR is for the period 2006-07 to 2013-14.