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AGRICULTURE CREDIT IN INDIA - AN INSTITUTIONAL FRAMEWORK

Economics

Dr. V. K. Gautam Associate Professor Department of Economics, Meerut College, Meerut - Correspondance Author

KEYWORDS:

Agriculture credit is important in any effort at increasing agricultural production, thereby eliminating rural poverty in India and providing employment opportunities. As far as institution sources are concerned, the first institution established and promoted was the institution of co-operative credit societies. The co-operative movement in India was started way back in 1904. However, its development was very slow. Even in 1951, co-operative societies provided only 3.1% of total rural credit. Hence the dominance of money lenders in agricultural credit continued. It was only with the nationalization of commercial banks in 1969 and 1980 that the grip of money lenders on agricultural credit could be reduced. In 1975, the government set up Regional Rural Banks (RRBs).

Thus by the end of 1976, there emerged three separate institutions for providing rural credit which is often described as multi agency approach. In 1982, NABARD was set up. India now has a wide network of rural finance institutions. There are more than 40,000 commercial bank braches, 14500 RRBs and about 1,00,000 rural credit co-operative societies.

Types of Credit

The agricultural credit which is a key input for farming community because of Indian farmers have little surplus cash at their disposal and are forced to take huge amounts of loan to meet the sheer escalating cost of agricultural production due to ever increasing input prices and labour cost and market prices of their produce not increasing in the same ratio. Sometime they faces the vagaries of monsoon.

Generally, the farmers need two types of credit. They are : short term and long term credits Short term credit is required for meeting current farm expenses infarming which must be repaid during the same year after harvest. It includes buying the seeds, plant protection material etc. The long term credit is used for capital investment such as land improvement, repairing and boring of tubewells, purchase of tractor and other equipments for farming.

Set-up of Agricultural Credit in India

Functionally institutional agency in the field of agricultural credit can be grouped into three categories. Institutional set up of agricultural credit presented in table 1 reveals that under the categories I are the institutions which indulge in 'refinance' only. In this category institutions like RBI, NABARD, NCDC and State Land Development Banks are included. Infact, these institutions are at the national / state, district and field level institutions.

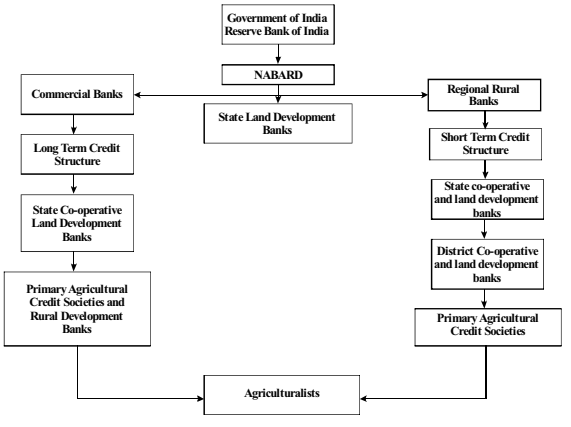
Table 1 Instituional Setup of Agriculture Credit in India

Level	No. of Institutions	Name of the Institutions	Functional Category
National	3	1. Reserve Bank of India	Refinance
		2. National Bank for agriculture and Rural Development (NABARD)	Refinance
		3. National 4. co-operative development corporation (NCDC)	Refinance and consultancy
State	3	1. State and Development Banks (SLDBs)	Refinance
		2. State 3. Co-operative banks	Refinance and Direct Finance
		4. Commercial Banks	Refinance and Direct Finance
District	2	1. Regional Rural Banks	Refinancing and Direct Finance
		2. District 3. Co-operative banks	Refinance & Direct Finance
Field	4	1. Primary Agricultural Development Banks (PADBs)	Direct Finance
		2. Primary Agricultural Credit Societies (PACs)	Direct Finance
		3. Regional Rural Banks	Direct Finance
		4. Commercial Banks	Direct Finance

Under category II falls such institutions which provide 'refinance' as well as direct lending to the rural people. Commercial Banks and RRBs at the district level and State operative banks at the state level come under this category. Under category III, the agencies engaged in 'direct lending' to the rural people such as PADBs, PACS, CBs and RRBs are included.

In the field of long term credit, NABARD is now the apex bank for agriculture credit in India, providing investment credit by way of refinance. It provides refinance through state co-operative banks, land development banks, commercial banks, RRBs, etc. NABARD is also the main agency for channeling funds for development of agriculture from international agencies like IBRD, IDA etc. The credit structure of agriculture credit in India is depicted in following chart:—

Structure of Agriculture credit in India



Sources of Flow of Agricultural Credit

There are two types of agricultural credit in India; they are institutional and non-institutional. The different institutional sources supplying agriculture credit to the farmers are co-operative banks, commercial banks, and government agencies. The non-institutional sources include money lenders, traders, relatives and friends and other allied sources.

A recent NSSO survey data has classified that percent of indebted farmers taking loans from money lenders is highest (29%), followed by banks (27%).

Co-operative societies (26%) and finally from government 3%.

Table : 2 Credit Flow to Agriculture from Different Sources (in %)

Sources of Credit	1951	1961	1971	1981	1991	2001	2011
(A) Institutional							
1. Government	3.3	5.3	6.7	4.0	5.7	2.3	1.6
2. Co-operative society/banks	3.1	9.1	20.1	28.6	18.6	27.3	29.4
3. Commercial Banks / RRBs	0.8	0.4	2.2	28.0	29.0	24.5	25.1
4.Others	—	—	0.2	0.6	10.7	3.0	0.05
Subtotal (1-4)	7.2	14.8	29.2	61.2	64.0	57.1	56.1
(B)Non-Institutional Agencies							
1)Money Lenders	69.7	60.8	36.9	16.9	15.7	29.6	30.3
2)Land Lord	1.5	0.9	8.6	4.0	4.0	1.0	0.6
3)Traders	5.5	7.7	8.7	3.4	7.1	2.6	—
4) Relatives	14.2	6.8	13.8	9.0	6.7	7.1	11.5
5) Others	1.9	8.9	2.8	4.9	2.5	2.6	1.5
Sub Total of (1-5)	92.8	85.2	70.8	38.8	36.0	42.9	43.9
Total	100.0	100	100	100	100	100	100

Source : All India Debt and Investment Survey and RBI bulletin for various years.

The share of institutional credit was 7.2% in 1951. It increased manifold to 64% in 1991 reflecting concomitantly a remarkable decline in the share of non institutional credit from around 93% to about 36% during the same period. However, the NSSO survey for 2001 and 2011 reveals that the share of non-institutional credit has taken a reverse swing which is a cause of concern.

(A) Credit from Institutional Agencies

In this group of agricultural credit, the remarkable was that of the commercial banks, while the share of co-operative societies in the outstanding cash dues increased from 20.1% in 1971 to 28.6% in 1981, and subsequently dropping to 27.3% in 2001; that of commercial banks rose to 29% in 1991, after rising sharply to 28% in 1981 from a meager 2% in 1951. As a whole, at all India level among the institutional credit agencies, the co-operative societies and the commercial banks were the two most important agencies in the rural sector.

(B) Credit from Non Institutional Agencies

The combined share of all the non-institutional credit agencies in agricultural credit recorded a sharp decline of 32% during 1970s but the decline got arrested in 1980s, the fall being just of about 3% but increased to 43% subsequently in 2011. The decline is found to be steepest for the credit agency 'Money Lenders' whose share came down to 16% in 1991 from about 36% in 1971 and 60% in 1961. Subsequently, share has jumped to about 30% in 2011 respectively. As a whole, among the non-institutional agencies, professional money lenders were the main source of credit.

Conclusion

It can be concluded from the ongoing analysis that the informal / non-institutional finance was gradually declining during 1960s, was very nearly broken during 1970s, with institutional agencies making in roads into the rural scene. The share of institutional credit agencies in agriculture credit increased from 29% in 1971 to 61% in 1981 and then the pace of increase was arrested rising to 60% in 1991. The gradual increase in share of formal institutional credit in agriculture witnessed some reversal during 1991-2011 mainly because of a pull back by commercial banks. Overall it can be inferred that as a result of efforts undertaken by the government to develop institutional source of credit to agriculture sector the role of non-instutional sources has declined considerably.