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Agricultural Credit and Productivity-Issues and Challenges

KEYWORDS

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INTRODUCTION:

Agriculture plays a crucial role in the development of the Indian economy. It accounts for about19 per cent of GDP and about two thirds of the population is dependent on the sector. 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. Recognizing the importance of agriculture sector in India's development, the Government and the Reserve Bank of India (RBI) have played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector. Agricultural policies in India have been reviewed from time to time to maintain pace with the change requirements of the agriculture sector, which forms an important segment of the priority sector lending of scheduled commercial banks (SCBs) and target of 18 per cent of net bank credit has been stipulated for the sector. The Approach Paper to the Eleventh Five Year Plan has set a target of 4 per cent for the agriculture sector within the overall GDP growth target of 9 per cent. In this context, the need for affordable, sufficient and timely supply of institutional credit to agriculture has assumed critical importance.

In India a multi-agency approach comprising co-operative banks, scheduled commercial banks and RRBs has been followed for purveying credit to agricultural sector. The policy of agricultural credit is guided mainly by the considerations of ensuring adequate and timely availability of credit at reasonable rates through the expansion of institutional framework, its outreach and scale as also by way of directed lending. Over time, spectacular progress has been achieved in terms of the scale and outreach of institutional framework for agricultural credit.

TRENDS IN AGRICULTURAL CREDIT:

In India, where the formal financial system is predominantly bank-oriented, banks play an important role in financing the needs of agricultural sector. With the aim of facilitating the timely and adequate credit flow to agriculture, the sector has been targeted as a part of the priority sector lending programme introduced after nationalization of banks in 1969.

Domestic commercial banks have been directed to allocate 18 per cent of net bank credit to agriculture and allied activities. The directed credit programme has clearly resulted in a significant increase in the amount of credit allocated to agriculture over the years. Moreover, the Government of India also directed commercial banks, RRBs and cooperatives to double the flow of agricultural credit over a span of three years since 2004. Further, the scheme of interest rate subvention was introduced by the since 2006.

TRENDS IN AGRICULTURAL PRODUCTIVITY:

I would like to discuss certain trends in agricultural productivity in India. As is well-known, the year 1968 marked the beginning of a turning point in Indian agriculture. The country was dependent on agricultural imports for almost two decades after independence. Production of rice and wheat grew at 28.0 per cent and 23.6 per cent, respectively, during 1967–68 while their yields during the same year grew at 19.6 per cent and 24.4 percent, respectively.

These levels of growth remain one of the highest achieved so far. The development of high-yielding variety (HYV) of seeds in mid 1960s and the subsequent use of the fertilizer-pesticides-irrigation package, better seeds, improved irrigation and education of farmers led to quantum jumps in the productivity. Consequently, production of wheat, rice and food grains grew at an average rate of 21.9 per cent, 10.3 per cent and 10.9 per cent, respectively, during the subsequent years 1967–1970. This may be attributed to significant rise in yield of wheat, rice and food grains which grew at an average rate of 11.2 per cent, 7.9 per cent and 8.1 per cent, respectively, during the same years. These growth rates have also been unprecedented. High growth in production and yield continued during the subsequent decades of 1970s and 1980s. Production of wheat, rice and food grains during 1970s–1980s grew at an average rate of 5.1 per cent, 4.0 per cent and 3.3 per cent, respectively. The yields of wheat, rice and food grains grew at an average rate of 3.1 per cent for wheat and rice, and 2.9 per cent for food grains, respectively, during the same period. These rates of growth in production and yield were much higher than the average annual rate of growth of population of 2.2 per cent during the same period.

CHALLENGES FOR RURAL AGRICULTURAL CREDIT:

Agriculture is a matter of livelihood and food security, with nearly 60 per cent of the population Depending on it. At the same time, to withstand the global competition, enhanced productivity and sustainability of the agriculture sector has become imperative. In addition, the majority of the country's population, more so marginal and disadvantaged sections of society, stay in villages. Hence, the role of banks in the enhancement of agriculture productivity, expansion of rural credit and poverty eradication assumes high priority.

Despite decades of efforts and experimentation in banking, the organized financial sector is Still not able to meet the credit gap in the rural sector. The lower levels of per capita income, lack of infrastructure in the rural areas, focus in the urban sector and lack of proper connectivity were the main hindrances for banks to venture into rural

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areas. Directed lending, cumbersome procedures, delay in sanctioning loans and lack of statutory backing for recoveries were other major impediments to the growth of banking in the rural sector.

ISSUES AND CONCERNS:

Despite the significant strides achieved in terms of spread, network and outreach of rural financial institutions, the quantum of flow of financial resources to agriculture continues to be inadequate. One of the major impediments constraining the adoption of new technological practices, land improvements and building up of irrigation and marketing infrastructure has been the inadequacy of farm investment capital. Farmers seem to borrow more short-term credit in order to meet input needs to maintain continuity in agricultural operations without much worrying about long-term capital formation in the face of agricultural bounciness. It might be the case from supply side that short-term credit bears low credit risk, lower supervision and monitoring costs, and a better asset liability management.

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, *etc*.

The large proportion of population in the 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 continue 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.

IMPLICATIONS FOR THE FUTURE:

Indian agriculture still suffers from: i) poor productivity, ii) falling water levels, iii) expensive credit, iv) a distorted market, v) many intermediaries who increase cost but do not add much value, vi) laws that stifle private investment, vii) controlled prices, viii) poor infrastructure, and ix) inappropriate research. Thus the supply leading approach with mere emphasis on credit in isolation from the above factors will not help agriculture to attain the desired growth levels.

SUGGESTIONS AND RECOMMENDATIONS:

1. The Cooperative Banks should try to increase their deposits by opening branches in business areas, improve the services to their clients, introduce different types of deposit schemes and offer competitive rates of interest.
2. Cooperative Banks should change their loan policies on the basis of crop loan systems.
3. The Cooperative Banks must maintain adequate liquid resources, margin, properly scrutiny of loans and should try to qualitative improvement to the staff.
4. Cooperative Banks should try to co-ordinate between the Board of Management, Members, Depositors and Employees of banks.

CONCLUTION:

This is not an exhaustive list. However, I feel that instead of lamenting that productivity has been low, we must look at the past to the Green Revolution in the 1960s to draw confidence that productivity can be improved. We need to find ways to surmount the existing constraints and step up productivity using finance as a tool. The Green Revolution paved the way for food security in India.

Let me now conclude. It is clichéd; nevertheless, it is well worth repeating that agriculture defines the emotional and economic well being of India. True, agriculture's share in GDP is less than 15 per cent but it still remains the direct domain of over half of the population whose economic prospects are linked to the performance of agriculture. According to a World Bank Report, 'among 42 developing countries, over the period 1981-2003, one per cent GDP growth originating in agriculture increased the expenditures of the three poorest deciles at least 2.5 times as much as growth originating in the rest of the economy'.10 Clearly, improving the performance of agriculture is key to our quest for inclusive growth and poverty reduction.

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