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A Study on Flow of Farm Credit in India

KEYWORDS: farm credit, post reform, pre reform, short term credit, long term credit, direct credit, indirect credit

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ABSTRACT - *The growth of agriculture is very important to satisfy hunger and nutrition requirement. Being the primary economic activity of a nation, its growth should be coherent with the sustainable development and conservation of natural resources. This makes agriculture one of the more vulnerable sectors as the resources are limited and needs insatiable. Today, the core issue of Indian agriculture is a farmers' distress due to lack of readily available farm credit and related problems. It is necessary that the inputs be available to the farmers at a subsidised cost, for profitable farming. The access to this credit also affects the productivity, assets and food security of the rural poor. Hence, the well-being of our farmers should be central focus of the government. The government is aiming to bring all the farming households under the zone of complete financial inclusion. This paper focuses on institutional credit arrangements, government initiatives through various schemes, comparison of direct and indirect farm credit in various states and 'Situation Assessment Survey of Farmers' by NSSO.*

The statistics obtained from the agricultural sector form the major backbone of formulating various policies. Such statistical data has been put to various degree of planning .But the availability of statistics on diverse agrarian aspects has become very challenging. The statistical data acquired attenuates disparities between two farming families while it may not be so.This elicits the need of a more calibrated and systematic approach for a better policy making. The main cause of decline in agricultural development is farmers' indebtedness which has been extensively addressed by the expert groups.

INTRODUCTION

Agriculture plays a vital role in the Indian economy. It employs two thirds of the workforce. In the Indian economy, agriculture contributes to one third of the national income. More than three fifths of exports originate from the agriculture sector. The requirements of finance in agriculture sector are relatively high. Not many farmers have the required capital to invest in agriculture. In order to meet their expenses due to various agricultural inputs like fertilizers, irrigation machinery makes it necessary to provide credit to all those farmers that need it.

In the early 1950s, the primary source of agricultural credit was the moneylenders. The moneylenders were the dominant force in advancement of credit to the farmers. The reliance of farmers on moneylenders was mainly due to lack of any alternative credit source. This gave an opportunity to moneylenders to exploit the farmers.

In order to improve the situation, The Government of India took various measures such as nationalization of 14 major commercial banks in 1969, the establishment of Regional Rural Banks in 1975. The establishment of NABARD (National bank for agriculture and rural development) in 1982 was the highlight of credit reforms in the agriculture sector.

MAJOR ERAS OF AGRICULTURAL CREDIT:

Institutional Arrangements: Agricultural credit is disbursed through a network of rural banks, commercial banks, cooperatives coming under the RBI. Reserve Bank of India played a crucial role in creating an institutional framework to cater the increasing requirements of the sector. The policy was focused on increasing institutional sources of credit. Studies broadly categorize the reforms into two eras:

1. Post Reform era
2. Pre reform era

PRE REFORM ERA

The pre reform era constituted from 1970-1991.In this era the dominance of credit advancement to the farmers was by cooperative banks. Cooperative banks support commercial banks to bring a large no of small depositors/borrowers under the formal financial sector. Since cooperative banks have an extensive network of their branches, mobility and supply of agriculture/rural credit is really efficient. The middleclass section of the society has cultivated banking habits all over India. From the table it can be concluded that the loan issued by cooperative banks from 1980 to 1991 increases from 1386 to 3448 crores.The loans issued by rural banks increases from 98 in 1983 to 335 in 1990 after that it falls steeply to 125 crores in 1991.Scheduled commercial banks have shown an increase from 517 to 2048 crores. These statistics clearly indicate more reliance on cooperative banks in the pre reform period by borrowers due to fluctuations in CRR.(Credit reserve ratio).The loan outstanding in cooperative banks was 5178 and in commercial banks was 4235 crores.

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TABLE 1

(Rupees in crore)

Year	Loan issued				Loan Outstanding			
	Co-operatives	SCBs	RRBs	Total	Co-operatives	SCBs	RRBs	Total
1980-81	1386	517	-	2047	1908	1162	-	3250
1981-82	1796	623	-	2740	2149	1370	-	3792
1982-83	1908	565	98	2759	2225	1351	109	3685
1983-84	2158	872	120	3335	2554	1638	147	4339
1984-85	2323	1035	132	3731	2836	1964	206	5006
1985-86	2747	1252	176	4529	3237	2355	265	5858
1986-87	2620	1482	201	4512	3293	2619	324	6236
1987-88	3120	1672	246	5516	3871	3071	400	7342
1988-89	3594	1765	250	5884	4668	3414	479	8561
1989-90	3974	1898	336	6499	4948	4005	575	9527
1990-91	3448	2048	125	5979	5178	4235	590	10002

POST-REFORM ERA

The post reform era began in 1991

TABLE 2

Year	Instutitions							
	Cooperative Banks	Share (%)	RRBs	Share (%)	Commercial Banks	Share (%)	Total	Percent Increase
1991-92	5,800	52	596	5	4,806	43	11,202	27
1992-93	9,378	62	831	5	4,960	33	15,169	35
1993-94	10,117	61	997	6	5,400	33	16,494	9
1994-95	9,406	50	1,083	6	8,255	44	18,744	14
1995-96	10,479	48	1,381	6	10,172	46	22,032	18
1996-97	11,944	45	1,684	6	12,783	48	26,411	20
1997-98	14,085	44	2,040	6	15,831	50	31,956	21
1998-99	15,916	43	2,538	7	18,441	50	36,897	15
1999-00	18,363	40	3,172	7	24,733	53	46,268	25
2000-01	20,801	39	4,219	8	27,807	53	52,827	14
2001-02	23,604	38	4,854	8	33,587	54	62,045	17
2002-03	23,716	34	6,070	9	39,774	57	69,560	12
2003-04	26,959	31	7,581	9	52,441	60	86,981	25
2004-05	31,424	25	12,404	10	81,481	65	1,25,309	44
2005-06	39,404	22	15,223	8	1,25,859	70	1,80,486	44
2006-07	33,987	24	15,170	10	1,00,999	67	1,50,156	49
2007-08	35,875	20	17,987	10	1,28,876	70	1,82,738	51
2008-09	36,165	19	19,325	10	1,32,761	71	1,88,251	53
2009-10	32,871	18	23,984	13	1,21,879	69	1,78,734	--

Note : Commercial Banks and RRBs were clubbed together up to 1990-91.
Source : Economic Survey and NABARD various issues.

From 1991-2005 the credit from cooperative banks were dominant. After 2005, the credit from commercial banks was on the rise while credit from cooperative banks remained stagnant due to the rationalization of the latter. The credit deposition ratio of commercial banks has also been more consistent compared to the cooperative banks. Rural banks were encouraged to give credit to farmers to reduce reliance on cooperative and commercial banks.

Central Financial Institutions: Nowadays, short term and long term credit needs of farmers are met by National Bank for Agricultural and Rural Development (NABARD). NABARD is an apex organisation, established in 1992 for lending operations. It finances various rural banks and also does complimentary work of supervising the credit flow in the agriculture sector. It provides innovations in formulation of policies and their implementation and evaluation. The refinance by NABARD to cooperatives, commercial and rural banks was Rs. 7075 crore at the end of June 2002. It can arrange for funds from RBI and advance loans to state banks at a lesser credit ratio for loans up to 20 years.

Farm credit package: Farm credit package was introduced in 2004 under which the banks were advised to double the credit to agricultural sector in three years ie by 2006-07.Since then the flow of credit has consistently exceeded the target.

Kisan Credit Card Scheme: It was introduced in August 1998 to ease the cumbersome process of loan advancement. This innovative scheme comes under the framework of farmers, banks and policy makers and has received widespread acceptance throughout the nation. Advisories have been given to banks to make it a smart cum debit card.

Loan structure in drought affected areas: The Reserve Bank has a mechanism to provide relief in the event of a natural calamity. Guidelines have been established to ensure that there is cooperation between the consultative committees and state/district authorities. RBI guidelines provide for cushioning of short term crop loans where the loans are converted into normal term loans for which a normal interest rate is applicable. The loans, which need to be restructured due to drought, are made available for the current financial year at an interest rate reduced by 2 percent.

Institutional Credit in rain fed Areas: Credit is generally of two types, short-term credit that involves the credit for crop production in a particular year and long term credit, which usually involves improvement in agricultural production facilities. In rain fed areas, where the situation is unknown, short-term credit takes front stage and the difference between the two vanishes with the latter taking back stage. Here, a cyclic credit system seems more viable as it would cushion the effect of repayment in a year of low income. However, it seems unviable in terms of refinancing the farmer when recovery has not been full. Insurance based on credit and risk mitigation schemes such as the KCC can help in such scenarios.

Financing Agricultural investments in Eastern region: NABARD has come up with a refinance scheme to accelerate the investment in the Eastern region. NABARD provides 100% refinance at a concession rate of 7.5%. Four reforms viz, Water Resources Development, Land development, Farm Equipment (including tractor financing) and Seed Production are covered. The commercial banks have to achieve a target of minimum 70% lending while the RRBs and cooperatives are required to achieve 50% overall lending. Self Help Groups and Joint Liability Groups are also responsible for providing concessional refinance for equipment.

KINDS OF CREDIT

SHORT TERM CREDIT:

Agriculture has a huge say in the economy of the nation as well as providing livelihood to the entire nation. Farmers are helped by financial institutions which provide them credit to buy fertilizers, pesticides and seeds for crop cultivation. Such loans are called short term credit. A huge variety of crops are supported starting from staples(rice etc) to cash crops like sugarcane and cotton including multiple cropping.

TABLE 3

Year	Loans Issued				Loans Outstanding			
	Co-operatives	SCBs	RRBs	Total	Co-operatives	SCBs	RRBs	Total
2000-01	18556	10704	3095	32355	18168	15422	3692	37302
2001-02	21670	12661	3810	38141	21540	18882	4812	45234
2002-03	23629	16825	4834	45288	24518	23211	6495	54224
2003-04	29326	24143	6133	59593	30808	31982	7664	70454
2004-05	31887	29978	9883	71748	32481	42798	10980	86259
2005-06	35624	45644	12816	94084	34140	59971	13877	107988
2006-07	40796	65245	17031	123072	37764	76006	18707	132477
2007-08	47390	68243	20377	136010	43696	96152	22748	162596
2008-09	48022	107766	22851	178639	45686	126285	26652	198623
2009-10	61951	124646	30529	217126	54970	167623	33663	256256
2010-11	NA	146063	38560	NA	NA	193262	40663	NA
2011-12	NA	217897	47011	NA	NA	269030	46580	NA
CGR	**13.57**	**32.04**	**28.94**	**24.3**	**12.05**	**30.33**	**26.54**	**23.86**

Source: Reserve Bank of India
SSBs: Scheduled Commercial Banks
RRBs: Regional Rural Banks

The above table gives an analysis of short term credit given by SBC's, CB's and RRB's. Short term credit loan issued by CB's has increased drastically from 18556 crores in 2000 to 61951crores in 2010,after that it stopped issuing loans. Sim-

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ilar increased can be observed in SB's from 10704crores in 2000 to 217897crores in 2012.IN RRB's it began with a meagre 3035 but has increased dramatically to 47011.Loan outstanding for CB's, SB's and RRB's were 18168,15422 and 3692 respectively in 2000 and has shown a rise in 2010 being 54970,167623,33663.From the data given scheduled banks have encouraged more credit advancements to farmers and have dominated CB's and RB's in the decade.

LONG TERM CREDIT

Agriculture and allied activities such as minor irrigation, farm mechanisation, land development, soil conservation, dairy etc require a big capital to be invested. For this purpose banks offer farmers credit which can be paid within a maximum duration of fifteen years. This loan is essential for an increased yield of crops and development of agriculture as a whole.

TABLE 4

	Co-operatives	SCBs	RRBs	Total	Co-operatives	SCBs	RRBs	Total
2000-01	8739	5736	871	15346	27967	22828	3557	54352
2001-02	8899	5977	736	15612	30570	26224	3474	60268
2002-03	10411	8431	1045	19887	34546	30593	3766	68905
2003-04	10723	12069	1042	22834	40595	36121	4058	80774
2004-05	13122	18389	2043	33555	46341	52721	5730	104791
2005-06	12499	34955	2484	49938	48187	75632	7632	131451
2006-07	13223	50021	3198	66442	51679	93012	8745	153436
2007-08	10253	45229	3461	58943	21970	106644	10468	139082
2008-09	10765	52924	3648	67337	18359	129834	10715	158908
2009-10	12987	63607	4111	80705	21510	147813	12619	181942
2010-11	7235	76729	5405	89369	30558	164322	14404	209284
2011-12	7500	94980	6048	108528	31446	174268	17244	225958
CGR	**-0.93**	**31.56**	**22.03**	**20.95**	**-2.82**	**22.75**	**17.21**	**14.23**

Source: Reserve Bank of India
SSBs: Scheduled Commercial Banks
RRBs: Regional Rural Banks

The table gives an analysis of long term credit given by financial institutions to farmers.The data collected shows loan s given to the farmers from the period 2000-2012.The cooperatives had issued loans starting with an amount of 8739 crores in 2000 which increases till 2007 and later shows ups and downs till 2010.After 2010 a decline is observed.The SCB's on another hand have shown a tremendous increase in loan advancements starting with 5736 crores in 2000 upto 948980 crores in 2012.The RRB's began with a meagre 871 crores and 2012 had 6048 crores issue.

The loan outstanding for CB's, SCB's and RRB's were 27967 ,22828,3557 crores respectively in 2000 and had shown a steep increase till 2012.In 2012 there were 31446,174268 and 17244 respectively.Even in long term credit it can be concluded that SCB's were more dominant over its counterparts in providing long term advancements.

DIRECT AND INDIRECT CREDIT

Direct Credit

A loan given to the agricultural sector is called farm credit. Direct credit involves lending to the sector in a direct form wherein the borrower is directly held accountable for repaying the loan. This involves purchase of farm inputs required for agriculture directly by the farmer, self-help groups or joint liability groups for taking up agriculture or allied activities.

Indirect Credit

Indirect credit is that which indirectly affects the agriculture sector. It involves loans taken up by farm input producers. Here the intermediary is responsible for loan repayment. They are considered to be indirect creditor to agriculture. Banks prefer indirect credit over direct as the RBI has mandated banks to lend at least 18 per cent of loans to agriculture, if they fail to do so, the shortfall in the amount is locked in the Rural Infrastructure Development Fund which is considered by banks to be an inconvenience. To avoid this, banks indulge in indirect credit supply to the agricultural sector wherein they provide funds to makers of farm input and non-banking finance institutions which then lend to farmers.

TABLE 5

Year	Share in total agricultural credit		
	Direct credit	Indirect credit	Total
1985	83.2	16.8	100.0
1990	86.8	13.2	100.0
2000	84.5	15.5	100.0
2005	76.1	23.9	100.0
2006	72.1	27.9	100.0
2007	74.5	25.5	100.0
2008	77.5	22.5	100.0
2009	77.1	22.9	100.0
2010	76.1	23.9	100.0
2011	82.0	18.0	100.0

A significant portion of the agricultural credit is formed by indirect credit. Indirect credit accounts for 26% of the increase in credit between 2002 and 2010. For while indirect credit actually fell from 19885-1990. Although, it has increased since then, it showed a similar trend in decrease after 2010. AS such, indirect credit has contributed a lot to the agriculture sector credit.

TABLE 6

Region	Share of indirect credit in total agricultural credit								
	1990	1995	2001	2006	2007	2008	2009	2010	2
Northern Region	14.7	13.0	27.3	37.4	39.8	54.6	39.9	39.1	2
North-Eastern Region	12.0	25.2	14.0	21.5	14.9	14.0	14.3	12.2	
Eastern Region	12.3	16.7	9.0	21.5	19.5	20.3	21.5	24.4	1
Central Region	10.5	7.5	7.5	12.6	10.2	11.8	15.1	16.3	
Western Region	20.9	25.2	26.4	41.0	35.6	27.9	26.0	24.0	
Southern Region	11.1	12.4	11.5	22.9	19.2	15.4	17.4	18.6	
All-India	*13.2*	*14.2*	*16.1*	*27.9*	*25.5*	*22.5*	*22.9*	*23.9*	

Source: Reserve Bank of India, Basic Statistical Returns of Scheduled Commercial Banks in India

STATE WISE COMPARISON

The provision of agricultural credit has been compared in 14 states as shown in the table below. The table compares the total loans issued in various states over a period of three years (2000-2003).It is seen that the share of commercial banks in total agricultural credit is maximum in Maharashtra followed by Karnataka.The share of commercial banks in facilitating crop loans is maximum in Orissa followed by Chhattisgarh.

TABLE 7

Share of CCBs in Three tier & mixed tier Structures in Total Loans Issued, Agri loans and Crop Loans based on 3 years average- Range									
Sl	State	Share of CCBs in Total LI (%)		Share of CCBs in Agri LI (%)		Share of CCBs in Crop Loan (%)		CRAR (%)	
		Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
1	Andhra Pradesh	8.0	25.5	10.3	24.4	10.7	41.4	4.9	26.3
2	Bhar	0.3	10.8	0.6	17.3	0.8	26.7	-1.3	55.1
3	Chhattisgarh	11.4	38.6	18.7	71.2	6.1	79.8	8.9	25.2
4	Gujarat	4.7	43.7	5.1	59.7	6.9	78.2	4.2	16.8
5	Haryana	8.9	32.3	16.4	45.2	17.9	59.3	3.8	13.5
6	Karnataka	3.1	68.5	4.3	51.5	4.8	59.1	7.1	25.3
7	Kerala	18.7	67.4	9.4	50.5	12.4	51.8	-2.1	11.4
8	Madhya Pradesh	6.3	68.3	9.3	77.1	13.7	78.9	4.3	25.2
9	Maharashtra	8.6	69.1	12.1	71.6	18.5	84.9	-18.4	26.8
10	Orissa	13.5	55.0	21.4	71.7	33.9	79.8	4.5	11.1
11	Punjab	10.8	49.4	8.5	46.9	10.1	48.2	0.6	26.1
12	Rajasthan	6.1	45.6	9.6	51.7	13.4	66.7	0.1	13.1
13	Tamil Nadu	2.3	30.7	3.4	27.5	3.0	28.9	4.91	13.2
14	Uttar Pradesh	0.3	57.5	0.4	49.7	0.4	49.5	-1700.7	24.7

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WHAT IF FARMERS DEFAULT?

Default occurs when the loan paid by farmers is incomplete or delayed and repayment of principle with interest is denied. If the situation has exceeded its time limit the bank accounts are considered NPA or follows IRAC norms. Income of agriculture is affected by a large no of factors such as monsoons, power shortage, floods, hot summers, cow's milk capacity etc. Failure of tractors, well unable to dig water, pests destroying the plantations are the most common of them all which prevent the farmers from re-paying back their loans. Default is a function of losses and cash flow inefficiencies. It should be managed by:

(a) Suitable loss insurance
(b) Suitable repositioning of the loan repayment or instalments.

Default can become wilful if it occurs in spite of good production, business volumes were otherwise normal. This would show that the cash has been diverted. When loan funds have been used apart from the ones which the loan has been agreed is called wilful. Wilful default calls for a different treatment. These defaults have to be pursued for complete recovery. Collateral efficiency plays an important role in such cases. Stipulation of high rate of interest, stipulation of repayment, high collateral costs are other factors which increase defaults. This concludes poor appraisal skills and mindless adoptions of standard norms across its borrowers.

CONCLUSION

Though the agriculture's share in GDP has been steadily on the decline for the past few decades, it still remains as one of the biggest sectors in providing economic prospects to more than half the Indian workforce. The growth of GDP in this sector is directly dependent on the flow of agricultural credit which is given strength through commercial banks, cooperatives and RRBs. These banks must make sure that the loan outstanding is reduced in future in order to maintain a sustained cash flow .By improving banking policies and introducing innovative measures in reaching out credit to the farmers, rural and cooperative banks can compete with scheduled banks .

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