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Trend and Pattern of Agricultural Credit System in India

KEYWORDS

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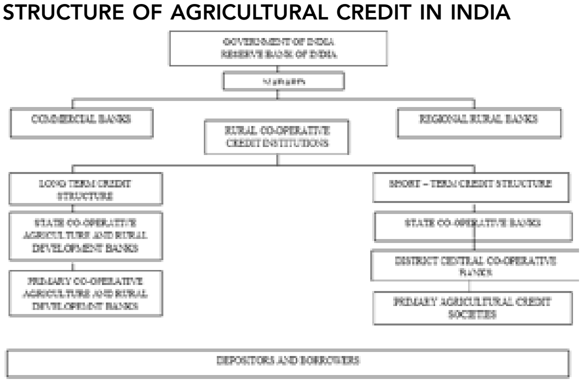
INTRODUCTION

Agricultural credit is a critical input for farming community in India, when there is a lack of simultaneity between the realization of income and the act of expenditure. The use of various farm inputs such as chemical fertilizers, seeds, tube wells, tractors, combines, hired labour and rent for leased land, etc., has led to an overall increase in the cash expenditure of farmers. Yet the per capita income of farmers has not grown at the same rate as input prices and sheer cost of agricultural production. As a result, farmers have little surplus cash at their disposal and are forced to take huge amounts of loan. This has led to a spurt in the growth of agricultural credit (Human Development Report, 2004).

Generally, the farmers need two types of credit. They are; Short term and long term credit. Short term credit is required for meeting current farm expenses in farming; which must be repaid during the same year after harvest. It includes buying seeds, plant protection materials, etc. The long term credit is used for capital investment such as land improvement, sinking, repairing of wells, purchase of implements etc.

STRUCTURE OF AGRICULTURAL CREDIT IN INDIA



Sources of credit

There are two sources for agricultural credit in India. They are; Institutional and non-institutional. The different institutional sources supplying agricultural credit to the farmers are co-operatives, commercial banks and government, while, money lenders, traders, relative's friends and other allied sources are coming under non-institutional sources. The NSSO data further classified that percent of indebted farmers taking loans from money lenders is highest (29 per cent), followed by Banks (27 per cent), co-operative society (26 per cent) and finally from government (3 per cent). In a study conducted by the National Council of Applied Economic Research (NCAER), it was found that, the contribution of co-operatives, was 22.7 per cent by the end of the year, 1971-72. However, the co-operatives occupy an important place in the supply of agricultural credit. Co-operatives placed 15 percent according to All India Debt and Investment Survey 2012.

Table 1: Credit Flow to Agriculture from Different Sources (In Per cent)

Sources of credit	1951	1961	1971	1981	1991	2002	2012
Institutional agencies	**7.2**	**14.8**	**29.2**	**61.2**	**64.0**	**57.1**	**56.1**
Government	3.3	5.3	6.7	4.0	5.7	2.3	1.6
Co-op. society/ bank	3.1	9.1	20.1	28.6	18.6	27.3	29.4
Commercial banks including RRBs	0.8	0.4	2.2	28.0	29.0	24.5	25.1
Insurance	-	-	0.1	0.3	0.5	0.3	-
Provident fund	-	-	0.1	0.3	0.9	0.3	-
Other institutional agencies	-	-	-	-	9.3	2.4	0.35
Non-institutional agencies	**92.8**	**85.2**	**70.8**	**38.8**	**36.0**	**42.9**	**43.9**
Landlord	1.5	0.9	8.6	4.0	4.0	1.0	0.6
Agricultural money lender	24.9	45.9	23.1	8.6	6.3	10.0	8.1
Professional money lender	44.8	14.9	13.8	8.3	9.4	19.6	22.2
Traders and commission agents	5.5	7.7	8.7	3.4	7.1	2.6	-
Relatives and friends	14.2	6.8	13.8	9.0	6.7	7.1	11.5
Others	1.9	8.9	2.8	4.9	2.5	2.6	1.5
Total	100	100	100	100	100	100	100

Source: All India Debt and Investment Survey and RBI Bulletin various years

The share of institutional credit was 7 per cent in 1951. It increased manifold to 64 per cent in 1991, reflecting concomitantly a remarkable decline in the share of non institutional credit from around 92 per cent to about 36 per cent during the same period. However, the latest NSSO Survey reveals that the share of non-institutional credit has taken a reverse swing which is a cause of concern.

FLOW OF INSTITUTIONAL CREDIT TO AGRICULTURE

The latest NSSO (70th round) has made the observation that, at all India level 49 percent of the farmer households are indebted and an Indian farmer's household has an average debt of Rs.12,585. The average loan per indebted household is at Rs.25,891. However, the median loan per indebted household is Rs. 10,000. At the state level, the average outstanding loan per farmer household is

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the highest in Punjab (Rs 41,576), followed by Kerala (Rs 33,907), Haryana (Rs 26,007), Andhra Pradesh (Rs 23,965) and Tamil Nadu (Rs 23,963). Andhra Pradesh, Tamil Nadu, Punjab, Kerala are the States which have higher incidence of indebtedness.

Institutional agencies

It can be observed that, the most remarkable performance was that of the commercial banks while the share of co-operative societies in the outstanding cash dues of cultivator households increased from 20.1 per cent in 1971 to 28.6 per cent in 1981, therefore dropping to 27.3 per cent in 2002, that of commercial banks rose to 29 per cent in 1991, after rising sharply to 28 per cent in 1981 from a meager 2 per cent in 1971. It may be of interest to note that the share of government departments in the outstanding cash dues of cultivator households, after showing a decline from 7 per cent in 1971 to 4 per cent in 1981, again rose to 6 per cent in 1991 and dropped to 2 per cent in 2002. As a whole, at the 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.

Non-Institutional agencies

The combined share of all the non-institutional credit agencies in the outstanding cash dues of cultivator households recorded a sharp decline of 32 percentage points during 1970s but the decline got arrested in the 1980s – the fall being just of about 3 percentage points but increased to 43 per cent subsequently. The decline is found to be the steepest for the credit agency 'agricultural money lenders', whose share came down to 6 per cent in 1991 from about 9 per cent in 1981 and 23 per cent in 1971. Subsequently, the share has jumped to about 20 per cent and 29 percent in 2002 and 2012 respectively. As a whole, among the non-institutional agencies, professional money lenders were the main source of credit.

State-level Changes during 1971 to 2012

A snapshot of this variation in 2002 shows that in the rural areas, institutional credit agencies accounted for 85 per cent in Maharashtra, followed by Kerala (81 per cent), Himachal Pradesh and Orissa (74 per cent each) and Jammu & Kashmir (73 per cent). In contrast, not even 50 per cent of the debt was contracted through the institutional credit agencies in the rural areas of Andhra Pradesh (27 per cent), Rajasthan (34 per cent), Bihar (37 per cent) and Tamil Nadu (47 per cent). Following table (2) reveals a state wise outstanding of institutional and non-institutional loans from 1971 to 2012.

Table 2 Share of institutional and non-institutional agencies in outstanding cash debt of major states in India

Major states	Institutional					Non-institutional				
	1971 (26th)	1981 (37th)	1991 (48th)	2002 (59th)	2012 (70th)	1971 (26th)	1981 (37th)	1991 (48th)	2002 (59th)	2012 (70th)
Andhra Pradesh	14	41	34	27	29	86	59	66	73	72
Assam	35	31	66	58	55	65	69	34	42	32
Bihar	11	47	73	37	40	89	53	27	63	60
Gujarat	47	70	75	67	70	53	30	25	33	35
Haryana	26	76	73	50	50	74	24	27	50	38
Himachal Pradesh	24	75	62	74	74	76	25	38	26	23
Jammu and Kashmir	20	44	76	73	72	80	56	24	27	26
Karnataka	30	78	78	67	65	70	22	22	33	30
Kerala	44	79	92	81	83	56	21	8	19	20
Madhya Pradesh	32	66	73	59	60	68	34	27	41	40
Maharashtra	67	86	82	85	88	33	14	18	15	10
Orissa	30	81	80	74	75	70	19	20	26	27
Punjab	36	74	79	56	50	64	26	21	44	48
Rajasthan	9	41	40	34	33	91	59	60	66	65
Tamil Nadu	22	44	58	47	47	78	56	42	53	55
Uttar Pradesh	23	55	69	56	56	77	45	31	44	45
West Bengal	31	66	82	68	65	69	34	18	32	30
All india	29	61	64	57	60	71	39	36	43	48

Source: All India Debt and Investment Survey

From the above table, it explains that, during the periods 1971 to 2012, the states do not reveal any uniform pattern in the share of institutional agencies in total debt. Compared to 1991, the picture had changed in some of the major states. Of the 20 major states in the rural, as many as 15 have shown a fall in the share of institutional agencies, notable among them are Bihar, Punjab, Haryana and West Bengal, where the fall in percentage share from 1991 values had been to the tune of 36, 23, 23 and 14 percentage points, respectively.

CONCLUSION

It can be assessed that the informal/non-institutional finance was gradually declining during the 1960s, was very nearly broken during the 1970s, with the institutional agencies making steady inroads into the rural scene. The share of institutional credit agencies in the outstanding cash dues of the rural households at the all-India level increased from 29 per cent in 1971 to 61 per cent in 1981 and then the pace of increase was arrested rising to 64 per cent in 1991. The 2012 AIDIS survey (All India Debt Investment Survey) revealed that 43 per cent of rural households continue to rely on informal finance, which includes profes-

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sional moneylenders, agricultural moneylenders, traders, relatives and friends, and others. The gradual increase in the share of formal institutional credit in agriculture witnessed some reversal during 1991-2012 mainly because of a pull back by commercial banks.

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