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Better Planning For Effective Credit Use: Some Issues

Economics

KEYWORDS : Farmer, Agricultural, Institutional credit, Annual Compound Growth Rate (ACGR) and Kissan Credit Card (KCC).

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ABSTRACT

Agriculture plays a crucial role in the development of the Indian economy. It accounts for about two thirds of the population is dependent on the agriculture sector. National sample survey data shows that as much as 70 to 75 per cent of all agricultural holdings belonged to the smaller size groups. And it is small and marginal farmers who need the credit badly. The observation of All India Rural Credit Survey is: "India is essentially rural India that rural India is virtually the cultivator". Hence agricultural credit appears to be an essential input along with modern technology for higher productivity. Therefore, since independence, credit has been occupying an important place in the strategy for development of agriculture. In view of the above an attempt has been made to study the need, better planning for effective credit use, the growth performance of institutional credit during 1991-92 to 2010-11, and also some of the suggestions are made in disbursing of credit to Agriculture.

INTRODUCTION

Agriculture plays a crucial role in the development of the Indian economy. It accounts for about two thirds of the population is dependent on the agriculture sector. Agriculture has become engine of economic growth whether a country is developed, less developed or, under developed. Genetic development of seed with 'green stain' has heralded a new revaluation in agriculture all over the world. Agricultural development is necessary to feed population increasing with rapid rate. Improvement in agriculture can be in two directions, namely, extensive and intensive. Since the total geographical area is fixed it is not easily possible to increase the cultivable landed area substantially without upsetting ecological balance. Whether the development is intensive or extensive investment on agriculture must increase to meet over increasing demand for food. Annals of economic history of the world show that the peasant is not sound economically. Since the ordinary farmer is not rich, he is not in a position to invest money in agriculture for improvement. Farmer has to depend on credit.

Whether it is industry or agriculture, credit is necessary for development. National sample survey data shows that as much as 70 to 75 per cent of all agricultural holdings belonged to the smaller size groups. And it is small and marginal farmers who need the credit badly. The observation of All India Rural Credit Survey is: "India is essentially rural India that rural India is virtually the cultivator".

The World Bank notes that: "……" in these predominantly rural economies the key to alleviating poverty is to accelerate the growth of agricultural incomes, because of the majority of the population and of the poor live in rural areas and earn incomes directly linked to the growth of agriculture. The growth of non-farm incomes in rural areas…. Also depends on the pace of agricultural growth".

Hence agricultural credit appears to be an essential input along with modern technology for higher productivity. An important aspect that has emerged in last three decades is that the credit is not only obtained by small and marginal farmers for survival but also by the large farmers for enhancing their income. Therefore, since independence, credit has been occupying an important place in the strategy for development of agriculture. The importance of farm credit as a critical input to agriculture is reinforced by the unique role in poverty alleviation.

Credit misuse is not confined to agricultural sector alone. In industrial sector it can be on large scale. Many sick industries amply testify misuse and mis-management of credits. Recent mass loan mela schemes organized on grand scale with an objective of rendering social justice and to uplift the down trodden are not above criticism. The Central Vigilance Commission's Annual reports make it clear how the loan mela schemes are misused.

"Most of the loan amount was actually received by the middlemen and in all probability shared by the branch manager and some others, without benefiting any poor persons for whom such loans were introduced. A good programme was thus abused and frustrated due to lack of proper check and control".

The state government's plan to have one bank for revenue mandal or one bank for fifty villages is a commendable scheme, provided if serves the purpose. Proper identification of the needy farmers is a difficult task, but it is possible if the credit advancing agencies makes sincere effort. Then the basis for distribution may be 'Farmer's Pass Book' or 'Farmers Credit Card'. The planning process must reach the village on a realistic ground. The service approach must be adopted. There must be commitment on the part of the officers. The assistance must really help the farmers to make use of it and increase farm produce. Giving credit or providing other facilities to the right people is a great achievement. However, credit should be used for the purpose for which it is given and production should increase.

The Pass-Book or Credit Card must enable the farmers to buy fertilizers, seeds, pesticides and other inputs on credit basis. Then the question is from where to purchase the inputs?, "Private Dealer" or "Public Distribution" System?. Both have their major disadvantages and advantages. Ultimately in a welfare state public distribution system has to be evolved. As alternative farmers co-operatives may take up the job. But over politicalisation has to be checked.

Any credit system works under politico-socio-economic set-up. First of all social set-up has to be geared up towards new values of life and goals of new credit programme.

Proper human relationship between planner-administrator-banking personnel and farmer is a pre-request to effective implementation of welfare programmes in general and distribution of agricultural credit in particular.

As a part of credit Management aspect the officers must be courteous and friendly towards farmers. A friendly advice to the farmers is how to use, when to use, and need to repay the credit goes a long way. If peasants are properly educated about the need to pay back credit so that it will be a feedback, the whole system of credit management will be a grand success. Recycling of funds is a must for development. Farmer's must be enlightened on this aspect.

Often total 'write off' of credits is not a very sound proposition since it weakens the very credit structure. Willful defaulters are to be tackled legally. Case-by-case analysis of chromic over-dues may help to identify willful defaulters. Further such analysis helps to exempt the really poor and people affected by natural calamities. A clear strategy to compensate for the devastating role played by nature is to be worked out. A recent proposal of the center to have National Agricultural Credit Relief Fund (NACRF) to provide assistance to farmers, affected by successive natural calamities like drought and flood is quite welcome. However, the modus operand must be so drawn such that the plan benefit reaches the needy in time.

The studies conducted by different agencies amply testify that the major reason for mounting over dues is 'willful default' of the dominant section in the village. The other factors contributing include 'political pressure', natural calamities, deficiency in loaning policies, including untimely disbursement of credit, unrealistic schedule of loan repayment, lack of effective supervision and failure of linking credit to marketing.

RESULTS & DISCUSSION

The growth of direct finance to agriculture and allied activities witnessed a decline in the 1990's as compared to 1980's and 1970's. The Government of India announced a host of measures in June 2004 to double the flow of agriculture credit during the period 2004-05 to 2006-07 by all the financial institutions. To prevent and save the farmers from the clutches of private money lenders, several measures were taken by the Govt. of India. Banks were advised to increase the agricultural credit flow at the rates of 30 per cent per year. The target of agriculture credit flow for the year 2012-13 was fixed at Rs.5,75,000 crore against which achieved as of Sept. 2012 was Rs.2, 39,629 crore.

Farmer has been receiving crop loans up to a principal amount of Rs. 3 lakh at 7 per cent rate of interest since 2006-07. The Kissan Credit Card (KCC) scheme has been effective for extending agriculture credit. The Government of India is introduced a revised KCC scheme in March 2012 in which the KCC pass book has been replaced by an ATM-cum Debit card to all eligible farmers. The number of operative KCCs issued by Co-operative and Regional Rural Bbanks as on 31 August 2012 was 4.07 crore. The number of cumulative KCCs issued by Commercial Banks as on 31st March 2012 was 5.47 crore.

Inspite of all, many analysis are revealed that the credit delivery to the agriculture sector continuous to be inadequate. The banking system is still appears hesitant on various grounds to purvey credit to small and marginal farmers. The Institutional Credit to Agriculture during 1991-92 to 2010-11 is presented in table-1.

Table-1: Institutional Credit to Agriculture (Rs. Crore)

Year	Co-operative Banks	% Share	Regional Rural Banks	% Share	Commercial Banks	% Share	Total
1991-92	5800	51.78	596	5.32	4806	42.90	11202
1992-93	9378	61.82	831	5.48	4960	32.70	15169
1993-94	10117	61.34	977	5.92	5400	32.74	16494
1994-95	9406	50.18	1083	5.78	8255	44.04	18744
1995-96	10479	47.56	1381	6.27	10172	46.17	22032
1996-97	11944	45.22	1684	6.38	12783	48.40	26411
1997-98	14085	44.08	2040	6.38	15831	49.54	31956
1998-99	15916	43.14	2538	6.88	18443	49.99	36897
1999-00	18363	39.69	3172	6.86	24733	53.46	46268
2000-01	20801	39.38	4219	7.99	27807	52.64	52827
2001-02	23604	38.04	4854	7.82	33587	54.13	62045
2002-03	23716	34.09	6070	8.73	39774	57.18	69560
2003-04	26959	30.99	7581	8.72	52441	60.29	86981
2004-05	31424	25.08	12404	9.90	81481	65.02	125309
2005-06	39404	21.83	15223	8.43	125859	69.73	180486
2006-07	42480	18.52	20435	8.91	166485	72.57	229400
2007-08	48258	18.95	25312	9.94	181088	71.11	254658
2008-09	45966	15.24	26765	8.87	228951	75.89	301682
2009-10	63497	16.51	35217	9.16	285800	74.33	384514
2010-11	70105	15.69	43968	9.84	332706	74.47	446779

Source: Economic Survey and NABARD various issues

Table-2: ACGR of Institutional Credit to Agriculture

Type of Institution	Period-I: 1991-92 to 2000-01		Period-II: 2001-02 to 2010-11		Period-III: 1991-92 to 2010-11	
	ACGR	t-val	ACGR	t-val	ACGR	t-val
Co-operative Banks	12.00	9.93	12.50	15.56	11.90	34.38
Regional Rural Banks	20.50	33.69	24.70	19.80	22.90	54.22
Commercial Banks	21.40	19.80	26.90	16.08	23.70	42.21
Total	16.70	28.14	23.20	19.80	19.60	42.21

ACGR: Annual Compound Growth Rate

From the table-1, it is clear that the share of the co-operative banks, with regard to credit disbursement since from1991 (51.78%) have lost their dominant position to 15.69 per cent in 2010-11, whereas the share of commercial banks roses from 42.90 per cent in 1991-92 to 74.47 per cent in 2010-11. But there is no much change in the share of the Regional Rural Banks during the period1991-92 to 2010-11. The Graph-1 is also revealed the same.

The Annual Compound Growth Rates are calculated for the three periods, 1991-92 to 2000-01, 2001-02 to 2010-11, and the total period 1991-92 to 2010-11 are presented in table-2. From the table-2, it is concluded that the Annual Compound Growth Rates for the period-I (1991-92 to 2000-01) is less than the period-II (2001-02 to 2010-11) indicating that the government has taken steps to increase the flow of Agricultural credit. The overall (period-III) Annual Compound Growth Rates are also calculated and are statistically significant.

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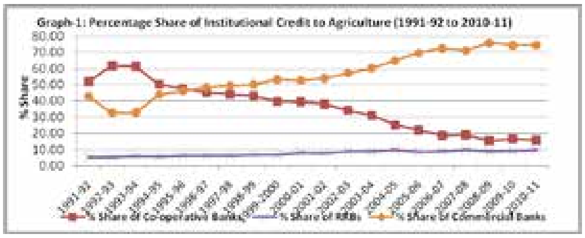

SUGGESTIONS

For 'doing a right thing, right start is essential', this must be the basic principle to set right credit system. The principle should be simple and practicable.

(1) Proper assessment of need for loan
(2) Timely disbursement
(3) Efficient supervision whether the loan is properly used
(4) Proper assessment of product for which loan is distributed
(5) Produce based and market linked credit recovery

Mere commercialization of agriculture alone will not be sufficient to unless proper marketing system is built up side by side which renders 'just price' to the producer.

There can be two ways of organizing the marketing: firstly through commodity marketing boards, secondly providing a common marketing centre. Already there are commodity marketing boards for certain commodities. Under this scheme almost all important crops must be covered. Proper financing, planning management of these boards must be strengthened. Secondly for marketing vegetables and other miscellaneous commodities common market centre's are to be established with all basic infrastructural facilities. These centres must be organized at mandal level and if possible in one or two places in mandal area. Personnel should be specially trained to manage these centres. In regional development studies the concept of small market towns is an important programme. For rural development it is essential to have these 'growth centre's'.

They play key role to bring the produce and consumers into direct contact and help them to have mutually beneficial transactions without middle men's role.

If there is no safe market where the fair price can be realised then there is no justification to demand the loan recovery. Rebate and remission of loan and loan interest depending upon the nature of adverse conditions of farmer have to be given.

In the absence of insurance for crop failure due to reasons beyond the control of farmer, may not able to repay the loan. Pressuring for repayment leads to further complications to him.

In the credit structure itself there must be an inbuilt system to take care of these relief measures which should come to operation automatically. But once credit is linked with marketing of produce then there will be some more problems which need careful consideration and realistic planning. Of them the most important are

(a) Proper marketing facilities
(b) 'Just Price' guarantee to the farmer and
(c) Protection of farmer from natural calamities
(d) Organizational set up of marketing must be made clean.

Without these facilities produce linked credit becomes, if the above mentioned measures are not adopted then the apathy of the peasant will be much more and his economic base becomes fragile.

Otherwise the truth of the French Proverb: "Credit supports the farmer as the hangman's rope supports the hanged", prevails.

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