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Institutional Credit to Indian Agriculture

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ABSTRACT

The institutional credit plays a crucial role for the development of agricultural in India and situation calls for concerted efforts to augment the flow of credit to agriculture. In this backdrop, this paper attempts to evaluate the performance of institutional credit to agriculture. The study is based on the secondary data and has revealed considerable decline in the share of institutional credit, tilt of credit towards indirect finance, inadequate flow of credit to meet the long term financial requirements of farmers and big push of credit towards large farmers. Further, the study offers several suggestions to improve the rural credit delivery mechanism

KEYWORDS Agricultural credit, Institutional Credit, Kisan credit card [KCCs]

INTRODUCTION

Agriculture is the backbone of Indian economy. Agriculture in India plays a crucial role in the development of the economy. In the Indian economy agriculture contributes one-third of the national income and about 13.9 percent of GDP in the year 2013-14. About 72 percent population was working in 1950-51 and at present, 52 percent population is working in agriculture sector of the livelihood (Economic survey 2013-14). Sixty percent of the export directly or indirectly originates from agriculture sector. It provides employment to 67 percent of the work forces. It plays a prominent role in economic development and planning and provides numerous to the industrial and service sector.

Indian Agriculture has been heavily dependent on the monsoon which is a very risky activity for the economy and development of the agriculture sector in India. Other than, the key problem of agriculture, carried on in rural areas mostly by poor, small and marginal farmers and weaker section of the society, is credit. The requirements of finance in agricultural sector, very few farmers will have capital of their own to invest in agriculture.

So, credit is one of the critical inputs for agricultural development. It capitalizes farmers to undertake new investments and/or adopt new technologies, production and marketing activities. Agricultural credit is an important input for improving agricultural production and productivity and mitigating farmer distress. Therefore, credit enables the farmer to advantageously use seeds, fertilizers, irrigation, machinery, etc. farmers has to invariably search for a source, which supplies adequate farm credit.

The source of agriculture credit can be divided into two categories Institutional finance and non-institutional finance. Institutional finance consists of cooperatives, scheduled commercial banks and regional rural banks among cooperatives primary agriculture credit societies (PAC's) provide mainly short and medium term loans; whereas primary cooperative agricultural and rural development banks (PCARDBs) provide long term loans for the agriculture. The commercial banks including regional rural banks (RRBs) provide both short and medium term loans for agriculture and allied activities. The national bank for agriculture and rural development (NABARD) is the apex institute at the national level for agricultural credit and provides refinance assistance to the above agencies.

OBJECTIVES OF THE STUDY

The present study has been carried out to achieve the following objectives**:**

To evaluate the flow of institutional credit to agriculture.

(2) To discuss the measures adopted to promote the agricultural credit.

(3) To offer suggestion to improve the delivery of rural credit mechanism.

METHODOLOGY OF THE STUDY

The study is based on the secondary data drawn from RBI and NABARD annual reports and also referred various journals, working papers for this study. It covers a period of 11 years i.e. 2004-05 to 2014-15. The paper is organized into three parts. The first part evaluates the flow of institutional credit to agriculture; second part portrays the measures adopted by the government and other regulatory authorities to promote the institutional credit over the years and the third part offers suggestion to improve the delivery of rural credit mechanism.

TRENDS IN FLOW OF AGRICULTURAL CREDIT

Agriculture credit delivery in India is characterized by multiple agencies such as cooperatives banks, Regional Rural Banks (RRBs) and scheduled commercial banks. These institutions are offering multiple products so as to cater the varied needs of the farming community. The estimated credit flows during last year's is listed below.

Table-1: Flow of Agricultural Credit from 2004-05 to 2013-14 (Rupees in Crore)

Year	Target	Achievement
2004-05	105000	125309
2005-06	141000	180486
2006-07	175000	229400
2007-08	225000	254658
2008-09	280000	287149
2009-10	325000	384514
2010-11	375000	468291
2011-12	475000	511029
2012-13	575000	607375
2013-14	700000	738615*

Source: Annual Reports of NABARD, RBI, and Ministry of Agriculture

Table-1 shows trend in the flow of agricultural credit over the given period of time. It reveals that the flow of agriculture credit in 2004-005 reached Rs.125309 crore as against target of Rs.105000 crore and next year 2005-06 it reached Rs.180486 crore in this year credit target was Rs.141000 crore that means 39486 crore was extra supply to agriculture . In the year 2006-07 credit supply target was Rs.175000 crore and achieved Rs.229400 crore. It also shows that agricultural credit flow achieved is 113 percent as compared to the year 2006- 07, which is very less during the year of 2007-08.

Five years after i.e. 2011-12 the target of credit fixed Rs.475000 crore and the achievement Rs.476550 crore, represents 100.32 percent of the targets. As against the target of agriculture credit for 2012-13 of Rs.575000, the achievement during the year has been Rs.607375 crore. For the year 2013-14, the target of agriculture credit flow has been increased to Rs.700000 crore and achieved Rs.738615 crore. Agriculture credit reached from Rs.125309 crore to Rs.738615 crore between the years 2004-05 to 2013-14 in these 10 years, this amount increased by 590 percent and almost 6 fold. This is the remarkable achievement in the agriculture credit.

INSTITUTIONAL CREDIT FLOWS TO AGRICULTURE

Government has increasingly begun to tap institutional finance from banks such as cooperatives banks, Regional Rural Banks (RRBs) and scheduled commercial banks and other term lending institutions for financing various developmental programmes in the state in view of the need to supplement plan financing.

Table 2: Credit Flow to Agriculture Sector during 2004-05 and 2014-15 (Rs. In Crore)

Year	Co-operative Banks	Share (in %)	RRB	Share (in %)	Commercial Banks	Share (in %)
2004-05	31,424	25	12,404	10	81,481	65
2005-06	39,404	22	15,223	08	1,25,859	70
2006-07	33,987	24	15,170	10	1,00,999	67
2007-08	35,875	20	17,987	10	1,28,876	70
2008-09	36,165	19	19,325	10	1,32,761	71
2009-10	32,871	18	23,984	13	1,21,879	69
2010-11	78,121	17	44,293	09	3,45,875	74
2011-12	87,963	17	54,450	11	3,68,616	72
2012-13	1,11,203	18	63,681	11	4,32,491	71
2013-14	1,19,964	17	82,652	12	5,09,005	71
2014-15	1,38,469	17	1,02,483	12	5,99,691	71

Sources: (1) NABARD (based on reporting by RRBs and cooperative banks)
(2) Indian Banks Association (for commercial banks)

Table-2 exhibit the agency-wise share of credit flow to the agricultural sector during 2014-15, banks have provisionally disbursed Rs.840643 crore credits to the agriculture sector, against a target of Rs.800000 crore. Commercial banks, cooperative banks and RRBs are provisionally disbursed Rs.599691, 138469 and 102483 crores respectively. Total agriculture credit by co-operatives has grown from Rs.31424 crore from 2004-05 to Rs.111203 crore in 2012-13.

In the year 2004-05 share of cooperative bank in total agriculture credit was 25 percent. These banks provided Rs.39404 crore in 2005-06 it was 22 percent of total credit supply, in this year credit supply to agriculture decreased by 3 percent. Next year, 2006-07 credit supply increased by 2 percent which was 24 percent and Rs.33987 crore. After this year agricultural supply from cooperative banks were continue decreasing to 2014-15. Total supply was Rs.138469 crore and this amount was 17 percent of total agriculture credit.

In 2004-05 RRB's have accounted Rs.12404 crore it is 10 percent in agriculture credit next year 2005-06 it was Rs.15223 crore which is 8 percent. In the year 2006-07 the RRBs supply of again reached at Rs.15170 crore it was10 percent of total credit. Next year this trend was continuing and share was Rs.17187 crore. This fluctuation in Regional Rural Banks supply was continuing till the year 2014-15 in this year commercial banks share in credit was Rs.102483 crore it is12 percent in the total credit.

In 2004-05 the commercial banks have accounted 65 percent of agricultural credit i.e. Rs.81481 crore and next year 2005-06 it was Rs.125859 crore, is 70 percent. In the year 2006-07 commercial banks supply of credit falls down and reached at Rs.100999. This fluctuation in commercial bank supply was continuing till the year 2014-15 i.e. Rs.599691 crore it indicate 71 percent of the agricultural credit.

Agricultural credit disbursement is dominated by commercial banks, followed by co-operative banks and RRBs. There has been an impressive growth in agricultural credit flow from 1.25 lakh crore to 8.41 lakh crore during the eleven-year period of 2004-05 to 2014-15.

However, while crop loan disbursement increased more than eightfold during the same period, term loan increased fourfold. Further, it is a matter of concern that the share of term loan in the total agricultural credit disbursed declined steadily from 39.3 per cent in 2004–05 to 19.5 per cent in 2013-14.

MEASURES FOR DOUBLING AGRICULTURAL CREDIT FLOW

A comprehensive credit policy was announced by the Govt. of India containing measures for doubling agricultural credit flow and providing debt relief to farmers affected by natural calamities. The following are the highlights of this announcement.

(a) Credit flow to agriculture sector to increase at the rate of 3o percent per year.

(b) Special one-time settlement scheme for old and chronic loan accounts of small and marginal farmers.

(c) Debt-restructuring in respect of farmers in distress and farmers in arrears providing for rescheduling outstanding loans over a period of five years including moratorium for two years, thereby making all farmers eligible for fresh credit.

(d) Banks were allowed to extend financial assistance for redeeming the loans taken by farmers from private money lenders. Commercial banks should finance at the rate of 100 farmers per branch, total 50 lakh new farmers to be financed by the banks in a year.

(e) New investments in agriculture and activities were done at the rate of two or three projects per branch.

CONCLUSION

The study reveals that the institutional credit in India to agriculture sector has been increased in its quantum. The credit provided by the various institutional sources has increased its advances. But an effort has to be taken by the banks to reduce its outstanding, so that the recovered institutional credit should be pumped in to agricultural sector further for its growth.

SUGGESTIONS FOR TH STUDY

(1) Despite of significant efforts made by the government and financial institutions, sizeable farmers are still under the control of money lenders. Hence, it is imperative to find the ways and means to make free such farmers from the clutches of money lenders and design the comprehensive plan to cover all those outside the purview of formal credit.

(2) The study reveals that the share of cooperatives in total institutional credit is declining over the years. It is imperative to strengthen the co-operative system which is too closely related to farming community. It is needed restructuring of co-operatives to wipe of losses, impart professionalism and technology in their operations.

(3) It is observed that inadequate flow of credit to meet the

long term financial requirements of the farmers having an adverse impact in the capital formation of the farm sector. Hence banks are needed to give priority in meeting the long term financial requirements of farmers as they are not capable to bear the burden of costly long term investments.

(5) The study reveals that there is exists the glaring disparities in distribution of credit between small and large farmers. So, it is suggested to focus on the equitable growth considering the interest of small and marginal farmers. It is needed to augment the credit flow to lower strata of the farmers

(6) It is witnessed an ample progress is made in distribution of kisan credit cards. But there is a need to outreach to cover all the eligible farmers by KCC, therefore banks are required to create awareness and give wide publicity among the farmers about the importance of KCC.

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