CURRENT ISSUES AND CHALLENGES IN AGRICULTURE CREDIT IN INDIA: AN OVERVIEW

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Abstract: Agriculture in India and some issues and challenges in economics Development in India. This paper attempts to analyze the issues in agricultural credit in India. The analysis reveals that the credit delivery to the agriculture sector continues to be inadequate. It appears that the banking system is still hesitant on various grounds to purvey credit to small and marginal farmers. The situation calls for concerted efforts to augment the flow of credit to agriculture, alongside exploring new innovations in product design and methods of delivery, through better use of technology and related processes. Facilitating credit through processors, input dealers, NGOs, *etc.*, that are vertically integrated with the farmers, including through contract farming, for providing them critical inputs or processing their produce, could increase the credit flow to agriculture significantly.

Keywords: Credit, Rural, Agriculture, institutional. Loans.

Introduction: Agriculture plays a vital role in the Indian economy. Over 70 per cent of the rural households depend on agriculture. Agriculture is an important sector of Indian economy as it contributes about 17% to the total GDP and provides employment to over 60% of the population. Indian agriculture has registered impressive growth over last few decades. The food grain production has increased from 51 million tonnes(MT) in 1950-51 to 250MT during 2011-12 highest ever since independence.

Indian Agriculture plays a crucial role in the development of the Indian economy. It accounts for about 17 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 changing requirements of the agriculture sector, which forms an important segment of the priority sector lending of scheduled commercial banks 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.

The evolution of institutional credit to agriculture could be broadly classified into four distinct phases - 1904-1969 (predominance of co-operatives and setting up of RBI), 1969-1975 [nationalization of commercial banks and setting up of Regional Rural Banks (RRBs)], 1975-1990 (setting up of NABARD) and from 1991 onwards (financial sector reforms).

The genesis of institutional involvement in the sphere of agricultural credit could be traced back to the enactment of the Cooperative Societies Act in 1904. The establishment of the RBI in 1935 reinforced the process of institutional development for agricultural credit. The RBI is perhaps the first central bank in the world to have taken interest in the matters related to agriculture and agricultural credit, and it continues to do so (Reddy, 2001).

The demand for agricultural credit arises due to

i) lack of simultaneity between the realisation of income and act of expenditure;

ii) Lumpiness of investment in fixed capital formation; and

iii) stochastic surges in capital needs and saving that accompany technological innovations. Credit, as one of the critical non-land inputs, has two-dimensions from the viewpoint of its contribution to the augmentation of agricultural growth *viz*., availability of credit (the quantum) and the distribution of credit. In this paper, the trends in agricultural credit are analyzed in Section I; Section II covers State wise distribution of institutional credit; Section III deals with recent policy initiatives; issues and concerns are dolt with in Section IV; Section V draws implications for the future followed by the concluding observations in Section VI.

Agricultural Credit: 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. Some of the major discernible trends are as follows:

* Over time the public sector banks have made commendable progress in terms of putting in place a wide banking network, particularly in the aftermath of nationalization of banks. The number of offices of public sector banks increased rapidly from 8,262 in June 1969 to 68,355 by March 2005.

* One of the major achievements in the post-independent India has been widening the spread of institutional machinery for credit and decline in the role of non-institutional sources, notwithstanding some reversal in the trend observed particularly in the 1990s.

* The share of institutional credit, which was little over 7 per cent in 1951, increased manifold to over 66 per cent in 1991, reflecting concomitantly a remarkable decline in the share of no institutional credit from around 93 per cent to about 31 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 (Table 1).

Table 1: Relative Share of Borrowing of Cultivator Households from Different Sources(Per cent)

Sources Credit	1951	1961	1971	1971	1991	2011
Non-Institutional	92.7	81.3	68.3	36.8	30.6	38.9
of which Money Lenders	69.7	49.2	36.1	16.1	17.5	26.8
Institutional	7.3	18.7	31.7	63.2	66.3	61.1
of which Cooperatives Societies / Banks	3.3	2.6	22.0	29.8	23.6	30.2
Commercial Banks	0.9	0.6	2.4	28.8	35.2	26.3
Unspecified	-	--	--	--	3.1	--
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: All India Debt and Investment Survey and NSSO.

*The efforts to increase the flow of credit to agriculture seems to have yielded better results in the recent period as the total institutional credit to agriculture recorded a growth of around 21 per cent during 1995-96 to 2010-11 from little over 12 per cent during 1986-87 to 1994-95. In terms of total credit to agriculture, the commercial banks recorded a considerable growth (from around 13 per cent to about 21 per cent), while cooperative banks registered a fall (over 14 per cent to over 10 per cent) during the above period (Table 2)

Table 2: Institutional Credit to Agriculture (Rs. crore)

Year	Co-Bank	Share%	RRBs	Share %	Commercial Banks	Share %	Total	Per cent Increase
1	2	3	4	5	6	7	8	9
1985-86	3874	55	--	--	31131	45	7005-	--
1986-87	4207	52	--	--	3809	48	8016	14
1990-91	3408	39	--	--	5438	61	8846	8
2000-01	20801	39	4219	8	27807	53	52827	14
2006-07	33174	22	15170	10	100999	68	149349	--
2010-11*	40121	23	16150	11	110595	69	159122	14.5
2011—12*	41131	23.2	--	--	--	--	--	--

Note : Commercial Banks and RRBs were clubbed together up to 1990-91.

Source : Economic Survey and NABARD various issues.

Table 3: Sect oral Deployment of Gross Bank Credit (Rupees crore			
Sector	1990-91	2005-06	2010-11
Gross Bank Credit	400818	1445837	155-3956
Priority Sector	99.507	509910	559910
I. Agriculture	34869	172279	175289
Share of Agriculture in Total	11.61	11.92	12.0
II. Small Scale Industries	43508	90.239	90.511
III. Other Priority Sector	21130	247379	249366
B. Industry	117350	4580808	4680807
Share of Industry in Total	3908	31.73	31.98

Source : Report on Trend and Progress of Banking in India, Various issues.

State-wise Distribution of Institutional Credit: There are wide variations in the availability of institutional credit per hectare of gross cropped area in different States. It was as high as Rs.9,403 in Tamil Nadu, Rs.7,666 in Kerala, Rs.5,352 in Punjab and Rs.4,604 in Andhra Pradesh, while it was as low as Rs.311 in Assam, Rs.667 in Rajasthan and Rs.698 in Madhya Pradesh during

The accessibility to institutional credit is higher in the Southern region where the level of agricultural development is also higher. Similar results were reported in the studies conducted earlier during the 1980s . It is kind of vicious cycle operating in less developed States.

Recent Policy Initiatives: The Finance Minister in his Union Budget 1995-96 speech stated that, "Inadequacy of public investment in agriculture is today a matter of general concern. This is an area which is the responsibility of States. But many States have neglected investment in infrastructure for agriculture. There are many rural infrastructure projects which have been started but are lying incomplete for want of resources.

The Government has since approved rehabilitation package for the identified districts in the States of Andhra Pradesh, Karnataka, Kerala, and Maharashtra. Altogether, the rehabilitation package for the four States involves a total amount of Rs.16,978 crore consisting of Rs.10,579 crore as subsidy/grants and Rs.6,399 crore as loan. In order to give further fillip to micro-finance movement, the RBI has enabled Non-Governmental Organisations (NGOs) engaged in micro-finance activities to access external commercial borrowings (ECBs) up to US $ 5 million during a financial year for permitted end-use, under automatic route, as an additional channel of resourcemobilisation. Besides, as a follow-up of the Union Budget proposals,

modalities for allowing banks to adopt the agency model4 for providing credit support to rural and farm sectors and appointment of micro-finance institutions (MFIs) as banking correspondents are also worked out.

Farmers in distress – Rescheduling/restructuring of the outstanding loan of the farmers as on March 31, 2004 in them districts declared as calamity – affected by the State Government. Rescheduled loan shall be repayable over a period of five years, at current interest rates, including an initial moratorium of two years.

Farmers in arrears - Loans in default of farmers who have become ineligible for fresh credit as their earlier debts have been categorized as sub-standard or doubtful shall be rescheduled as per the guidelines so that such farmers become eligible for fresh credit.

iii) To grant a one-time settlement (OTS) including partial waiver of interest or loan to the small and marginal farmers who have been declared as defaulters and have become ineligible for fresh credit.

iv) In some parts of the country, farmers face acute distress because of the heavy burden of debt from non-institutional lenders. Banks have been permitted to advance loans to

such farmers to provide them relief from indebtedness.

v) All the Public Sector banks have been advised to reduce their

lending rate for agriculture to a single digit rate of not more than 9 per cent per annum on crop loans up to a ceiling of Rs.50,000. This rate will benefit most of the crop loan account

holders and will cover almost all the small and marginal farmers.

vi) To waive margin/security requirements for agricultural loans up to Rs.50,000 and agri-business and agri-clinics up to Rs.5 lakhs. With a view to further increasing the flow of credit to agriculture,

Issues and Challenges in Agro Credit: 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. 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 study has recommended several measures to tackle the situation. These include improvement irrigation coverage; crop diversification; promotion of animal husbandry as an alternate source of income; better accessibility to institutional credit and overall improvement of the marketing infrastructure.

Implications for the Future

Indian agriculture still suffers from:

1)poor productivity,

ii) Falling water levels,

iii) Expensive credit,

iv) A distorted market,

v) Laws that stifle private investment,

vi) controlled prices,

vii) Poor infrastructure, and 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. Furthermore, agriculture being a State subject, States are required to play a more pro-active role in agriculture development by putting in place adequate infrastructure through means such as RIDF.

Conclusions: The experience of micro finance proved that the "poor bare bankable" and they can and do save in a variety of ways and the creative harnessing of such savings is a key success factor. The SHGBank linkage programme is built upon the existing banking infrastructure.

The co-operative credit structure needs revamping to improve the efficiency of the credit delivery system in rural areas. In case of co-operatives, the Vaidyanathan Committee concluded that having regard to its outreach and potential, recapitalization could be undertaken so that the credit channels for agricultural credit which are presently choked could be reclogged Merging and revamping of RRBs that are predominantly located in tribal/backward regions is seen as a potentially significant institutional arrangement for financing the hitherto unreached Governments and Sponsor Banks have to come together and cooperate in this area.

The major recommendations are i) A comprehensive review of mandatory lending to agriculture by commercial banks to enlarge direct lending programmes for greater integration of investment credit and production credit. ii) A road map for public sector and private sector banks to reach a level of direct lending at 13.5 per cent of net bank credit-within the overall limit of 18.0 per cent of total agricultural lending -within a period of four years with an interim target of 12 percent in two years banks adopt the infrastructure of civil society organization, rural kiosks and village knowledge centres to provide credit support to rural and farm sector

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