



INSTITUTIONAL CREDIT TO AGRICULTURE SECTOR IN INDIA: STATUS AND ITS PERFORMANCE

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Abstract

The institutional credit has been conceived to play a pivotal role in the agricultural development of India. A large number of institutional agencies are involved in the disbursement of credit to agriculture. However, the persistence of money lenders in the rural credit market is still a major concern. In this backdrop, the present study has examined the performance of agricultural credit flow and has identified the determinants of increased use of institutional credit at the farm household level in India. The study based on the secondary data compiled from several sources, has revealed that the institutional credit to agriculture in real terms has increased tremendously during the past four decades. The structure of credit outlets has witnessed a significant change and commercial banks have emerged as the major source of institutional credit in recent years. But, the declining share of investment credit in the total credit may constrain the sustainable agricultural growth. The quantum of institutional credit availed by the farming households is affected by a number of socio-demographic factors which include education, farm size, family size, caste, gender, occupation of household, etc. The study has suggested simplification of the procedure for a better access to agricultural credit of smallholders and less-educated/illiterate farmers.

Key Words: *Agricultural Credit, Farmers, Institutions.*

Introduction

Credit is one of the critical inputs for agricultural development. It capitalizes farmers to undertake new investments and/or adopt new technologies. The importance of agricultural credit is further reinforced by the unique role of Indian agriculture in the macroeconomic framework along with its significant role in poverty alleviation. Realizing the importance of agricultural credit in fostering agricultural growth and development, the emphasis on the institutional framework for agricultural credit is being emphasized since the beginning of planned development era in India.

A large number of formal institutional agencies like Co-operatives, Regional Rural Banks (RRBs), Scheduled Commercial Banks (SCBs), Non-Banking Financial Institutions (NBFIs), and Self-help Groups (SHGs), etc. are involved in meeting the short- and long-term needs of the farmers. Several initiatives have been taken to strengthen the institutional mechanism of rural credit system. The main objective of these initiatives was to improve farmers' access to institutional credit. The major milestones in improving the rural credit are acceptance of Rural Credit Survey Committee Report (1954), nationalization of major commercial banks (1969 & 1980), establishment of RRBs (1975), establishment of National Bank for Agriculture and Rural Development (NABARD) (1982) and the financial sector reforms (1991 onwards), Special Agricultural Credit Plan (1994-95), launching of Kisan Credit Cards (KCCs) (1998-99), Doubling Agricultural Credit Plan within three years (2004), and Agricultural Debt Waiver and Debt Relief Scheme (2008). These initiatives had a positive impact on the flow of agricultural credit. However, the inadequacy of credit to agriculture is often a hotly debated topic in India. The persistence of money lenders in the rural credit market is still a major concern. But, most of the discussions on the issue of agricultural credit are, by and large, swayed by emotions and the empirical validation of the issues is often lacking. In this backdrop, this study was undertaken to (i) examine the performance of agricultural credit flow including the the issues of inequity in the disbursement of institutional agricultural credit flow, and (ii) identify the factors that are responsible for increasing the use of institutional credit at the household level.

Review of Literature

Desai (1988) in his working paper showed that the essence of credit in agricultural production on the term based estimation. Under this observation he analysed that in the period 1972-73 and 1982-83 the total credit growth rate



from these periods was 17% approximately. But out of the total credit growth the contribution from the commercial bank is notable. Because the commercial bank share of credit has almost doubled from 16.31 % to 35.85% in 1972-73 and 1982-83 respectively. In this study he noticed that short term credit requirement is also necessary in order to advance growth rate in agriculture.

T. Prabhakar Reddy (1990) in the research study has notified that imbalance in demand and supply of credit. This study is supported by the data collected in 1985-86 from rural people who had taken credit facility from Institutional credit in the Karimnagar District of Andhra Pradesh. As per this study finance availability from organised sector as well as unorganised sector are inadequate to ensure the good productivity of agricultural produce for the poor farmers. There is a need of reformulation of the allocation and distribution of credit sufficiently to fulfil the gap of demand and supply of credit.

B.M. Desai and N.V. Namboodiri (1992) has remarked the rural institutional finance system in improving the performance of agriculture. According to this study performance of agricultural credit in the long run is more effective than short run. It has resulted in short run agricultural productivity also. Finally, the point of increasing the agricultural productivity and investment is purely depend on the functions facilitated by the rural institutional financial system.

Chinnappa (1999) has studied a sample of 100 irrigated farmers are taken randomly, and he observed the loans was not provided on time. The farmers are facing a problem of uncertainty of income and risk. He also found that large farmers are major beneficiaries of both short-term and medium-term loans. There was a delay in supply of credit to the needy farmers for their cultivation.

Data and Methodology

The study is based on the secondary data compiled from diverse sources. The data on gross cropped area (GCA) and agricultural gross domestic product (AgGDP) were compiled from the Agricultural Statistics at a Glance (2008), published by the Department of Agriculture and Co-operation, Ministry of Agriculture, Government of India (GoI). The data on credit were collected from the Reports on Currency and Finance, published by Reserve Bank of India (RBI). The data on wholesale price index (WPI) and disbursement of Kisan Credit Cards (KCCs) were collated from the Economic Survey, published by Ministry of Finance, GoI. Data pertaining to investment credit and state-wise distribution of KCCs were compiled from the website of NABARD. Besides, the study also used the unit level data of debt and investment survey carried out by National Sample Survey Organisation (NSSO) during 1992 (48th round) and 2003 (59th round). The debt and investment survey is generally carried out once in 10 years by NSSO and it provides useful information on different dimensions of rural finance.

Performance of Agricultural Credit The performance of agricultural credit system has been assessed in terms of different indicators. The share of agricultural credit in agricultural GDP (AgGDP) and overall GDP and the credit per unit of GCA was examined to assess the overall performance of institutional agricultural credit flow. Temporal changes in the composition of agricultural credit flow were assessed to examine the structural changes in the sources of agricultural credit. The growth of agricultural credit in real terms was estimated to measure the real growth in the institutional agricultural credit flow.

Performance of Agricultural Credit Institutional Credit Outlets and their Shares

Agricultural credit started depicting a growth after bank nationalization and it has been growing. Trends in Agricultural Credit Performance Indicators In spite of impressive increase in the flow of agricultural credit, the recent years have again been characterized by a concern over the falling share of agricultural credit in total credit. It is mainly attributed to the high growth witnessed by the non-agricultural sector in recent years. The share of agriculture in national income has also declined. The correct yardstick to look at the progress of agricultural credit is evaluation of agriculture as a proportion of AgGDP and trends in real agricultural credit in terms of per unit gross cropped area. The performance of agricultural credit in terms of these indicators seems to be noteworthy.



Progress in Kisan Credit Card Scheme

The Kisan Credit Card (KCC) Scheme was introduced in 1998-99 to facilitate farmers' access to short-term credit from the formal financial institutions. The credit under this scheme is sanctioned in proportion to the size of owned land, but there is some flexibility for the farmers cultivating leased-in land, in addition to their owned holding. The KCC scheme has made a rapid progress and till 31 March, 2009, about 80.8 million KCCs have been issued by the co-operative banks, commercial banks and RRBs (Table 9). The share of co-operative banks and commercial banks in distribution of KCCs was 44 per cent and 43 per cent, respectively; the remaining 14 per cent was issued by RRBs. The growth in distribution of KCCs has been phenomenal. The distribution of KCCs grew at the rate of 44 per cent per annum; the highest growth rate (75%) was witnessed by RRBs. The distribution of KCCs by cooperative banks grew at the rate of 46 per cent per annum during this period. The KCCs issued by the commercial banks witnessed an annual growth rate of 42 per cent during this period.

Conclusions and Policy Implications

The agricultural performance engrosses many production factors; agricultural credit is one of them. The performance of institutional credit to agriculture and the determinants of institutional agricultural credit use at households' level have been analyzed.

The study has shown that the institutional credit flow to the agriculture has been increasing for the past four decades. However, different patterns in the growth of agricultural credit have been observed during different sub-periods. The structure of the sources of credit has witnessed a clear shift and commercial banks have emerged as the major source of institutional credit to agriculture in the recent years. Further, the portfolio of institutional credit to agriculture has also changed and the share of investment credit in total credit has declined over time. The declining share of investment credit may constrain the agricultural sector to realize its full potential. Regional disparity in disbursement of agricultural credit has been glaring, though in recent years it has shown some evidence of convergence. Inequity in the distribution of institutional credit across different categories of farmers also persists. The choice of a credit outlet and the quantum of institutional credit availed by farming households have been found to be affected by a number of socio-demographic factors. The effect of education has indicated the need for capacity building of borrowing farmers. Imparting training to borrowers regarding procedural formalities of financial institutions could be helpful in increasing their access to institutional credit. Further, procedure for loan disbursement could be made simple so that it may not be difficult for the less-educated and illiterate households to access institutional financing agencies for credit.

The weaker sections of the society like SCs, STs and OBCs and smallholders are more exposed to non-institutional sources for their borrowings and thus end up paying higher rates of interest, which have a negative bearing on their economic situation. This needs to be ameliorated by strengthening the on-going special schemes for these groups.

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