DEVELOPMENT OF AGRICULTURAL CREDIT IN INDIA

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Introduction

Performance of Indian economy is dependent upon the growth of agriculture sector. It contributes nearly 16 percent of India's gross domestic product (GDP) and 13 percent of total exports. It provides employment to 52 percent of the country's work force and livelihood security to more than 620 million people. Agriculture plays an important role in economic development such as provision of food to the nation, enlarging exports, transfer of manpower to non-agricultural sectors, contribution to capital formation, and securing markets for industrialization. It is the backbone of any developing economy like India, as majority of the population depends directly or indirectly on it. It needs financial support for its survival.

Agricultural finance includes agricultural credit, saving, income, investment and capital formation. It is not only agricultural credit. It can be defined as "as an economic study of financing the farm business". It is that part of farm management which pertains to acquisition and use of capital.

Agricultural credit had been recognized as the life blood of all economic activities, because of the compulsive need to speed up agricultural growth not only to feed a population of one billion plus but also generate exportable surplus. Alongside, there was a need to shift product-mix towards animal husbandry, fishery and horticulture which have immense potential for income generation to rural people, besides boosting the country's export earnings considerably.

A United Nations publication had stressed the need for credit for farmers when it observed, "most of the world's farmers have to borrow at some time, many of them heavily. To raise agricultural production they will have to borrow still more and more. Credit is almost always needed where there is redistribution of right in land. It is thus required in the interest of agriculture in adequate amounts and at appropriate costs".

Modern agriculture in the form of new agricultural strategy is a costly affair. It is interdependent on several interrelated practices, each one of which has to be applied rationally and in the manner recommended by the extension specialist. Thus scientific crop-planning had created an unprecedented upsurge in the demand for various types of inputs of production. This in turn had created a heavy demand for credit.

Agricultural production in India depends upon millions of small farmers. It is the intensity of their effort and the efficiency of their technique that will help in raising yields per acre. Because of inadequate financial resources and absence as well as non-availability of timely credit facilities at reasonable rates, many of the farmers are unable to go in for improved methods of cultivation, use of better seeds and manures and to introduce better methods or techniques. Works of minor irrigation source like wells owned by the cultivators either get into misuse or are not fully utilized for want of capital.

Objectives of the Study

The following objectives of this study

1. To study the development of agricultural credit in India
2. To analysis of the five year plans and agricultural development.
3. To analysis of various policy of government of India, RBI & Government of Tamilnadu.

Review of Literature

Ratheesh, C. et al (2013) in their research article tried to analyse the changing structure of institutional credit in India in the pre and post reform period, growth of production credit and investment credit in pre and post reform periods and to study the relationship between long term credit and private capital accumulation in Indian agriculture. The study was based on secondary data collected from various issues of sources. The period of study was from 1970 to 2010. Average growth rate, correlation and regression methods were used for data analysis. The study found that in the post independent India, institutional credit was widening while the non-institutional credit showed a declining trend. But in the later part of the study period, the non-institutional credit gained its momentum marginally.

Shejal, S.S. (2013) in his research article examined the objectives and implementation of district credit plan, and its impact on agriculture and industry. Sangli District in the state of Maharashtra was chosen for the study. The period of the study was 2001-10. Mainly secondary sources of data were used. The study found that more than 90 per cent of the target was achieved in providing agricultural credit except in 2002-03 – 2003-04. Further it was found that utilization of credit was more than 100 per cent for land development, storage and crop loan. The overall credit utilization decreased from 91 per cent to 86 per cent during 2001-10. The overall growth rate marginally decreased to 17.99 from 19.55 during the previous period. The study witnessed a marginal increase in the employment generation by 1.05 per cent during 2002-2010. The study concluded that the cost of the loan was to be further reduced and loan waiving was to be prevented to regulate the financial sector.

Varinder Jain and Surjit Singh 2014 in his research articles, “A study of Small, Marginal, Dalit and Tribal Farmers”. This study has focussed an credit availability and access among farmers in Rajasthan. It has specifically focused on the disadvantages section of the farming community such as marginal, small, tribal and dalit farmers. It is observed that all financial institutions have provided both crop loan and the term loan. In corp loan, the contribution of all the agencies is significant but regarding term loan, the dominant position is taken by the commercial banks who could finance the long term loans.

Need For Agricultural Credit

Purchase of New Inputs

The farmers need finance for the purchase of new inputs which include seeds, fertilizers, pesticides, irrigation water and the like. If the seeds of high yielding varieties and other modern inputs are made available to the farmers, they can increase productivity not only of land but also of labour.

Purchase of Implements

Credit is required by the farmers for the purchase of cattle water pumping sets, tractors threshers and the like. The use of appropriate machinery in land will increase production by growing more than one crop on the same piece of land at the same time.

Better Management of Risks

Credit enables the farmers to better manage the risks of uncertainties of price, weather and the like. They can borrow money during bad years and pay back the loans during goods years of crops.

Permanent Improvements in Land

Credit also helps the farmers to make permanent improvements in land like sinking of wells, land reclamation, horticulture and for other purposes.

Better Marketing of Products

If timely credit is made available to the farmers, they will not sell the produce immediately after the harvest is over. At that time the prices of agricultural goods would be low in the market. Credit enables the farmers to withhold the agricultural surplus and sell it in market when price are high.

To Face Crisis

The credit is required by the farmers to face any crisis caused by the failure of crops, draught or floods and in other farms.

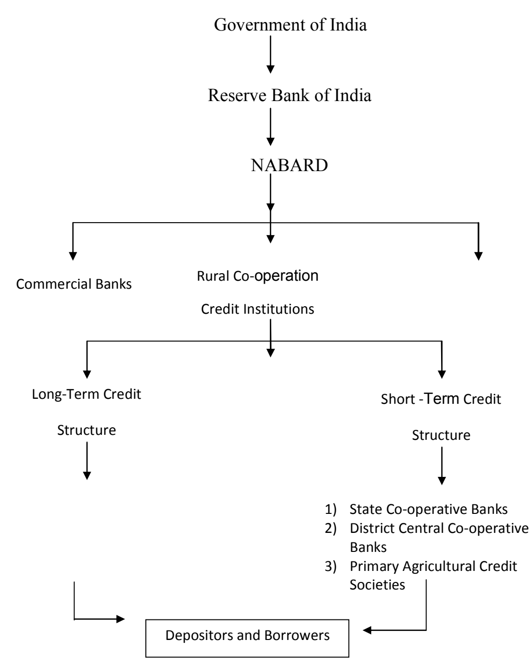
Balanced Development

Agricultural sector generally remains neglected compared to industrial sector in the country. For balanced development, it is essential that credit should be provided at confessional rates to the agricultural sector so that it should also expand and help in the take-off process for the development of the country.

Structure of Agriculture Credit System

The agricultural credit system as it emerged had been a product of both evolution and intervention and symbolizes the systems response to the stimulus from continuing dissatisfaction with credit delivery. Figure 1 shows the structure of agricultural credit system in India.

Figure 1
Structure of Agriculture Credit System in India



Source: RBI Bulletin 2011

Five Year Plans and Agricultural Development

The agricultural sector's share in India's GDP had decreased when compared to other sectors. It shows the negative aspect of our economy because India is basically an agricultural country. Government of India has formulated 11th Five Year Plan with a vision to accelerate economic growth for the well-being of the society. Since the first Five Year Plan many an agricultural programme had been formulated and implemented to improve 5, 50,000 villages, to remove poverty as well as to increase the farm output in the country.

Plan Outlay in Agriculture and Allied Sector

Table 1 gives the details of allocation of funds under various Five Year Plans for agriculture and allied activities.

Table 1
Plan Outlay in Agriculture and Allied Sectors

(Rupees: Crores)

Plan	Year	Total Outlay	Agricultural and Allied Sectors	Percentage
I Plan	(1951-56)	2,378	354	14.9
II Plan	(1956-61)	4,500	501	11.3
III Plan	(1961-66)	8,577	1,089	12.7
IV Plan	(1969-74)	15,779	2,320	14.7
V Plan	(1974-79)	39,426	4,865	12.3
VI Plan	(1980-85)	97,500	5,695	5.8
VII Plan	(1985-90)	1,80,000	10,525	5.9
VIII Plan	(1990-91)	58,369	3,405	5.8
IX Plan	(1997-2002)	8,59,200	37,546	4.9
X Plan	(2002-2007)	15,25,639	58,933	3.9
XI Plan	(2007-2012)	36,44,718	1,36,381	3.7

Source: Planning Commission, Government of India

It is inferred from table 1 that the percentage of plan outlay in agriculture and allied sectors to total outlay had been on an increasing trend from First Five Year Plan (1951-56) to Eleventh Five Year Plan (2007-12) except during the Seventh Five Year Plan (1990-91). The percentage of increase was in a fluctuating trend during all the five year plans. The highest percentage of increase (14.9 percentages) was observed in the year 1951-1956. During the First Five Year Plan period. The share of agriculture and allied activities to the total plan outlay has increased from 2,378 crores in 1951- 56 to 36,44,718 crores in the year 2007-2012. The five year plans were successful to some extent but they suffered from many handicaps, such as lack of identifying the potential beneficiary, flows in the implementation process, easy availability of private finance and the like. Once again the small and marginal farmers were in trouble in getting quality inputs as well as finance which had led to low production and productivity.

Policy Initiatives of Government of India

The Government of India aimed to usher in green revolution into eastern region- to improve rice based cropping system in Assam, Bihar, Chhattisgarh, Jharkhand, Odissa, Eastern Uttar Pradesh and West Bengal.

- Removal of production and distribution bottlenecks for fruits, vegetables, milk, meat, poultry, fish, and the like. Integrated development of 60,000 villages in rain fed areas was also planned.
- Increasing the production of bajara, jowar, ragi and other millets
- Promotion of animal based protein production through livestock development, dairy farming, piggery, goat rearing and fisheries
- Accelerated fodder development programme to benefit farmers in 25,000 villages
- Promoting organic farming methods combining modern technology with traditional farming practices
- Special allocations made to NER, special category states and J&K to boost development
- Increased allocation under backward regions Grant Fund (BRGF)
- Implementation of handloom Weavers' package to declog the chocked credit lines, covering 15,000 cooperative societies and benefiting around 3 lakhs handloom weavers.

Policy Initiatives of Reserve Bank of India

The GDP growth in the country for 2013-14was placed at 8 per cent for policy purpose**.**

- Licensing of co-operative banks' revised guidelines on licensing of state cooperative banks and DCCBs put in place to enable them get licensed before2012.
- The broad frameworks of regulations in respect of MFIs recommended by the Male Gams Committee have been accepted.
- A Committee had been constituted to re- examine the existing classification and suggest revised guidelines with regard to priority sector advances.
- Domestic scheduled commercial banks have been mandated to allocate at least 25 per cent of the total number of branches to be opening during 2031-14 in unbanked rural centres.
- Urban cooperative banks have been permitted to lend to SHGs and JIGS.

Policy Initiatives of State Government

- The target for production of food grains for the 2013-14 had been fixed at 115 lakhs MT from the last year's 85.35 lakhs MT. To step up food production, allocation for the national agricultural development programme for the year is fixed at Rs. 467 crores.
- A target of Rs. 3000 crores was set towards disbursement of crop loans during 2013-14 through cooperatives, free of interest for farmers who repay the loan promptly.
- To ensure uninterrupted supply of fertilizers to farmers, TANFED was to be given an interest free advance of Rs. 150 crores.
- To increase productivity, government intends to promote front end technological interventions viz., SRI, SSI, Precision farming and BT cotton. During the year, 22.24 lakh

acres would be covered under SRI, 14,000 acres under SSI, precision farming will be practised in 22000 acres with an outlay of Rs. 20.93 crores.

- The Tamil Nadu Industrial Investment Corporation (TIIC) would provide credit to MSMEs with a three per cent interest rebate.
- Under the World Bank funded "Dam rehabilitation and improvement project", 18 dams will be covered during the year. The total outlay for the project will be Rs. 745 crores over a period of six years.
- Proposals were to be drawn for augmenting go down and warehousing facilities at the PACS and also to increase the storage facilities in agricultural cooperative market premises and regulated market premises for which Rs. 237 crores were to be set apart with NABARD assistance under RIDF.

Problems in Agricultural Credit in India

Agriculture in India has always been heavily dependent on the monsoons and has hence been an inherently risky activity. At different times we have also had onerous rural tax systems under different empires, most recently under the British.

Consumption pattern of farmers over the year. With the intermittent failure of the monsoons and other customary vicissitudes of farming, rural indebtedness has been a serious and continuous characteristic of Indian agriculture. Because of the high risk inherent in traditional farming activity, the prevalence of high interest was the norm rather than an exception and the concomitant exploitation and misery that often resulted.

Therefore, been found to be intrinsically very difficult and, as well see, an issue of continuing official concern for over a century. The large proportion of publication in the lower strata, which is having major share in the land holdings receives much less credit than its requirements. The growing disparities between marginal, small and large farmers continues to be a cause for concern . This observed phenomenon may be attributed , inter alia to the 'risk aversion' tendency of the bankers towards small and marginal farmers as against the large farmers, who are better placed in offering collaterals. 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.

Summary

Agricultural credit had played a vital role in supporting agricultural production in India. The green revolution characterized of greater use of inputs like fertilizers, seeds and other inputs increased credit requirements which were provided by the agricultural financing institution. Though the outreach and the amounts of agricultural credit have increased over the years, several weaknesses had crept in which have affected the viability and sustainability of these institutions. Furthermore, antiquated legal frame work and the out dated laws have hampered the flow of credit and development of strong and efficient institutions. The highest percentage of increase in first five year plans (14.9 percentages) was found in the year 1951-1956.The share of agriculture and allied activities to the total plan outlay had increased from Rs. 2,378 crores in 1951- 56 to Rs. 36,44,718 crores in the year 2007-2012. It could be seen from the above table that the agency wise kisan credit card flow of co-operative bank credit had a fluctuating trend from 2004-05 to 2014-2015. The other banks, comparatively commercial banks had an increasing trend from the year 2004-05 to 2014-15.

Agriculture credit situation brings out the fact the credit delivery to the agriculture sector contiguous 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 floe of credit to agriculture, alongside exploring new innovations in product design and methods of delivery, through better use of technology and related processes.

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