AGRICULTURE CREDIT IN POST-REFORMS ERA IN INDIA: ISSUES AND CHALLENGES

Dr. S. B. Yadav Associate Professor of Economics, BSR Government Arts Colleg, Alwar (India) 301001

ABSTRACT

Finance in agriculture is as important as other inputs being used in agricultural production. 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. The paper discusses the history and need of agricultural finance in India, sources and magnitude of agricultural finance and assesses its progress.

The World Bank in its sector policy paper as back as in 1975 has aptly reiterated "credit is often a key element in the modernization of agriculture. Not only can credit remove financial constraint but it also accelerates the adoption of new technology. Credit facilities are also an integral part of the process of commercialization of the rural economy. However, no amount of credit even at the most reasonable rates can guarantee higher productivity or income among the rural poor, as the success depends upon many factors including the availability of inputs and services, sound credit policies, well-managed institutions and appropriate delivery channels". This paper briefly highlights serious issues of agricultural credit and makes suggestions for the Government, RBI and Legislators to resolve them speedily.

Keywords: Credit, Farming, Sustainable, Rural economy, Productivity.

Introduction

Finance in agriculture is as important as other inputs being used in agricultural production. 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. Agriculture in India depends on credit from Institutional and non-institutional sources for agricultural activities. Actually, credit is a catalyst that lubricates the process to accelerate the farm and non-farm sector development including rural industrialization, business and service segments of the economy. Credit helps farmers invest in creating assets to generate output and income through deploying science, technology and modern methods of business management. Investments in farm can generate farm income sustainably when credit is simultaneously adequately supported by backward and forward linkages, viz. inputs of production, technology and services.

An average Indian farmer, who has to work on an uneconomic holding', using traditional methods of cultivation and being exposed to the risks of a poor agricultural season is almost always in debt. He is a perennial debtor. Once the farmer falls into debt due to crop failure or low prices of crops or malpractices of moneylenders he can never come out of it. In fact, large part of the liabilities of farmers is 'ancestral debt'. Thus, along with his landed property, he passes on his debt to the next generation.

Methodology

The article is based on the secondary data compiled from diverse sources. The data 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), Reports on Currency and Finance, published by Reserve Bank of India (RBI) and various annual reports of National Bank for Agriculture and Rural Development (NABARD).

Need for Finance

Finance is needed by farmers both for production and consumption (unproductive) purposes. The two major sources of finance in agriculture are institutional and non- institutional sources. Over the years, there has been a sharp decline in the percentage of agricultural credit financed by non-institutionalized sources like money-lenders from 90.9 per cent to 20.9 per cent. The highest increase in loans issued was in the case of Scheduled Commercial Banks with CGR of 32.05 while the lowest was in the case of Co-operatives with CGR of 13.57 per cent in case of short term credit. In case of long term credit, The highest loans outstanding were in the case of Scheduled Commercial Banks with CGR of 22.74 while the lowest was here also in the case of Co-operatives with CGR of - 2.81 per cent. The share of agricultural credit as a proportion of agricultural GDP has been rising continuously since the 1950s, and even as a proportion of total GDP until the 1980s, after which it is stagnant. Imparting training to borrowers regarding procedural formalities of financial institutions could be helpful in increasing their access to institutional credit. The option of microfinance and Kisan Credit Card (KCC) should be adopted and streamlined to alleviate the plight of the marginal, small, tribal farmers. They should be linked effectively to the Self Help Groups (SHGs)

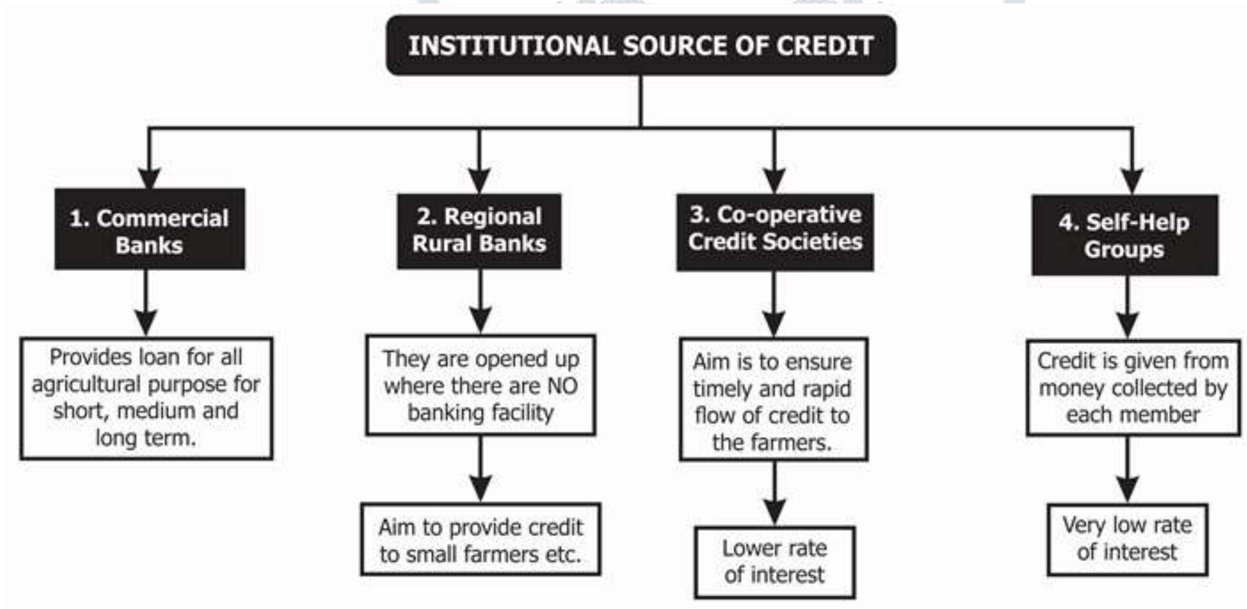
Finance is required by farmers not only for the production and marketing of crops but also to keep a stagnant agricultural economy alive. Most Indian farmers live near the brink of starvation. A bad monsoon, a poor harvest, an accident or illness in the family forces him to approach the moneylender for a loan. In India, there is the preponderance of such 'distress' or unproductive loans. Agricultural finance in India is not just one requirement of the agricultural business but a symptom of the distress prevailing among the majority of the farmers.

Rural credit includes not only credit provided to farmers but also credit extended to artisans, owners of small and medium industries in rural areas, small transport operators and so on. Two main sources of rural credit are private and institutional. The former includes private moneylenders, traders and commission agencies, relatives and- landlords.

The principal aim of institutional credit is to replace the widely prevalent money-lending at a very high rate of interest. Available data show that the rural credit institutions have succeeded to a considerable extent in achieving this aim.

Institutional Finance

The sources of institutional credit are rural co-operatives, commercial banks, particularly the State Bank of India (SBI). And, with the setting up of a specialised institution called the National Bank for Agricultural and Rural Development (NABARD) the Agricultural Refinance and Development Corporation (ARDC) has ceased to exist. Up to 1982 it was responsible for extending agricultural finance under guidance of the Reserve Bank of India.



It may also be noted that the short- and medium-term credit requirements of the farmers is met by indigenous bankers or village moneylenders, co-operative credit societies and commercial banks. Long-term credit needs are met by land development banks and NABARD.

The need for institutional credit has been felt because of the inherent defects of private agencies.

Non-Institutional Finanace

(i) Money Lenders

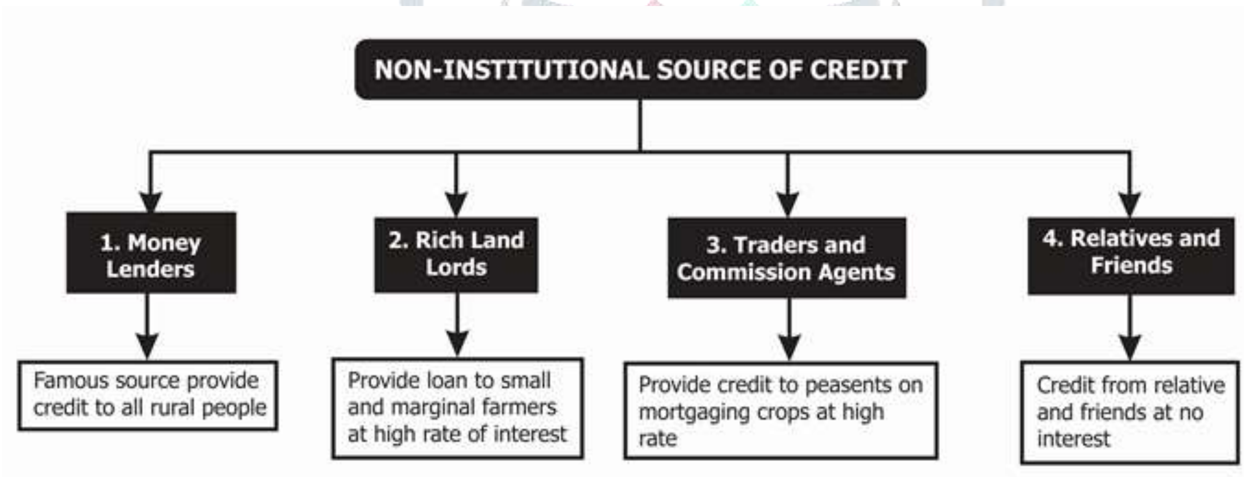
There are two types of money lenders in rural areas. There are rich farmers or landlords who combine farming

with money-lending. There are also professional money lenders whose only occupation or profession is to lend money. The cultivators depend upon the money-lenders for their requirements of cash. However, there are many reasons for the preponderance of the village money-lenders in rural area even now.

I. The money lender freely supplies credit for productive and non-productive propose, and also for short-term and long-term requirements the farmers.

II. Money lender is easily accessible and maintains a close and personal contact with the borrowers often having relations with family extending over generations.

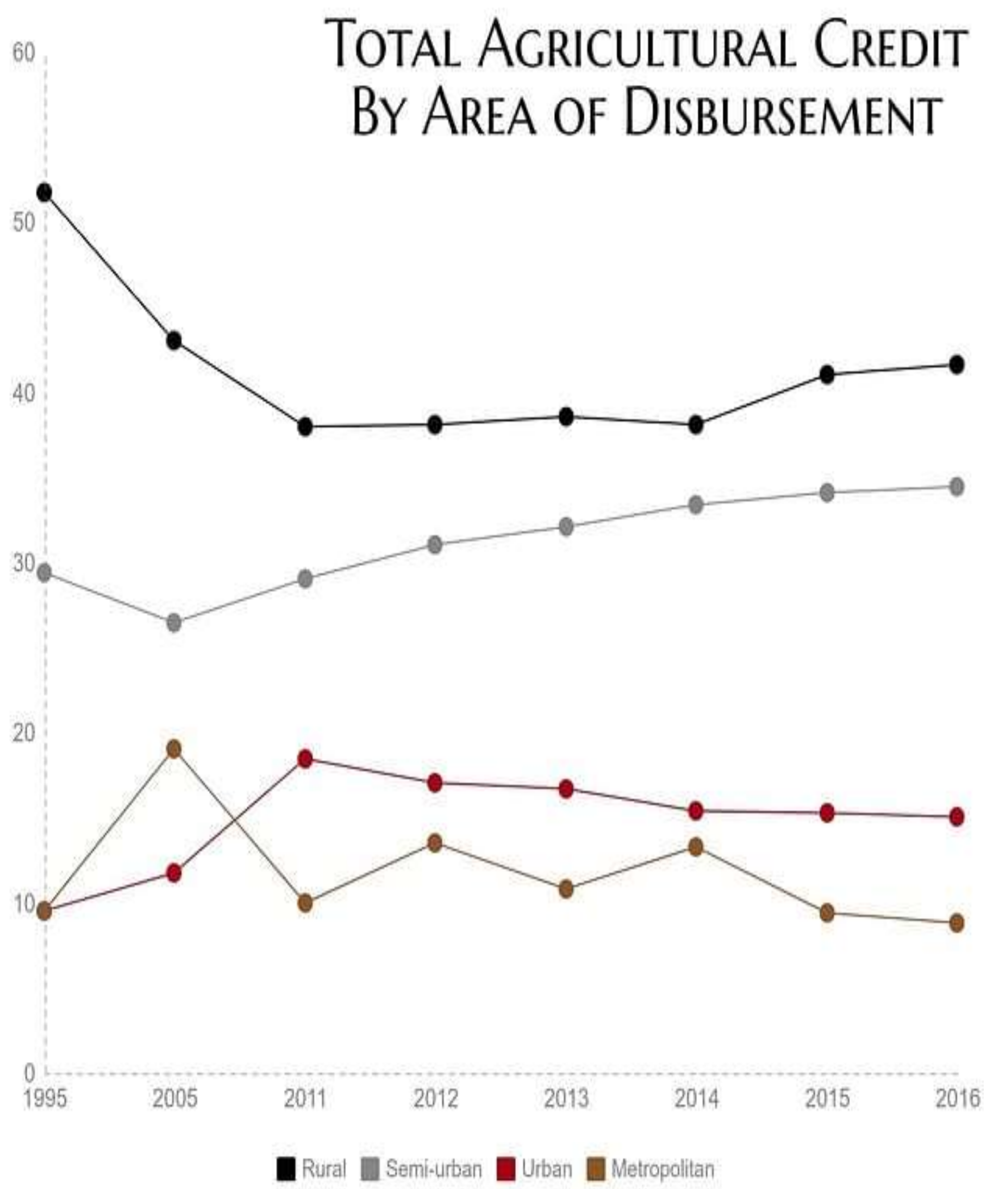
III. Their methods of business are simple and elastic.



(ii) Landlords and Others

Traders and commission agent supply funds to farmers for productive purpose much before the crops mature. They force the framers to sell their produce at low price and they charge a heavy commission for themselves. Thus source of finance is particularly important in the case of cash crop like cotton, groundnut, tobacco, and in the case of fruit of chard like mangoes. Traders and commission agent may be bracketed with money lenders, as their lending to farmers is also at exorbitant rates and has other undesirable effects too.

Fig.1: Total Agricultural Credit by Area of Disbursement



The above diagram represents the total agriculture credit which was distributed area-wise in the country.

Five main defects of the system of private credit are the following:

1. It is highly exploitative in character because of the inherent profit motive.

2. Since such credit is provided largely for unproductive purposes the rate of interest charged is very high.

3. Such credit is not necessarily directed toward needy persons or desired channels.

4. Such credit is provided for short periods of time and at high rates of interest and cannot, therefore, be utilised for land development or long- term improvement of agriculture.

5. Institutional credit is not linked with other non-farm services such as marketing and processing and warehousing.By contrast, institutional credit is basically un-exploitive in character. It is largely directed towards raising agricultural productivity so that the income of the farmer increases sufficiently and he becomes self-sufficient. The rate of interest is not only low but varies from case to case. Different rates of interest are charged for different types of loans and different categories of farmers.

Institutional agencies also draw a clear-cut distinction between short-term credit and long- term credit. Moreover, they recognise the organic link between credit and other needs of the farmers and seek to achieve an integration of credit with such needs.

Farmers not only need credit but also guidance in adopting improved methods of cultivation. Thus, it is necessary to provide such guidance and extension services along with credit. They must be taught how to use quality seeds, fertilisers, pesticides, etc. and also how to grow crops

They must also be provided marketing assistance so that they can obtain the best possible return from their produce. Only institutions like co-operative societies, commercial banks, etc. can provide such guidance, not the usurious moneylenders and greedy commission agents. So it is now necessary to make a brief review of different institutional agencies of rural credit.

Table 1. Sources of Agricultural Credit (In %)

Source	1952-52	1961-62	1970-71	1981-82	1991-92	2002-03	2010-11
Government	3.3	2.6	3.6	4.0	6.1	3.0	4.0
Cooperative Societies	3.1	15.5	22.7	28.6	21.6	26.0	24.9
Commercial Banks	0.9	0.6	0.4	28.0	33.7	27.0	43.1
Moneylenders	90.9	67.4	68.4	38.8	32.7	41.0	21.9
Others	1.8	13.9	1.3	0.6	5.9	3.0	6.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Report of the all India rural credit review committee 1969, RBI bulletin and NSSO, May 2011, Economic Survey 2010-11.

Table 1 clearly indicates that over the years there has been sharp decline in the agriculture credit financed by the non-institutional sources of credit like money lenders. Non institutional sources are still playing a major role in financing to agriculture.

Fig.2: Source- wise Credit Disbursements

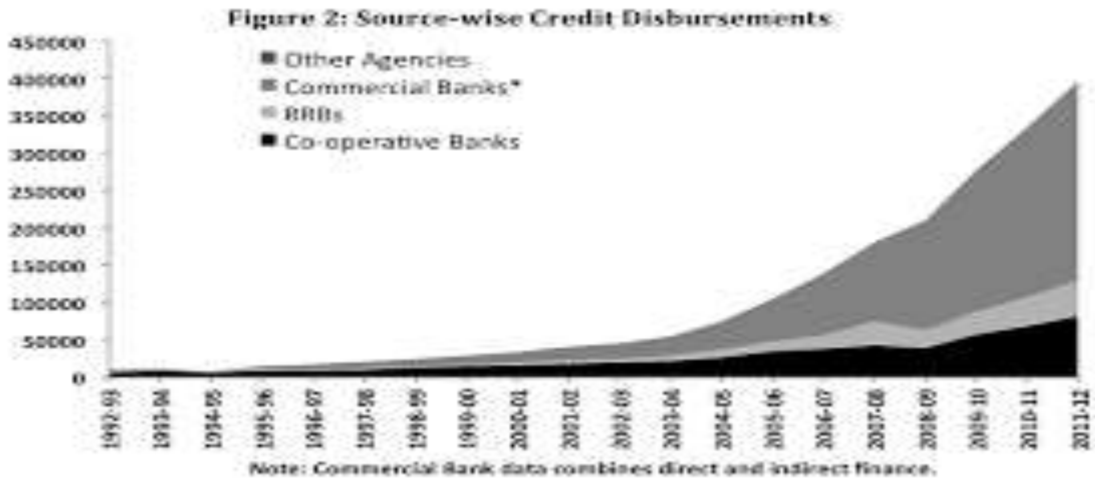


Fig.2 explain source-wise credit disbursement in country since 1992-93 to 2011-12. This institutional sources have been supplying agriculture loan to all farmers especially, small and marginal farmers but reports indicated that most of credit from institutional sources have benefitted large farmers in those areas where agriculture production was found per hectare high. As per the economic survey, 2010-11 nearly one-fourth of the total finance to agriculture is being supplied by the traditional sources of finance. This indicates that government should take necessary remedial to make institutional finance more accessible for farmers in the country.

Consequences

growing debt there emerges in the rural economy of India a class of landless labourers and tenants. Consequently independent or self-sufficient farmers gradually lose their identity. The landless workers have nothing to offer as security in order to obtain loans from moneylenders, except their labour power.

Consequently, they become bonded labourers. This creates discontent among them and adds to rural tensions. In fact, the acquisition of land by the traders and moneylenders and the consequent deprivation of the poor farmers of their meager landed property was the root cause of the Naxalite movement, which assumed serious proportions in West Bengal, Orissa and Andhra Pradesh in the late 1960s and the 1970s. Thus there is no use denying the problem of rural indebtedness. Sooner the problem is removed from its roots the better for India's rural economy.

Issues in Agriculture Credit

The credit flow to agriculture, more importantly after introduction of financial sector reforms in early-nineties, increased from Rs.2,85,146 crore during the Ninth Plan [1997-2002] to Rs.6,91,739 crore [243%] during the Tenth Plan [2002-07]. Credit disbursement during the Eleventh Plan [2007-12] further shot up to Rs.19,20,400 crore [277%].

As against annual average disbursement of Rs.57,029 crore, Rs.1,38,348 crore and Rs.3,84,080 crore during previous three plans the disbursement during 2012-13 alone was Rs.6,07,375 crore, exhibiting significantly high growth of credit year after year.

However, the pressing issues still continue viz.

- impact on improving crop productivity and output has been not so satisfactory, leave alone expected,
- significant disparities in the flow of credit among States, districts, villages and even within the village,
- significant imbalance between short-term and term loans, between credit disbursed to agriculture and allied activities as also across components of agricultural term loans, viz. irrigation development, farm mechanization, land development, plantation and horticulture, hi-tech agriculture, etc.
- difficulties experienced to easy and reliable access of institutional credit by small, marginal and tenant farmers, share croppers, oral lessees, landless laborers, households residing in hilly, tribal, desert, drought prone and most backward and vulnerable areas in particular[v]problem of loan repayments leading to building up huge amount of NPA has become serious and pernicious.

In order to ensure that credit in particular and financial services in general achieve their intended objectives, now the need to create enabling policy environment and effective credit planning is greater than before.

Government, RBI and the legislators need to demonstrate a serious concern and commitment to address these issues. Following policy intervention, inter alia, need immediate attention along with formulating a strategic action plan to resolve most issues by the end of the 12th FYP [2016-17].

Enabling Comfortableness of Credit Facility

Policy should address to create enabling environment that can significantly enhance credit absorption capacity of the geographical areas and farmers in each village.

For this, policy should focus on critical areas, namely

- investing significantly in rural infrastructure to improve farm fuel/energy, transport, communication, storage, processing and marketing facilities.
- establishing State of Art Agri-meteorology in all agro-ecological regions.
- expanding irrigation and reclamation of wastelands.
- integrating agricultural education, research and extension services and strengthening capacity-building of farmers to bridge the huge yield gap between the potential yields and actual yields at field level in rain-fed and irrigated farming systems.
- development and use of genetically engineered seeds, micro-irrigation system, greenhouse technology, integrated nutrient and pest management technique, computer-based modeling to track disease and pest incidence.
- expanding farm mechanization program.
- promotion of remote sensing technology.

Policy and programs involving timely and adequate investment in agriculture would facilitate farmers' access to frontier technologies for production, food processing and preservation, farm-to-market/fork linkages, agricultural research and extension, weather and crop forecasting, large-scale development of bio-diesel, modernization, mechanization and commercialization of agriculture.

Appropriate proportion of public, private and foreign investment should remedy the situation of investment shortage in agriculture and help transform a 'negative subsidy regime' into a 'capital-intensive positive Agricultural Marketing Service regime' and stimulate India's agricultural producers to access global markets.

Drought, flood and weather codes need to be developed and used to seek short and long-term solution to the recurring problems of floods, drought and cyclones, thereby minimizing damage to rural livelihoods. Government, Agricultural Universities & Indian Council of Agricultural Research institutes along with industrial, business and commercial houses in close coordination should accelerate their efforts to accomplish this task by the end of 12th Five Year Plan.

The Government has restricted individual bank's lending to indirect agriculture not exceeding 4.5% of its net bank credit, as a result banks do not consider lending beyond this prescribed limit for financing entrepreneurs who can provide contractual services to farmers, more particularly small & medium ones in respect of facilities/services, such as input dealers & suppliers [seeds, fertilizers, pesticides, farm equipment & machinery] cold chain, refrivan, cold storage, warehousing, drilling of irrigation wells, tractors, power tillers, combine harvesters, transport vans, trucks, etc. that have tremendous impact on significantly improving the crop productivity & output and return on investment.

Implementation of Rural Infrastructure Development Fund (IRDF) became a significant instrument to unlock sunk investments already made by the State Governments, create additional irrigation potential, improve connectivity between villages and marketing centers, generate additional employment for rural households, contribute to the economic wealth of the rural economy, enhance quality of life through provision of facilities in education, health, drinking water supply, among others. RIDF supported projects facilitated creation of critical infrastructure, expansion of the production base, increased credit disbursement and generated additional employment opportunities [recurring and non-recurring].
Thus, RIDF directly contributed to creation of physical infrastructure and capital formation in rural areas. As on March-end, 2012 at national level RIDF created impact in areas, viz.

- irrigation potential on an area of 2,04,06,829 hectares with non-recurring employment of 30,098 lakh person days.
- construction of rural bridges of 7,96,899 meters & rural roads of 3, 54,344 km length with non-recurring employment of 41,099 lakh person days and
- non-recurring employment of 24,228 lakh person days in other sectors.
- recurring employment generation of 85,43,283 persons.
- 3,25,270 rural market yards and godowns.
- gross domestic product valuing Rs.24,580 crore.
- hydel power of 212.83 MW &22,315 lakh units/year of system improvement to minimize transmission and distribution losses.
- health centers benefiting 615.83 lakh persons.
- primary & secondary schools benefiting 100.06 lakh students and,
- rural drinking water supply benefiting 1250.60 lakh persons. This, therefore, justifies that funds deposited by commercial banks with NABARD for lending to State Governments to supplement their efforts to develop rural infrastructure including social and power sector should carry interest rate at least to cover the cost of their borrowing, if not market price.

Experience suggests that banks have been since 1969 till date receiving Government's mandates, which have to be strictly complied with from time to time. This has impacted seriously on banks' having lost initiatives for developing business from commercial view point in rural areas that have unfathomable reservoir of unexploited resources, which can be developed with the aid of science, technology & financial services.

Remedies for Improvement

Since the problem of rural indebtedness has two major dimensions, to solve the problem we have to adopt a two-fold strategy. Since the magnitude of debt is quite high, steps may be taken to cancel old debts. There is a strong case for reduction of ancestral debt and even for their liquidation.

This can be done by State Governments by passing Insolvency Acts. It may be noted that the Government decided in 1990 to write off Rs. 14,000 crores of loans outstanding from farmers Up to a maximum of Rs. 10,000 crores. This was considered necessary because 80% of India's population were farmers and farm workers. Earlier in some States moratorium had been declared on the recovery of debt by moneylenders from farmers, rural artisans and landless workers as per the 20- point Programme.

Secondly, it is to be ensured that the quantum of fresh borrowing is reduced to the minimum, keeping in view the repayment capacity of farmers. It is equally important to ensure that new borrowing is strictly for productive purposes and not for meeting consumption needs. It is, however, difficult for the Government to ensure this in practice.

Only through the spread of education and propaganda among farmers it is possible to check the volume of loans made for unproductive purposes. However, in LDCs like India, arrangement may also be made for providing such loans on a modest scale.

As a subsidiary measure, control of the activities of moneylenders is also necessary. This has been done by some States where sale of land to moneylenders has been prohibited by law.

It is important to note that the abolition of bonded labour and liquidation of rural indebtedness are the two major aspects of the 20-point Programme. The system of bonded labour was abolished by an Act of Parliament in 1976. However, it seemed that the only answer to the present multi- agency credit system is implementing a new multipurpose system with efficient management.

This will have to be so devised as to meet the need for consumption loan of the farmers so that they are not exploited by being paid low wages or low returns on their products. Moreover, the RRBs, if properly managed, can go a long way in solving the problem of rural indebtedness in an effective manner.

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