

# Impact of Institutional Credit On Agricultural Production in India

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**Introduction :-** Agriculture is the backbone of the agrarian sector of a developing economy. The access to timely credit or finance is a critical determinant of profitability of agriculture. By credit for small farmers we generally mean short-term credit.

Long-term credit is generally on real estate mortgages. Because small farmers live below poverty line in India. They are not in a position to avail themselves of long-term loans. The significance of agricultural credit is a highly discussed subject. It would not be hyperbolic if farm economist says that it is the backbone of the agrarian sector of developing India.

It is interesting to know that the best small farmers have income levels lower than the lowest paid bank employees. Marginal farmers and the landless laborers are mostly below the so called poverty line. These loans are broadly of two types like land where loan exist for wells, tubewells, land levelling etc. In the second case moveable assets such as tractor, power tiller, pumps etc. are required from the loans co-operative credit has a great role play in promoting agricultural production and rural economic development with equity and social justice. Modern age finance for agriculture is as important as development of modern technologies, because technical inputs can be purchased and used by farmer only if he has money. Credit is not only a critical input in agriculture but also an effective means of economic transformation. Till 14 major commercial banks were nationalized in 1969. Co-operative banks were the main institutional agencies providing finance for agriculture. After nationalization, it was made mandatory for these banks to provide finance to agriculture as a priority sector. Thus agricultural credit acquired multi-agency dimension. If credit not available to purchase seeds at the times of sowing or if lack of credit delays the administering of fertilizers, it can severely impact agricultural productivity. Development and adoption of new technologies and availability of finance go hand in hand. In bringing "Green Revolu-

tion, White Revolution, Yellow Revolution and Blue Revolution finance has played a crucial role.

In addition, farmers get loans for purchase of electric pump, electric motor, tractor, thresher and other agricultural equipments. And farmers take loans for digging wells, boring, installation of pipe lines, drip irrigation, planting fruits orchards, purchase of dairy animals and feeds/fodder for them, poultry sheep's goat keeping and for many other allied enterprises.

Professional money lenders were one of the main sources of credit for agriculture. Usually they charge high rates of interest and follow serious practices while giving loans and recovering them. Then farmers were burdened with debts. and many of them perpetuated debts.

## Analysis of Agricultural Credit

The Indian banking system disbursed credit of Rs. 4,46,779 crore to the agricultural sector as against a target of Rs. 3,75,000 crore in 2010-11, thereby exceeding the target by around 19%. Commercial banks and Regional Rural Banks (RRBs) together extended credit to 104.97 lakh new farmers during 2010-11 and co-operative banks to 22.30 lakh new farmers, thus taking the total number of new farmers brought under the banking system to 127.26 lakh. The total number of agricultural loan accounts financed as of March 2011 was 5.50 crore.

**Credit Flow :-** In India, the development of agriculture sector is imperative for a variety of reasons. Agriculture is the main source of livelihood for Indian people in village areas. In India, last 57 years, Indian agriculture has significantly contributed in terms of income and employment generation.

Even today the 24% of the total GDP originates from the agriculture sector and 62% people find direct and indirect employment in agriculture sector in India. In 1951, it was 55% of the total National Income coming from agriculture sector, but today it is currently stuck to mere 24%. In 1988-89 i.e prior to introduction of Financial sector Reforms, growth rate in agriculture in India was 15.5% which has come down to 9.4% 2006-07. Present times 80% the farmland holding are with the small and marginal farmers owning land up to 5 acres. For these categories of farmers cost of production by way of farm inputs has increased manifold over a years while the productivity of the land remained at the same level and sale price of farm produce has not commensurately increased. These factors have thrown farmers to the debt trap and have caused distress leading to suicide.

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Govt. of India has planned to achieve 10% growth rate by 2012. But govt. cannot achieved this targeted growth rat for agriculture sector by 2012.

**Need of Credit for Farmers-**In agrarian history, one of the most important questions are need of credit for farmers. Because, Indian farmers are poor. The demand for agricultural credit arises requirement of capital for purchasing technological equipment agriculture related. The credit requirement is highly related with the expenditure patten of the farmers. Generally they spent 33% of borrowings on capital expenditure and 14. on current expenditure on the farm. Poor Indian farmers require more and more credit to go for agriculture production, they trapped in indebtness. In modern era, agriculture is becoming costlier for cultivators. Indian agriculture has undergone structural changes in recent times. Indian agriculture has geared towards small farmers, it is nature of developing agriculture.

**Kisan Credit Card (KCC) Scheme :-**The banking system has issued 1078,36 lakh Kccs involving a total sanctioned credit limit of Rs. 5,27052 crore as on 31 october 2011. The share of commercial banks stood at 45.6% of the total number followed by Co-operatvie banks at 39.4%, and RRBs at 15.1%. They year-wise and agency-wise position of the KCCs issued is given in table-1

**Table – I**

**Agency-wise KCCs Issued and Amount Sanctioned (As on 31 Oct, 2011)**

Agency	Card Issued (Lakh)					Amount Sanctioned (Rs. Crore)				
	2008-09	2009-10	2010-11	2011-12	Tot al	2008-09	2009-10	2010-11	2011-12	Tota l
Co-Operative Banks	13.44	17.43	28.12	17.58	424.57	8428	7606	10759	7461	158775
Regional Rural Banks (RRBs)	14.15	19.50	17.74	16.57	162.53	5648	10132	11468	6568	76998
Commercial Banks	18.34	53.23	55.83	11.79	451.26	39009	39940	50438	12652	296279
<b>Total</b>	85.92	90.06	101.69	39.54	1078.6	53085	57678	72625	26681	527052

Source : Economic Survey 2011-12, GOI, Ministry of Finance Notes since Inception of the Scheme in 1998; Up to 30 Jun, 2011

The credit flow to agriculture during 2011-12 by Commercial banks, Co-operative banks and RRBs together was Rs. 2,62,129 crore till October 2011, amounting to 55% of the annual target of Rs. 4,75,000 crore (table-2)

**Table - 2**

**Flow of Institutional Credit to Agriculture and Allied Activities (Rs. Crore)**

SL. no Agency	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Cooperative Banks	42480	48288	46192	63499	70205	53189
Share (%)	18	19	15	17	16	20
RRBs Share (%)	20435	25312	26765	35218	43968	29073
	9	10	9	9	10	11
Commercial Banks	166485	181088	228951	285799	332706	179869
Share (%)	73	71	76	74	74	69
Total (1+2+3)	229400	254658	301908	384514	446799	262129

Source : NABARD,

Notes : Provisional Up to 30 October 2011

NADARD is the nodal agency for implementing the Agriculture Dept. waiver and Debt Relief (ADWDR) scheme 2008 in respect at co-operative credit institutions and Regional Rural Banks (RRBs). NABRD has released Rs. 25,113.92 crore towards debt waiver and Rs. 3,986.02 crore towards Debt Relief claims as on December 2011.

Agricultural credit has compromised mainly credit provided directly to cultivators, which was called directly finance to agriculture. Direct finance to agriculture, a short-term loan to agriculture are refered to as the crop-loan, as they are advanced crop cultivation against the hypothecation of the crop to by cultivated by the farmers. The crop loans are provided as cash or in kind, such as the supply of Fortilers and seeds. The crop loans, direct finance also includes credit for medium and long terms investment in agriculture. The second component of agricultural finance is called indirect finance which does not go directly to cultivators, but to two institutions that support agricultural production in rureal areas. There has been major shift in the relative importance of short-term and medium and long term credit to agriculture. While short-

terms credit has remained the dominant correspondent of total areas credit, its relative importance declined from 70.3% in 1975-1976 to 58.2% in 2005-2006. This is clear from the credit flow data in the Table-3. It rose from Rs. 1675 crore in 1975-76 to 1,80,486 crore in 2005-06 in Table-3.

Table - 3

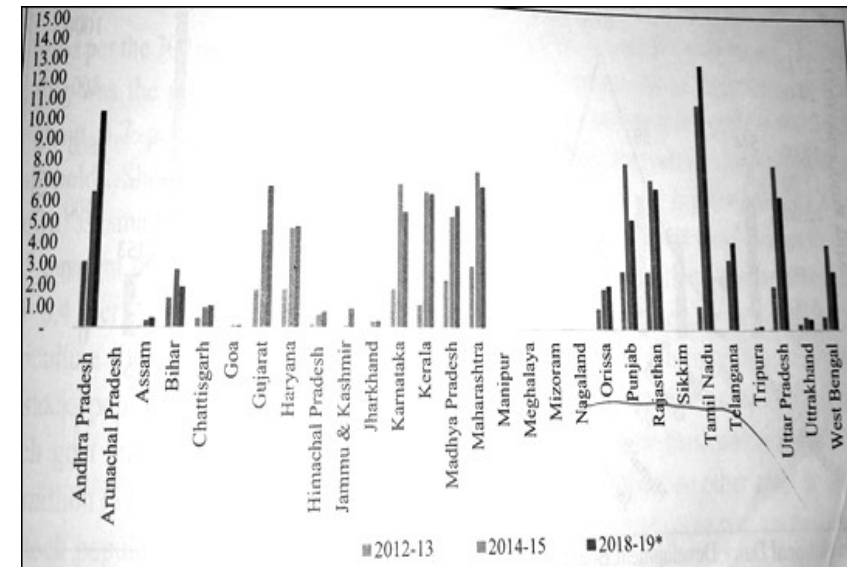
## Agency – wise Credit Flow to Agriculture (Rs. in Crore)

1	2	3	4	5	6	7	8	9
Agency	1975-76	1983-84	1993-94	2001-02	2002-03	2003-04	2004-05	2005-06
<b>1. Short term</b>	<b>1170</b>	<b>3335</b>	<b>11271</b>	<b>40509</b>	<b>45586</b>	<b>54977</b>	<b>74064</b>	<b>105350</b>
Co-Operative	881	2158	7835	18787	19668	22646	27159	34930
RRBs	2	12	732	3777	476	6088	10010	12712
SCBs	213	872	2700	17904	21104	76192	36793	57642
Other Agencies	N.A	N.A	0	41	39	57	104	68
<b>2. Medium and Long-term</b>	<b>498</b>	<b>1909</b>	<b>5223</b>	<b>21536</b>	<b>23974</b>	<b>32004</b>	<b>51245</b>	<b>75136</b>
Co-Operatives	305	780	2278	4739	3968	4233	4074	4474
RRBs	02	143	245	1077	1295	1493	2394	2511
SCBs	192	986	2700	15683	18670	26249	44688	67839
Other Agencies	N.A	N.A	0	39	41	27	89	314
<b>3. Total Credit</b>	<b>1675</b>	<b>5244</b>	<b>16494</b>	<b>62045</b>	<b>69560</b>	<b>86981</b>	<b>125309</b>	<b>180486</b>
Co-Operative	1186	2938	10117	23524	23636	26875	31231	39404
RRBs	2	263	977	4854	6070	7581	12404	15223
SCBs	405	1885	5400	33587	397741	52441	81481	125477
Other Agencies	82	185	0	80	80	84	193	382

Source : Commercial Banks from RBI Co-operative Banks and RRBs from NABARD

The regional distribution of agricultural credit in India in Figure-1 shows, that the distribution of agricultural credit is low in North-Eastern. Hilly and Eastern states. The share of North-Eastern states has been less than one percent in total agricultural credit disbursement.

Fig - I  
Percentage of Agricultural Credit Disbursement



The financial inclusion in the eastern and north eastern India is relatively less as compared to the south and west. The Small and marginal holdings constitute majority more than 85% to total operational holding in the eastern region, north-eastern region and central region, which warrants greater distribution of agricultural credit disbursement to these region.

### Conclusion and suggestions

In the nineties, the commercial banks credit to agriculture registered a slow growth. Since 2004-05, the growth of commercial banks credit to agriculture has picked up due to the implementation of govt. policy of doubling agricultural credit, even then, the share of commercial banks credit to agriculture in total credit has fallen short of the target. The findings of this study reveal that not only there is wide variation in the growth of commercial banks credit, scheduled commercial banks, Regional Rural banks credit skewed in favour of more developed states.

Institutional credit per cultivated area and sector share of agricultural credit to understand the trends and pattern of agricultural credit. This modern times banking system is not fruitful credit facilities for

agriculture finance. The reforms in the banking system must take cognizance of the credit deficit states and make suitable policy which changes to meet their credit requirements to increase institutional credit structure for achieving better credit delivery to agriculture. They have to increase the ratio of rural branches to no. of areas or villages for providing better access of banking facilities to the villages.

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