REVIEW OF RESEARCH
IMPACT FACTOR : 5.7631(UIF) UGC APPROVED JOURNAL NO. 48514 ISSN: 2249-894X

VOLUME - 8 | ISSUE - 6 | MARCH - 2019

# A STUDY OF AGRICULTURE CREDIT IN INDIA

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**ABSTRACT :**

*Agriculture sector is crucial for India in view of the food and nutritional security of the nation as well as the fact that the sector remains the most important source of livelihood for more than 60% of the population.However, theshare of agriculture & allied sectors in total GVA (GDP) has declined over the past years and has reached 18% in 2013-14(Economic Survey 2014-15). Increase in agriculture production and productivity depends on theavailability of agricultural inputs. Though its success and failure depend, to a huge extent, on climatic factors, as we always know that climatic factors are not in control of human hand. We have to introduce innovations and technology in theagriculture sector by providing agriculture credit to farmers, on the large basis. Now days, the climatic support to Indian agriculture sector has become more uncertain and the fear of low production of food grains are always there. In this context, the improvements in agriculture sector depend on non-climatic factors specially agriculture credit. By getting agriculture credit farmers can purchase other inputs such as fertilizers, high yielding verities of seeds, irrigation facility and pesticides. In this paper we have intended to discussthe need for agricultural credit in India, thetrend in agriculture credit growth, and agriculture credit growth in Indian agriculture.*

**KEYWORDS :** *Agriculture credit, India.*

## I. INTRODUCTION

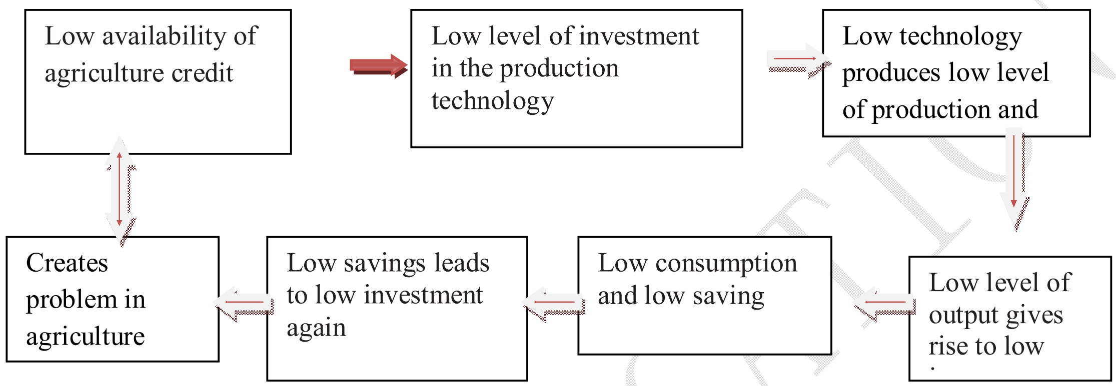
Increase in agriculture production and productivity depends on availability of agricultural inputs such as fertilizers, high yielding verities of seeds, irrigation facility etc. The agriculture has always been remained short of credit, especially in developing countries like India. It is mainly because most of the farm operators do not invest adequate amount of money desired in farming business. Successful farming depends upon adequate provision of credit input as it enables the farmer to finish agricultural operations competently. Therefore, the lack of adequate credit for investment is an important impediment to expansion of agriculture production and productivity.

At the time of independence, the most important source of agriculture credit was the moneylenders. In 1951, (the year when planning was initiated in the country) moneylenders accounted for as much as 71.6percent of rural credit. Moneylenders charged very high rates of interest ranging from 18 to50 percent or even more[1]. They often manipulated accounts to their advantage by not entering the money returned and interest paid into the account. They alsoforced farmers to sell the agricultural produce to them at low prices

[1]Mishra, S. K. &Puri, V.K. (2012). Indian Economy. New Delhi: Himalaya Publishing House.

From economic views the low availability of agriculture credit leads low level of investment and the production technology in an economy is remaining low. Such low technology results in low levels of productivity and output. Low level of output gives rise to low income, low consumption and low saving. Due to low savings, again there is low level of investment in agriculture sector. Thus, the agriculture economy moves in a poverty trap.

**Figure: 1**




## II. REVIEW OF LITERATURE:

A number of studies on the credit development for agriculture have been carried out in India.The banking system in India comprises of the Reserve Bank of India, Commercial banks and cooperative banks and credit societies. The commercial banks are the premier institutional structure of the banking system. Gupta and Ambegeokar **(1969)** found that the use of funds from banks by the private corporate sector had exceeded its inventory formation. Gupta has pointed out that a small portion of such credit should have gone to rally fixed investment.Arnbegeokar observed that the rate of rising in bank credit exceeded that of inventory, sales and output. Other solutions suggested are giving more autonomy to the lending institutions by reducing political interference and at the same time making them accountable for their financial results (Rao and Gulati, 1999; Puhazhendhi and Jayaraman, 1999).

The rural financial institutions (RFIs) have failed to accumulate enough resource base and are unable to mobilize speedy disbursement of credit in the rural areas (Puhazendhi and Jayaraman 1999). Further, they highlight other problems that rural financial institutions (RFIs) have failed to tackle with. These relate to inequality in the distribution of credit among various classes of people and regions, untimely delivery of credit and cumbersome procedures and formalities to transact credit. All these are majorcause of concern.Satyasai and Badatya (2000) suggested for making co-operatives strong, viable and self-sustaining financial institutions through their restructuring, by first, opting for delivering i.e. removing of one or more tiers in the co-operative system and second, by integrating the short term and long term structures (Satyasai and Badatya 2000).

A detailed policy framework has been implemented in the country with the aim of providing timely, adequate and reasonably priced (affordable) credit. Agricultural credit also forms an important segment of the 'priority sector lending' of scheduled commercial banks (SCBs) and target of 18 per cent of net bank credit has been stipulated for the sector since 1968 (RBI, 2011). As a result of these measures, agricultural credit has twofold over last 5 years and arrived at a level of Rs 366919 crores in 2009-10 registering annual compounded growth rate of 18.5% over a period of 5 years (2005 to 2010) (NABARD, 2011).

## III. OBJECTIVES OF THE STUDY

- To know the different sources of agriculture credit in India;

- To know the trend and growth of agriculture credit in India during the study period.

## IV. RESEARCH METHODOLOGY

This research work is based on secondary data collected from various sources such as Handbook of Statistics, RBI, economic survey ( various issues) by theministry of finance, reports of NABARD, Newspaper article & EPW articles, research paper, and study report, etc. This study covers the periodfrom1990-91 to 2014-15. The purpose of taking thesethree decades is to understand the trend and pattern of agriculture credit in India. The collected data has been processed both manually, such as percentage, average, etc., and with the help of computer software system. Microsoft EXCEL has been used for the analysis of the data, and to arrive at conclusion.

## V. LIMITATION OF THE STUDY:

This study does not focus more on non-institutional credit sources. The study is limited only for institutional sources of credit.

## VI. AGRICULTURAL CREDIT NEEDS

The credit needs of farmers can be observed from two points of views, as (a) on the basis of time, and (b) on the basis of purpose

### (a) On the basis of time:

i. **Short-Term Credit**: The short-term agricultural credit is agreed for seasonalagricultural operations.The period of such loans is less than 15 months. They are agreed for purchasing seeds,manure, fertilizer, and pesticides or for meeting labour charges. Such loans areto be repaid after the harvest of the crop.

ii. **Medium-Term Credit**:Medium-Term Credit are generally obtained for the purpose of land reclamation, bounding and otherland improvements, purchase of livestock, machinery and other implements,orchard plantation, sinking of wells and construction of pucca drain in the field,etc. The period of such loans ranges from 15 months to 5 years.

iii. **Long-term Credit**: This credit is providedfor the purposes such as the redemption of land, liquidation of debt,purchase of tractors, installation of tube-well and improvement of permanentnature in land. The long-term credit is given for a period ranging between 5 to 20 years.

### (b) On the basis of purpose:

i. **Productive purpose:** These credits are needs, which directly affect agricultural productivity such as seeds, manure, fertilizer, livestock, digging and pesticides, etc.

ii. **Consumption purposes:**From marketing of agricultural produce to harvesting of the next crop there is a long gap of time and most of farmers do not have sufficient income to sustain them through this period. Therefore, they take loans for consumption purposes.

iii. **Unproductive purposes:**Farmers also require loans for unproductive purposes such as performance of marriages, social ceremonies on the birth or death of a family member, religious functions, festivals, etc.

## VII. SOURCES OF AGRICULTURAL CREDIT IN INDIA

The sources of agricultural credit in India can be classified into two categories:
(a) Institutional Sources, and (b) Non-Institutional sources

**Institutional Sources:** The important sources of Institutional credit are: i) Cooperatives, ii) Schedule Commercial Banks and iii) Regional Rural Banks (RRBs)

i) **Cooperatives:** The cooperative banking structure provides short-term credit for agricultural production operations and long-term credit for theimprovement in farming. The short-term cooperative structure is generally a three-tier system in most of the states comprising of State Cooperative Bank (SCB) at the state level, District Cooperative Central Banks (DCCB) at the district level and Primary Agricultural Credit Societies (PACS) at the village level.

Column 2 in the table-1 indicates the absolute share of institutional credit in agriculture provided by cooperatives banks during the period 1990-91 to 2014-15. The institutional credit provided by cooperatives has increased from Rs. 48.19 billionin the year 1990-91 to Rs. 272.95 billion in the year 2000-01and Rs. 1384.69 billion in the year 2014-15 respectively. While the relative share of cooperatives in total agriculture credit lending in India is 47.30% in 1990-91. This has increased by56.64% in 2000-01 and further decreased as16.56% in 2014-15 respectively.

ii) **Schedule commercial banks (SCBs)**: Scheduled commercial banks have turned out to be a major source of agricultural credit in India. Before nationalization of commercial banks, credit flow from this source was not substantial.

Column 3 in the table-1 shows the absolute share of institutional credit in agriculture provided by Schedule commercial banks during the period 1990-91 to 2014-15. The institutional credit provided by SCBshas increased from Rs. 46.76billionin the year 1990-91 to Rs. 164.4 billion in the year 2000-01and Rs. 5996.91billion in the year 2014-15 respectively. While the relative share of SCBs in total agriculture credit lending in India is 45.89% in 1990-91. This has decreasedby34.11% in 2000-01 and further increased as 71.73% in 2014-15 in total institutional agriculture credit,respectively.

iii) **Regional rural banks (RRBs):** In order to provide adequate credit to the agricultural sector the Lead Bank Scheme was introduced in 1974. Under this scheme a particular nationalized commercial bank was made responsible for credit disbursements in an identified district. The concerned bank was directed to have branch expansion in rural area and provide credit to the farmers to the maximum extent. Due to high operational cost in rural areas and urban oriented attitude the commercial banks were not in a position to face the challenge.

Column 4 in the table-1 indicates the absolute share of institutional credit in agriculture provided by RRBs during the period 1990-91 to 2014-15. The institutional credit provided by RRBs has increased from Rs. 3.35billionin the year 1990-91 to Rs. 39.66 billion in the year 2000-01and Rs. 530.58 billion in the year 2014-15 respectively. While the relative share of RRBs in total agriculture credit lending in India is 3.29% in 1990-91. This has increased by 8.23% in 2000-01 and 11.70% in 2014-15 in total institutional agriculture credit,respectively.

**Table-1: Trends in Institutional Credit Lending in Agriculture in India**

(Rs. In Billion)

| Year (1) | Cooperatives (2) | SCBs (3) | RRBs (4) | Total (5) |
|---|---|---|---|---|
| 1990-91 | 48.19 | 46.76 | 3.35 | 101.88 |
| 1991-92 | 57.97 | 48.06 | 5.96 | 115.38 |
| 1992-93 | 64.84 | 49.6 | 6.98 | 125.3 |
| 1993-94 | 84.84 | 54 | 7.52 | 150.13 |
| 1994-95 | 98.76 | 74.08 | 10.83 | 187.73 |
| 1995-96 | 124.83 | 92.74 | 13.81 | 236.92 |
| 1996-97 | 132.54 | 106.75 | 17.48 | 263.45 |
| 1997-98 | 141.59 | 115.37 | 21.03 | 286.56 |
| 1998-99 | 150.99 | 146.63 | 25.15 | 326.97 |
| 1999-00 | 256.78 | 163.5 | 29.85 | 455.34 |
| 2000-01 | 272.95 | 164.4 | 39.66 | 481.87 |

| | | | | |
|---|---|---|---|---|
| 2001-02 | 305.69 | 186.38 | 45.46 | 541.95 |
| 2002-03 | 340.4 | 252.56 | 58.79 | 651.75 |
| 2003-04 | 400.49 | 362.03 | 71.75 | 834.27 |
| 2004-05 | 450.09 | 483.67 | 119.27 | 1053.03 |
| 2005-06 | 481.23 | 805.99 | 153 | 1440.21 |
| 2006-07 | 540.19 | 1152.66 | 202.28 | 1895.13 |
| 2007-08 | 576.43 | 1134.72 | 238.38 | 1949.53 |
| 2008-09 | 587.87 | 1606.9 | 264.99 | 2459.76 |
| 2009-10 | 749.38 | 1882.53 | 346.4 | 2863.9 |
| 2010-11 | 781.21 | 2227.92 | 439.65 | 3448.78 |
| 2011-12 | 879.63 | 3128.77 | 530.58 | 4538.98 |
| 2012-13 | 1112.03 | 4844.99 | 646.49 | 6603.51 |
| 2013-14 | 1199.64 | 5090.05 | 783.74 | 7073.43 |
| 2014-15* | 1384.69 | 5996.91 | 978.37 | 8359.97 |

* Provisional data

SOURCE: HANDBOOK OF RBI & NABARD REPORT

Thus, the structure of institutional agriculture credit lending has changed. In the nineties, the share of lending of cooperative banks was high. While after the 2000s, the lending by scheduled commercial banks has increased sharply. In aggregate it is now providing almost more than two third of total agricultural credit. At the same time the credit lending by RRBs has also increased slowly.

## VIII. Growth in Agriculture Credit

Total agricultural credit has increased substantially since the turn of the century. The annual rate of growth that averaged 6.8 per cent in 1981-1991, was at 17.8 per cent for 2001-2011. In nominal terms, agricultural credit has grown more than 8 times in the last 15 years compared to the facts that agriculture's share in GDP has remained almost constant, and that significant urbanization has occurred in this time.[2]

**Table: Growth in Agriculture Credit**

| Period | Annual Growth Rates | | |
|---|---|---|---|
| | Credit to agriculture | Total Bank Credit | Agricultural GDP |
| 1981-1991 | 6.8 | 8.0 | 3.5 |
| 1991-2001 | 2.6 | 7.3 | 2.8 |
| 2001-2011 | 17.8 | 15.7 | 3.3 |

Source: Economic survey, 2014-15

## IX. CONCLUSION

Agriculture sector is crucial for India in view of the food and nutritional security of the nationas well as the fact that the sector remains the most important source of livelihood for more than 60% of the population.However, its contribution to the national Gross Domestic Product(GDP) has declined over the past years and has reached 18% in 2013-14.The demand of agriculture credit is mostly concentrated in the rural areas. The distributions of banking institutions in rural area are more of cooperative banks and RRBs types. However, the relative share of both in credit lending is shrinking. The growth of agriculture credit is low as compared to total credit growth of banking sector. The

[2]Economic survey, 2014-15

growth of agriculture credit is higher as compared to agriculture GDP growth, which shows that the agriculture credit growth is not only responsible factor for agriculture GDP growth.The Twelfth Plan Working Group on Institutional Finance, Cooperatives and Risk Management have projected the demand for credit during Twelfth Plan at between 31,24,624 crore and 42,08,454 crore.[3]This is a big challenge for government as well as for financial institutions.So, there is a need for minimizing the gap between demand and supply of institutional credit in India. Another important point regarding institutional credit is to provide credit to not only to big farmers but also to small and marginal farmers.

## X. SUGGESTIONS

There are some important points regarding agriculture credit, which I have been observed during the study and following suggestions are given;

- After 1991 reforms, thegovernment of India had started disinvestment in public sector undertakings, which continues now. And this process reduces investment in agriculture also, like investment in irrigation projects, investment in fertilizer producing companies etc. So, there is a need for increase in Public Sector Investment inAgriculture
- Due to low credit dispensation by institutions to small and marginal farmers, have become a challenge before marginal farmers. There should be more specific classification of priority sector lending because only rich farmers are getting more benefit from agricultural credit and small and marginal farmers are being excluded.
- Despite agriculture credit some other factors, like lack of new seeds, use of unbalance fertilizer, low level of seeds replacement rate[4]etc., are also responsible for unsatisfactory growth in agriculture sector. Therefore, we will have to manage these factors rather than agriculture credit only.
- There should be strict conditions for banking sector for rural branch opening exercise.

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[3] 12TH FIVE YR PLAN DOCUMENT
[4] Economic Survey, 2006-07.