



Agricultural Credit in India: Trends and Composition

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Abstract: *Credit is an essential input mediating agricultural production. Entry to institutional finance allows the farmer to maximize production by investing in equipment and buying contingent inputs such as fertilizers, quality crops, and compost, and supplying funds before the farmer collects reimbursement from commodity purchases, often deferred and phased. In the early 1990s, the pace of developing agricultural credit dropped visibly and stayed moderate for the rest of the decade, too. Until around 2002-03, we did not see accelerated improvement. Indirect finance has grown even more impressively as more and more divisions are being integrated into the agricultural credit sphere.*

Keys word: *Agriculture, Credit, commodity*

INTRODUCTION

Indian agriculture plays an important role in country growth. Agriculture is the primary source of subsistence for most Indians. Around 52% of the workforce works in agriculture in 2013-14 (Economic Survey, 2013-14). Agriculture's share of GDP has declined after independence. The share was 56.5% of GDP in 1950-51, which consequently dropped to 45.9% in 1970-71 and 34% in 1990-91. Agriculture accounted for 13.9% of GDP in 2013-14. This indicates that agriculture's share of GDP tends to decrease over time. Not only does it fulfill 1.3 billion Indians' food and nutritional needs, it contributes significantly to development, jobs, and demand creation across numerous backward and forward linkages. Moreover, the agricultural sector's position in alleviating poverty and ensuring economic sustainable growth is well known. However, the industry actually poses a challenge. Recently, this condition has contributed to fresh thought on the agricultural production strategy. Focusing on farmers' health and development has achieved popularity.

One of the essential inputs from agriculture is credit. It capitalizes on new investments and/or new innovations, growth and marketing activities for farmers. Agricultural credit is a vital contributor to improving farm productivity and quality and alleviating the suffering of farmers. Loans are available to farmers in the form of short-term loans to support crop production programs and in the form of loans to finance agricultural expenditure and related operations, including land acquisitions, minor irrigation, crop industrialization, milk growth, livestock, poultry, fisheries, planting and agriculture.

SOURCES OF AGRICULTURAL CREDIT

Overall, agricultural credit sources may be classified into two categories; i) institutional credit source; and ii) non-institutional credit source. The map gives Indian agricultural credit sources structure.

Traders and Commission Agents

Traders and commission representatives loan farmers against their crop for profitable purposes without completing legal formalities. Farmers also must purchase inputs and sell outputs from them. They owe the loan a high interest rate and fee for both transactions and acquisitions, rendering it exploitative in nature. Local landlords: mainly small-scale farmers and tenants rely on landlords to fulfill their regular financial requirements.

Money lenders

Through rapid growth in various institutional credit agencies' rural divisions, village money lenders still dominate the picture. Money lenders are two types, agricultural money lenders combining their money lending function with farming and money lenders specialized in money lending.

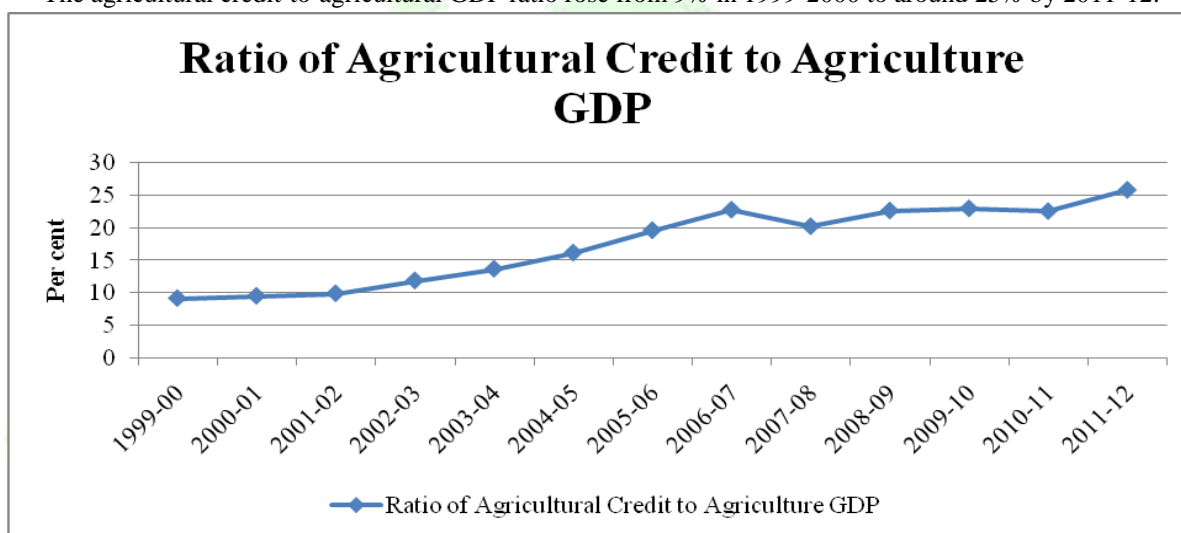
Institutional Credit Agencies

Agricultural credit evolution can be divided into different: 1904-1969, 1969-1975, 1975-1990, and from 1991 onwards. Institutional farm sector finance is primarily supported by commercial banks, provincial rural banks, and cooperative banks. Cooperative banks and Provincial Rural Banks pursue higher share of commercial banks in overall institutional farm loan.

Trends of Direct Institutional Credit in India

Credit is an essential input mediating agricultural production. Entry to institutional finance allows the farmer to maximize production by investing in equipment and buying contingent inputs such as fertilizers, quality crops, and compost, and supplying funds before the farmer collects reimbursement from commodity purchases, often deferred and phased. Farmers' input usage is vulnerable to agricultural credit flows. Here, the predominance of informal sources of credit to farmers is a problem. According to NSSO, 70th round results, about 40% of farmers' funds still come from informal sources. Local money lenders constitute almost 26% of overall farm credit. While informal sources have deteriorated over time, access to institutional credit for farmers needs to be addressed. Several fronts ought to discuss the question of credit access.

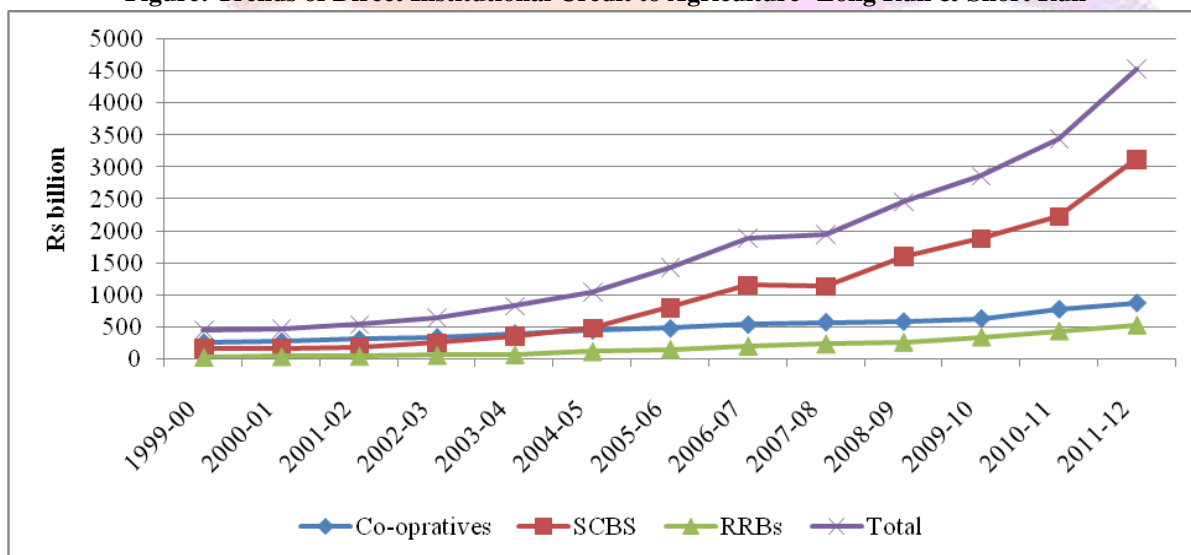
The agricultural credit-to-agricultural GDP ratio rose from 9% in 1999-2000 to around 25% by 2011-12.



Source: Economic Survey, 2013-14

Short-term funding is also designed to offset labor and consumption requirements of poorer producers. Indirect agriculture financing comprises loans to input manufacturers, loans to set up agri-clinics and agri-business centres, loans to microfinance organizations, loans to agricultural machinery dealers and drip and sprinkler irrigation systems, loans to construct and run cold storage units independent of their site, loans to food and agri-processing units and a variety of other operations. In the last 4 decades or so, institutional institutions have tripled the volume of direct agriculture credit. Around 1999-00 and 2011-12, short-term loans from commercial banks, cooperative banks and RRBs increased from Rs 290.45 billion to Rs 3467 billion, long-term loans from Rs 159 billion to Rs 1071 billion and Rs 455 billion to Rs 4538 billion at current rates.

Figure: Trends of Direct Institutional Credit to Agriculture- Long Run & Short Run



Source: RBI Handbook of Statistics on the Indian Economy, 2014-15



Long-term credit offered by cooperatives and RRBs decreased significantly throughout the time in absolute value. In 2011-12, gross RRB and cooperative credit was approximately Rs 60 billion. On the other side, SCBs' long-term credit grew to Rs 500 billion in 2006-07 from Rs 68 billion in 1999-00. The Cooperative Banks/Regional Rural Banks (RRBs) will draw far higher refinancing help from NABARD for medium- and long-term agricultural loans.

Institutional vs. Non-institutional Credit

Non-institutional outlets, though, wrested back some of their losing share, which stood at 38.9 in 2002. In 2013, their share of unpaid loans declined marginally, but it was still above the 1991 average at 36%. What is striking is that private moneylenders' share is growing from 17.2% in 1981, 17.5% in 1991, 26.8% in 2002 and 29.6% in 2013.

Measures to Enhance Credit Flow to Agriculture

Kisan Credit Card System launched in 1998-99. Besides established crop loan facilities, the spectrum of the KCC scheme has been extended to include term loans for agriculture and related operations and a reasonable portion to meet consumption needs.

CONCLUSION

Credit is an essential mediating input for agricultural production. Entry to institutional credit allows the farmer to maximize production by investing in equipment and buying commodity inputs such as fertilizers, high-quality crops, and compost, and supplying funds before the farmer collects reimbursement from merchandise purchases, often deferred and phased. Farmers' input use is vulnerable to agricultural credit flows. Despite remarkable advances from the rural credit distribution mechanism in terms of capital mobilization, regional penetration, and practical scope, rural credit institutions' financial stability has declined, posing concerns regarding their viability. Nearly three-quarters of farmer households also lack links to the structured credit scheme. This makes them open to cash lenders. In the early 1990s, there was a visible fall in the growth rate of agricultural credit, which remained steady for the remainder of the decade. Development could be seen only throughout 2002-03. Indirect credit has evolved even more impressively as more and more categories are placed in agricultural credit.

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