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Research Article

Evolution of Agricultural Credit in India – A Review

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Abstract

Agriculture is an important sector of Indian economy by its role played in the generation of employment opportunities, increasing agricultural outputs and Gross Domestic Product. For developing this sector further is in need of credit support, because agricultural credit is an important one for the development of agricultural sector sand it helps to adopt modern farm equipments and technologies. Though, any amount of agricultural credit even at the most realistic rates cannot assure to the higher efficiency, output or sufficient income to the farmers, since the achievement depends upon numerous other variables counting the accessibility of inputs like seeds, fertilizers, pesticides, supportive services and profitable markets for the produces. The agricultural credit policies in India intended and executed mainly as supply driven in the course of embattled ground level credit, interest financial support scheme and directed lending by Priority Sector Lending guidelines. These policies beside with other guiding principle interventions at the Government and Reserve Bank of India level have succumb praiseworthy results in sanctioning agricultural credit. Though this much supports have given to this sector, it still with lots of challenges such as poor capital formation, difference among the regions, small size of land holding, more number of tenant farmers, landless and poor labourers and share croppers on non-institutional sources of credit at considerably upper rates, non-realization of the fair price for agricultural produce causing farmers' suffering and number of farm loan waivers impacting credit culture and deteriorating state finances. With this background the present paper

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made an attempt to address the issues being faced by farmers in accessing agricultural credit, current situation of agricultural finance in India, measures taken by the government to improve the credit, drawbacks of the measures taken and steps to improve.

Key Words: Agricultural Sector, Primary Sector, Kisan Credit Card, Agricultural Credit, Crop loan

Introduction

Agriculture is that the process within which land is employed to grow varieties of crops. It also comprises the activities such as raising and breeding livestock, poultry farms, and aquaculture. Further it is being the spine for the Indian economy and more than 50 percent of the populace depends upon agricultural and its allied activities. Thus it seems a greater contribution within the India’s GDP still. India is also called as an agrarian nation since it is depending on the agricultural activities. In India, cultivation activities have been practiced since the conventional times. Agriculture has developed to a greater extent over the time and more so after 1947. Meantime various reforms have developed together with land reforms, financial assistance by the govt of India, along with other types of financial support. Agricultural activities relies on numerous factors includes availability of land, types of soil, weather conditions etc. There are certain other very important factors that influence agricultural factors such as power supply, availability of pesticides and fertilizers, and finance. Agricultural finance used to buy various inputs used to the agricultural sector. It is used to improve the output, procure pesticides and fertilizers and to buy other farming equipments and tools. Further the agricultural funding can also be used to various activities includes storage space and transportation etc. Further one more important sector is that of insurance, In India agricultural activities are mainly depends on the rainfall. However, due to unpredictable nature of rainfall, the produces from farming sector varies to a good extent. In such a situation, agricultural finance becomes imperative to the farmers so as to handle the financial crisis due to poor production. Agricultural finance is vital in an agrarian country like India due to its foremost role in eradicating the constraints to speculate in cultivation activities, procurement inputs such as seeds, fertilizers, and pesticides so as to extend yield and for getting better technology. There are certain other reasons like risk management, addressing market fluctuations, and unbalanced prices within the market etc. are demanding the agricultural credit.

Evolution of Agricultural finance in India and Policy milestones

The institutional framework of agricultural finance was shaped by the overarching demands of the nation. The evolution of agricultural credit policies and milestones can be broadly categorised into three distinctive phases.

Phase - I (1951 – 1969)

The Government of India initiated the first five-year plan in 1951 with the thrust on developing the primary sector. The National Credit Council in a meeting held in July 1968 emphasised that commercial banks should increase their involvement in the financing of priority sectors, such as agriculture and small-scale industries, sectors deemed as ‘national priority’. In 1969, when the first phase of nationalisation of banks took place, there were 6955 public sector bank branches and the average population per branch office was 64,000. To boost rural development, the Reserve Bank of India had then prescribed 1:3 ratios for opening of branches in urban and rural/semi-urban centres.

Phase - II (1970-1990)

The channel for institutional credit to agriculture during the first two decades of independence was the cooperative sector. With the nationalisation of commercial banks in 1969, the decade of 1970s marked the entry of commercial banks into agricultural credit. This period saw the introduction of the Lead Bank Scheme and regulatory prescription of Priority Sector Lending two landmark developments policies that have not only survived till date but have also served as the fuel for channelling agricultural credit and rural development. The Regional Rural Bank Act, 1976 was enacted to provide sufficient banking and credit facility for agriculture and other rural sectors. The National Bank for Agriculture and Rural Development (NABARD) came into existence in 1982, with the enactment of NABARD Act 1981, to promote agriculture and rural development. NABARD, in 1992 introduced the Self-Help Group (SHG) model to further financial inclusion of the excluded segments. In 1989, the Reserve Bank introduced the Service Area Approach (SAA) and Annual Credit Plan (ACP) system as tools for reaching out to the rural areas.

Phase - III (1991 onwards)

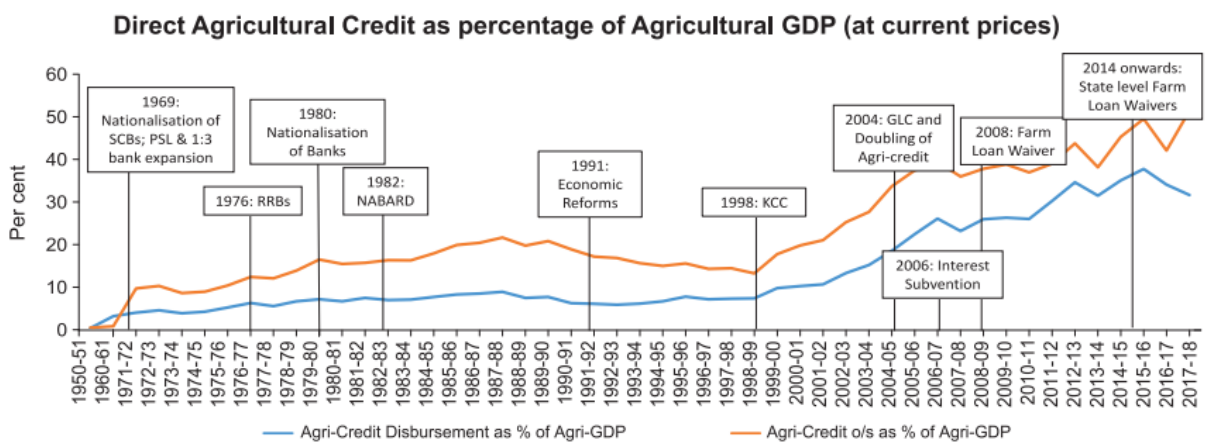
The economic reforms of the 1990s, started with the implementation of the first Narasimham Committee Report of 1991, emphasising financial soundness and operational efficiency of the financial sector including that of rural financial institutions. The Reserve Bank of India gradually deregulated the interest rate regime to aid improvement in the operational efficiency of banks. The first major nationwide farm loan waiver was announced in 1990 and the cost to the national exchequer was around ₹100 billion. Pursuant to the 1995 Union Budget announcement, GoI established the Rural Infrastructure Development Fund (RIDF) with NABARD. RIDF was mainly meant for funding of rural infrastructure projects which in turn were supposed to deepen the credit absorption capacity in a state by giving loans to state governments and state-owned corporations. Scheduled commercial banks contribute to the corpus of the fund to the extent of their shortfall in achieving the priority sector lending target. During 1992-93, NABARD started the pilot project on SHG-Bank Linkage programme - a partnership model involving SHGs, banks and NGOs. In the initial years, the scheme progressed slowly but picked up gradually. The Kisan Credit Card (KCC) was introduced as a financial product in 1998 to provide hassle free credit to farmers. The Union Government introduced the Ground Level Credit (GLC) policy in year 2003-04. Under this policy, Government of India announces GLC targets for agriculture and allied sector in the Union budget every year which banks are required to achieve during the financial year. These targets are set region-wise, agency-wise (SCBs, RRBs & Cooperative banks) and loan category wise.

Another policy initiative, introduced in 2004–2005, was to double the volume of credit to agriculture over a period of three years and expand the reach of formal finance. The year 2006 saw a host of developments. Pursuant to the budget announcement for 2006-07, the Union Government introduced the Interest Subvention Scheme (ISS) for short term crop loans to enable farmers to avail farm credit at reduced interest rates. The Business Correspondents (BCs) and Business Facilitators (BFs) were rolled out for the first time by the Reserve Bank of India to further the cause of financial inclusion. NABARD introduced the Joint Liability Group (JLG) model, an extension of the earlier SHG model for reaching out to tenant farmers and share-croppers with access to credit. Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS), 2008 announced by the Union Government involved waiving institutional debt for small farmers and a one-time settlement opportunity with 25 per cent rebate to other farmers. This massive write-off of agricultural loans involving ₹525.166billion was envisaged to provide relief to the persistent problem of farmers’ indebtedness and alleviate the financial pressure faced by the farmers. In 2009-10, the Government introduced the prompt repayment incentive (PRI) of 3 per cent under the ISS to bring down the effective rate of interest to 4 per cent to those farmers who repaid their loans on or before the due date to inculcate repayment habits. In July 2012, the Priority Sector Lending (PSL) guidelines were revised by the Reserve Bank to widen the eligible activities. Again in April 2015, the guidelines were revamped based on the recommendations of the Internal Working Group (IWG).

Trend in Agricultural Credit

In order to understand the impact of policy milestones discussed above on agricultural credit and its performance with respect to agricultural GDP, the ratio of agricultural credit to agricultural GDP was computed taking into account the agricultural credit outstanding as well as disbursement. Image 1 explains the agricultural credit outstanding as well as disbursement between 1950-51 to 2017-18. The ratio of Agri-Credit outstanding to Agri-GDP jumped from 0.6 per cent in 1950-51 to 9.81 per cent in 1971-72. Post 1972, the ratio shows an upward trend upto 1987- 88 increasing to 21.76 per cent. The impressive achievement of agricultural credit against agricultural GDP during 1950s-1980s is on account of nationalisation of banks and introduction of RRBs which expanded the reach of formal credit in the country. However, the reverse trend in the ratio started from 1990-91 onwards and it fell to 13.34 per cent in 1998-99.

Image 1



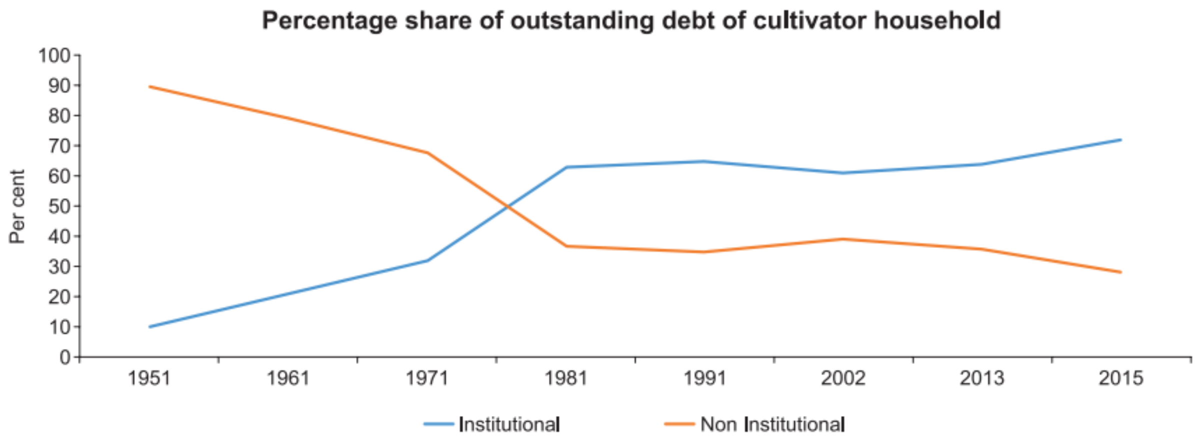
Source & Methodology: Refer Footnote[8]

Post 1999 the ratio increased steeply and reached upto 39.55 per cent in 2006-07, which indicates that introduction of KCC was a big booster for agricultural credit and brought about a sea change in improving the reach of credit to the farming community. Many of the other policy initiatives started in 2004-05 also played an important role. In later years, despite a fluctuating trend, it rose to 49.63 per cent in 2015-16 and 51.56 per cent in 2017-18. The chart reveals that the trend of both the agri-credit outstanding as well as disbursement as percentage of agri-GDP are largely similar except in certain periods where there is divergence between the two. The reasons could be announcement of loan waivers which negatively impacted the repayment behaviour of the borrowers and also made the banks averse to fresh lending. Despite this spectacular achievement, the dependence of agricultural households on non-institutional sources, though reduced to certain extent, has persisted over the years.

Institutional and non-Institutional Agricultural Credit

In the 1950s, the rural agrarian credit needs were traditionally met from the non-institutional sources largely through the local money-lenders. While the rural farmers had easy access to finance for their immediate needs, the steep interest rates, coupled with high illiteracy levels and the subsequent lack of awareness put them into a spiralling debt trap leaving them at the mercy of the money-lender. The evolution of the institutional structure through various Government policy interventions changed the scenario, whereby institutional sources, primarily through commercial banks became the major source for rural credit. The share of institutional credit vis-à-vis non-institutional credit as per AIDIS 2013 is shown in the Image 2. Position for 2015 has been plotted based on NAFIS 2016-17.

Image 2

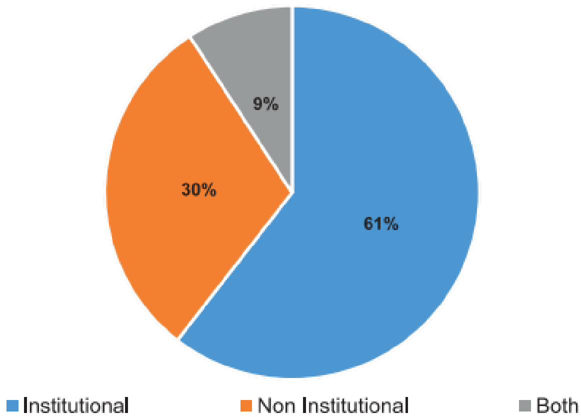


Source: AIDIS 2013 and NAFIS 2016-17.

According to AIDIS report, non-institutional sources were dominant in 1951, accounting for 90 per cent of the outstanding debt of cultivator households, but their share declined sharply to 37 per cent in 1981. After 1981, the rate of decline slowed down, and the share of non-institutional sources was 35 per cent in 1991. Thereafter a reversal of this pattern resulted in higher share of 39 per cent in 2002 which again dropped to 36 per cent in 2013. As per NAFIS Report 2016-17, the share of non-institutional credit in 2015 was 28 per cent. As against this, the share of institutional credit in agriculture increased from 10.2 per cent in 1951 to 63 per cent in 1981 and thereafter the share of institutional credit was hovering in the range of 63-65 per cent during 1981 to 2013. As per NAFIS, in 2015 the share of institutional credit was approximately 72 per cent. Further, NAFIS Report 2016-17 has revealed that agricultural households avail credit from sources other than banks such as NBFC/MFI, financial companies, financial corporations, provident fund, insurance, relatives, friends, moneylenders, landlords, etc. Image 3 shows the distribution of agricultural households according to type of sources of loans. According to NAFIS, institutional sources were preferred by agricultural households to avail credit as approximately 61 per cent of them avail credit from them. However, a significant portion, i.e. approximately 30 per cent of agricultural households still avail credit from non-institutional sources only which is a cause of concern. There is a need to ascertain the reasons why 30 per cent are still left out from getting institutional credit.

Image 3

Distribution of agricultural households (who have taken loan) by source of loan



Source: NAFIS 2016-17.

The probable reasons could be that their credit demand could be for consumption purposes or they could be tenant farmers, sharecroppers and landless labourers who are not able to offer collateral security to avail institutional credit, or they are involved in unviable subsistence agriculture or banks don't find them credit worthy. As a result, these farmers find it convenient to borrow money from non-institutional sources due to easy accessibility.

Current Situation of Finance in Agricultural sector in India

Indian agricultural sector is characterized by instability due to the effect of a number of risks involved. India's expanding population and over dependence on agriculture, predominance of small and marginal land holdings, low chances of bargaining due to less produce, various crop diseases, changing climatic conditions, lack of proper irrigation facilities and unavailability of power, uncertain policies existing debts on the farmers are some of the factors that have been affecting the agricultural sector.

The erratic nature of demand and supply also affects agriculture. Improper storage facilities lead to loss of produce thereby causing financial loss. Indian agriculture has had the issue of lack of adequate storage facilities since a long time. Lack of adequate investment in building new storage facilities and developing the existing ones has results in loss of huge quantities of agricultural produce every year. In India, the finance in agricultural sector consists of different arms like institutional bodies (RBI, NABARD, Co-operative banks etc.), non-institutional players like money lenders, traders etc. and the government.

The institutional sources along with the government give financial credit to farmers to account for activities like repaying debts, procuring seeds, fertilizers etc. Different state governments also have individual financing policies that include free power supply schemes for farmers like in Karnataka, direct benefit transfer by different states etc. Non-institutional sources of finance like money lenders, landlords, traders, commission agents etc. also exist in the agricultural framework. A major issue related to such sources is the debt trap that the farmers fall into after acquiring loans from these sources. Money lenders, landlords etc. give loans at higher interest rates to the farmer, further they work with a profit motive and due to this reason they turn blind eye for issues like erratic rainfall and other such factors that adversely affect agricultural productivity. Subsequently, in case of low produce in certain years, the farmers are unable to repay the loans and enter into a never-ending debt trap Debts thus incurred tend to accumulate over time and are transferred from generation to generation. This leads to poor economic condition of farmers and in extreme cases forces them to commit suicide Indian agriculture is also supported by Foreign Direct Investments. The share of FDIs in the agricultural sector has been increasing over the years. As per Department for Promotion of Industry and Internal Trade (DPIIT), "the Indian food processing industry has cumulatively attracted Foreign Direct Investment (FDI) equity inflow of about US$ 9.98 billion between April 2000 and March 2020".

Government Measure

Indian agricultural sector is regarded as unsteadiness and thanks to the result of variety of risks concerned. India's increasing populace and larger reliance on agriculture, prevalence of marginal size of land holdings, as a result low chances of bargain as less produces, a range of crop diseases, changing weather conditions, lack of appropriate irrigation amenities and non-availability of power supply, unsure policies, existing debts on the farmers are the various factors that are distressing the farming sector. The unpredictable nature of also distresses the agricultural sector. Inappropriate storage facilities lead to loss of produces thereby causing loss. Indian agriculture has had the problem of lack of sufficient storage facilities since a lengthened period of time. Lack of sufficient investment in constructing new storage facilities and budding the present ones has ends up in loss of big amount of agricultural produces every year. In India, the financial support to the agricultural sector consists of various financial institution setups such as Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), Co-operative banks etc., and non-institutional players like local money lenders, traders, commission agents etc. and also the government. The institutional sources together with the govt. provides financial support to farmers to account for range of activities like pay back the debts, acquire seeds, pesticides, fertilizers etc. Various state governments even have their own individual financial policies comprise free power supply proposals for farmers in Tamilnadu, Karnataka, straight benefit transfer by different states etc. Non-institutional sources of finance like local money lenders, landlords, traders, private institutions, commission agents etc. also exist within the agricultural financial support framework. A significant issue associated with such sources is that the debt trap that the farmers constitute after obtaining loans from these source. Money lenders, commission agents, landlords etc. offering loans to the farmers at higher rate of interest, further they work with a profit reason and thanks to this reason they twist blind eye for concerns like unpredictable rainfall and other such factors that badly distress agricultural output. Consequently, just in case of low produce in certain years, the farmers are incapable to pay back the loans and go into an endless debt trap. Debts thus incurred tend to mount up over a period of time and are relocating from generation to generation. This result in poor condition of farmers' lifestyle and in severe cases forces them to suicide; Indian agriculture is additionally held up by Foreign Direct Investments (FDI). The share of FDIs within the farming sector has been mounting over the years. As per Department for Promotion of Industry and Internal Trade (DPIIT), the Indian food processing industry has fascinated FDI about 10 billion US$ between April 2000 and March 2020.

Indian government established a new policy called the Minimum Support Price (MSP) policy in 1960s for ensuring the price for wheat. Progressively the MSP has extended to various crop patterns. MSP is act as assurance for famers and saved them from the sharp fall in prices of commodities. Thus the Government will fix the price for crop during the sowing period itself and if the farmers notable sell their produces then the government will procure all those from the farmers at MSP and stores it in the stockyards for the future purposes. The MSP has designed to serve two purposes, one it helps the farmers monetarily in an occasion of declining prices of produces and it helps the govt to acquire products for civil distribution. In India, institutional financing institutions also are present to help and aid the farmers financially. Co-operatives, RBI, NABARD, Non-Banking, and non-depository financial institutions such as Micro Finance Institutions, RRBs etc are a number of the institutions that assist the farmers by offering agricultural credits. The nationalization of economic banks in 1969 ensuring full service bank for Agriculture and Rural Development in 1982, etc. were some steps implemented by the govt to augment the agricultural finance. further MSP, facilities like Kisan Credit Cards different loans like investment loans for investing in irrigation, exploitation post-harvest administration, agricultural automation etc., interim loans for procuring various inputs such as seeds, pesticides, fertilizers, fodder for livestock, agricultural marketing, payment of wages of hired labour etc. are a number of the modes of financing obsessed by the govt.. Government also has a scheme called interest Subvention Scheme (ISS), which recommends short-term loans to farmers at subsidized rates. Apart from this various schemes have also been instigated by the govt just like the Pradhan Mantri Krishi Sinchayee Yojana. This scheme plans to realize meeting the investments made in irrigation and also aid in increase the cultivable area under guaranteed irrigation. It also aims to extend competence of water use. One more scheme is that the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN). PM-KISAN launched in 2018 with the intention to promote small and medium land holding farmers and it has expanded in 2019 to incorporate all farmers irrespective of small and marginal. Under this scheme an income support of Rs. 6000 per year is to tend to farmers by means of Direct Benefit Transfer (DBT). Government also has established the National Crop Insurance Programme (NCIP) with component schemes like Modified National Agricultural Scheme, Weather Based Crop Insurance Scheme etc. NCIP aims to act as a safeguard for famers against loss thanks to natural calamities, pests and diseases. Under crop insurance another scheme of the govt. is that the Pradhan Mantri Fasal Bima Yojana (PMFBY) which provides broad insurance cover to handle crop failure. Government of India launched e-NAM which aims to create a typical online platform for agricultural sector in India. The digitization of agricultural sector also aims to extend lucidity and do away with the seepages that presented within the financing network. Besides this DBT scheme has also been practiced by the government to confirm the help received by the farmers directly in their bank accounts. During the recent continuing global pandemic agricultural sector has been affected severely by disrupting agricultural supply chains, deteriorating demand, delay in transportation etc. have crippled the world and also the farmers are in dismal requirement of monetary support. Indian government took steps to deal with the sadness of the farmers all through the pandemic. After the lockdown was proclaimed, the government affirmed that it would frontload the primary instalment of Rs 2000 under PM-KISAN to farmers so as to handle the collision of COVID-19. Further, so as to assist the farmers, government announced Rs. 20 lakhs crore credits at a discounted rate to farmers. Moreover the, capital fund of amount Rs 30,000 crore has also been permitted by the government that will be distributed through rural co-operative banks and regional rural banks. This financial support helps to deal with various issues like crop loan needs of rural banks, getting better the agricultural infrastructure, income support for farmers etc.

Drawbacks of the Measures Taken and Steps to Improve

There are number of issues that distress the agricultural finance segment in India. First, the loans sanctioned by the banks are demanding lots of surety and security, but it is not advisable. Because financial conditions of the farmers in India aren't good, further they find it difficult to rearrange for security to induce their loans sanctioned. As a result a major portion of famers leftovers deprived of the advantages of loan facilities and that they tend to choose loans from local financial institutions and money lenders which eventually result in debt trap and perennial poverty. Second, fraudulent exercises by officials at various levels distress the farmers adversely. Thus the farmers face lots of issues so as to fulfil the stress of the dishonest officials and finally are powerless to realize the advantages of certain financial schemes. Third, the lengthy as well as time intense procedures, frequently shifting the norms and multifaceted mode of working of the various schemes dishearten the farmers' mainstream of who lack procedural knowledge and education. Fourth, in India major portion of the farmers have marginal and small land holdings and a few of the government schemes are not suitable for such farmers to get loans for getting tractor and farm equipments and machinery etc. Fifth, the trouble of the settlement becomes an excessive amount of to grip for farmers who should rely upon erratic agricultural produces with the improper weather conditions. Sixth, a significant issue is that disparity between the schemes on paper and its relevance on ground. Although various plans are launched by the government their application is not done correctly and consequently farmers fail to comprehend whole benefit of the scheme. Lastly, the problem of increasing of over dues and resultant setbacks in yielding loans has pretentious the famers negatively. The digitization of land records helps a lot handle various issues existing in various schemes. Government's attitude on digital India will help to extend clearness in its activities and make sure that benefits achieve to the recipient openly with no interruption in-between. Though, this procedure has to be managed thoroughly and examine the active issues is with no trouble marked out and essential steps be taken to handle them. There's need for changing the land leasing structure by implementing sufficient policy measures. Because, proper land leasing structure will work as an enticement for farmers and can inspire them to spice up efficiency. Government has taken commendable steps like digitization of land record, running of e-NAM etc. However, the functioning of those policy instruments has stayed a reason for concern. Further, there's a scarcity of harmony among the states and this rough policy structure makes resistance and finally influences the farmers. There is need for instituting a centralized Institution supported the code of supportive federalism. Government of India also has to push the state governments to finish the digitization process in style of e-NAM, digitization of farm records etc. hard work should be made to expand the institutional credit delivery instrument by making use of the technology. A technology enabled portal must be recognized so as to it would make easy and simplify the credit in terms of loans for the farmers, modernisms like movable warehouses and cold storages must be promoted and necessary investment must be made in these areas so that we can reduce the loss of farming products.

Conclusion

Finance plays a significant role in agriculture. In India, more number of farmers is facing financial problems and as a result output is unfavourably pretentious. More to the point, agricultural productivity is based on the the financial condition of the farmers, because without finance they cannot afford the inputs, as a result it is additionally affecting the farmers and thereby it is pushing them into the never-ending cycle of scarcity, debt and low productivity. Hence, appropriate financing schemes and facilities should be combined with technological advancements to boost up the productivity and profit of agricultural sector. Institutional investment units and their policies and procedures should be shorten for better understanding and consideration by the farmers and non-institutional financiers and local money lenders must be monitored strictly to save poor farmers and from debt trap.DBT should be done together with digitization of agricultural financing institutions and its related sections should be convenient and more effective for the world. The system of agricultural finance in India must be enhanced to make sure the overall growth and development of agricultural sector wholly.

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