

AGRICULTURAL CREDIT IN INDIA: RECENT GOVERNMENT INITIATIVE AND ITS IMPACT

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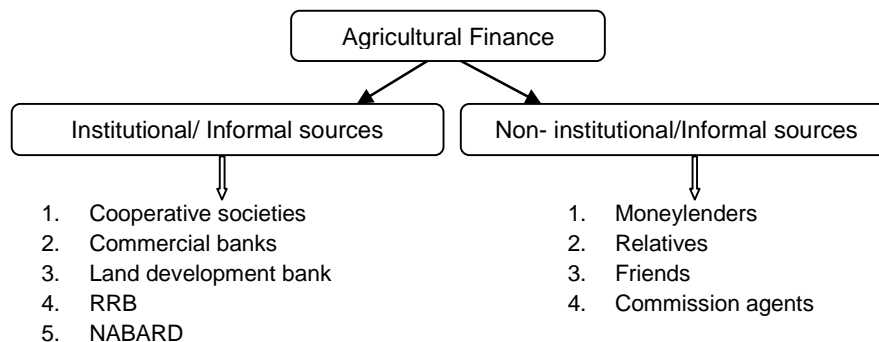
ABSTRACT

Finance in agriculture is important as development of technologies because these technologies advancement can be purchased and used by farmers only if they have money. In India, according to agriculture census (2010-11) 85% of total farmers are small and medium farmers, who not have enough money to finance their agricultural and consumption needs. So, the importance of adequate and timely credit is more in country like India. But inspire of remarkable growth in formal financial services in rural India, the vast majority of rural poor, still depends on agriculture finance due to illiteracy, unawareness about formal sources, lack of security to offer in credit institution to avail credit.

KEYWORDS: *Formal Sources, Informal Sources, Government Initiative, Agriculture Credit.*

Introduction

Indian agriculture is gifted with fertile land and abundant water resources. The prosperity of India is mainly based on development of agriculture sector as it is still a source of livelihood for majority of rural population. Population census (2011) reveals that there are 18.20 crores cultivators and agricultural workers in India. Like, in any other sector finance also play a vital role in agriculture sector of a country. As agriculture development depends on new farm practices such as high yielding seeds, chemical fertilizers, pesticides, farm machinery and for all these large amount of finance is needed. In India rural credit markets are characterized by co existence of both formal and informal sources of finance.



Objectives

- To study the formal and informal sources of agriculture credit in India.
- To analyze the flow of credit to agriculture sector in India.

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Research Methodology

The design of this study is extensive study based on secondary data collected from the various articles, journals, publication & websites focused on the agricultural finance and various aspects related to it.

Government Initiative

Since Independence government of India has been taken various initiatives to increase the flow of credit to agriculture sector. Establishment of NABARD, RRB's, cooperative banks and nationalization of commercial banks are some of them. Some of recent policy initiatives taken by government of India are:

- **Farm Credit Package:** In June, 2004 GOI decided to double the flow of agriculture credit in 3 years with reference to the base year 2003-04. As a result, since 2003-04 the flow of agriculture credit has consistently exceeded the target. This is evident from the fact that agriculture credit flow which was at 86,981 crores in 2003-04 reached to 4,68,291 in 2010-11. Target for agriculture credit was fixed at 4,75,000 crores for 2011-12 and ground level credit disbursement of 5,11,290 crores was achieved (107% of target). In year 2012-13 as against the target of 5,75,000 crores, achievement was 6,07,376 crores (105% of target). For the year 2013-14 this data was 7,00,000 crores and 7,11,621.47 respectively. For year 2014-15 target decided was 8,00,000 crores and achievement was 8,45,326.23 crores. For year 2014-15 target was 8,50,000 crores and achievement was 8,77,527 crores. Last year target was 9,00,000 crores and sum of rupees 7,55,995 has disbursed as agriculture credit during April to September. In recent budget of 2017-18 the agricultural loan to Farmers has set at record 10,00,000 crores.
- **Interest Subvention to Farmers:** Government provide interest subvention of 2% to public sector Bank, private sector scheduled commercial bank (in respect of loans given by rural and semi urban branches), RRB's, co-operative banks on their own funds used for short term credit at a ground level at 7% per annum to Farmers.
- **Interest Subvention of 2% per annum to Banks on their Own Funds:** Since 2006-07 government of India provide 2% interest subvention to banks to provide short term credit to agriculture (crop loan) up to 3 lakh at 7% rate of interest to Farmers. In budget of 2009-10 additional 1% interest subventions were announced for those farmers who repay their loans on time, the rate was subsequently raised to 2% in 2010-11. Since 2011-12 3% rate has been continued. Thus, the farmers who timely repay their loans are extended loans at effective Interest rate of 4% pa.
- **Extension of Interest Subvention Scheme to Post Harvest Loan and Natural Calamity:** To encourage farmers to store their farmers in warehouses against warehouse receipt, GOI provided interest subvention to small and marginal farmers have KCC for post harvest period up to six months. Bank also advised to allow max period of repayment up to two years if crop loss is 35% to 50%. If crop loss is more than 50% period of repayment extended to max 5 years.
- **Collateral Free Loan:** The limit of collateral free farm loan extended from 50,000 to 1,00,000.
- **New Features of KCC:** Government revised KCC scheme with following new features:
 - Validity with 5 years.
 - Flexi KCC with simple assessment prescribed for marginal farmers.
 - No processing fees up to the loan of 3 lakh rupees.
 - One time documentation.
 - Disbursement through ATM's, POS, mobile handsets.
- **A Joint Liability Group:** NABARD introduce JLG scheme in 2005-06 for tenant farmers. With the aim of financing 5 lakh JLG of bhoomi heen kisan GOI was launched a scheme in budget 2014-15. As on 30 Sept., 2016 total no of JLG was 18-25 lakh and total amount of loan provided was 18005.79 crores.

Analytical Approach: Flow of formal credit to agriculture sector

Agency Wise Ground Level Credit Flow

(Amount in Rs. Crores)

AGENCY	2011-12	2012-13	2013-14	2014-15	2015-16*
COMMERCIAL BANK	3,68,616	4,32,491	5,27,506	6,04,376	6,04,668
RRB	54,450	63,681	82,653	1,02,483	1,19,261
CO-OPERATIVE BANK	87,963	1,11,203	1,19,964	1,38,469	1,53,295
TOTAL	5,11,029	6,07,375	7,30,123	8,45,328	8,77,224

*Provisional

Source: (1) NABARD (based on reporting by RRBs and co-operative banks)

(2) Indian Banks Association (IBA) (for commercial banks, as reported to NABARD)

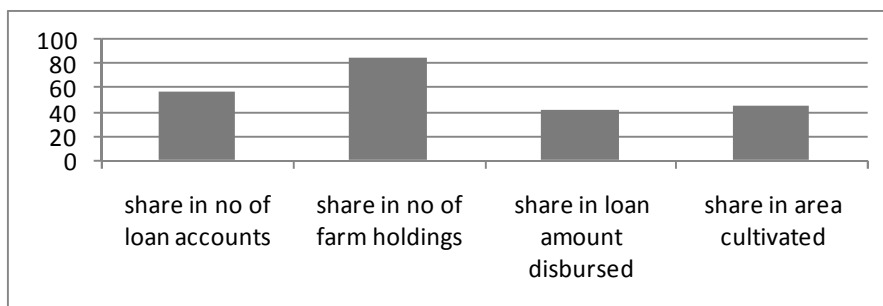
In year 2015-16, bank have disbursed Rs. 8,77,224 crores (provisional) credit to the agriculture sector , against target of Rs. 8,50,000 crores. There has been impressive growth in agricultural credit flow during ten years period of 2006-07 to 2015-16, from 2.29 lakh crores to 8.17 lakh crores.

Share of SF/MF in Ground Level Credit Flow to Agriculture Sector (2007-08 and 2014-15)

Agency	2007-08					2014-15				
	No of Accounts (lakh)		Loan Disbursed (Rs crores)		Average loan Amt. of SF/MF (Rs)	No of accounts (lakh)		Loan disbursed (Rs crores)		Average loan amt of SF/MF (Rs)
	Total	SF/MF	Total	SF/MF		Total	SF/MF	Total	SF/MF	
Commercial Bank	174.8	97.5 (55.8)	81,088	52,231 (28.8)	53,625	426.2	195.4 (45.9)	6,04,376	1,97,540 (32.7)	1,01,075
RRB	201.8	117.9 (58.4)	48,258	22,609 (46.9)	19,176	306.9	202.8 (66.1)	1,38,470	78,736 (56.9)	38,830
Co-operative Bank	62.7	42.2 (67.3)	25,312	15,019 (59.3)	35,590	120.5	87.8 (72.9)	1,02,483	70,390 (68.7)	80,153
Total	439.3	257.5 (58.6)	2,54,658	89,859 (35.3)	34,897	853.6	486.0 (56.9)	8,45,328	3,46,666 (41.0)	71,326

Source: Corporate Planning Department, NABARD, Mumbai (compiled from reports collected from IBA, Co-operative banks and RRBs)

Share of SF/MF in Financial and Real Parameters (%)



Source: (1) Ag. Census, Agricultural Census Division, Department of Agriculture and Farmers Welfare, GOI, 2015. (2) NABARD (Compiled from reports collected from IBA, Co-operative banks and RRBs).

Along with the total credit flow to agriculture sector, flow of credit to SF/MF also improved. But when comparison between the shares of SF/MF is made with total no. of holdings with no. of accounts and that of in area cultivated with that GLC reveals that access by SF/MF to formal sources is not equal. Assuming 'one farm one account' criterion for inclusion, it could be concluded that the gap is sustainable i.e 1/3 of farm holding is excluded. Likewise, between SF/MF share in the no. of accounts and loan disbursed highlights that the average loan amount is lower in the case of SF/MF.

Persistence of Informal Credit in Rural Sector- AIDIS, 2012

The result of survey, conducted by NSSO in 2012, reflects that non-institutional agencies i.e informal sources play vital role in providing credit to the households in rural India. These sources had advanced credit to 19% of rural households, while the institutional agencies i.e the formal sources had advanced credit to 17% of rural households.

Percentage Share of Institutional Agencies in the Total Cash Dues of the Households as on 30.6.2012 by Household Assets Holding Class

Decile Class of Asset Holding	RURAL			URBAN		
	Intiutional	Non-institutional	All	Institutional	Non- institutional	All
1	28	72	100	45	55	100
2	23	77	100	40	61	100
3	35	65	100	48	52	100
4	26	74	100	53	46	100
5	35	65	100	53	47	100
6	40	60	100	52	38	100
7	53	47	100	62	27	100
8	49	51	100	73	21	100
9	62	38	100	79	10	100
10	75	25	100	90	5	100
All	56	44	100	85	15	100

Source: NSS report no. 577: Household Indebtedness in India

As it evident from this table which shows the percentage share of the amount of debt contracted from institutional and non-institutional credit agencies from each decile class in rural area, that the household of lower asset group in rural area are more dependent on the non-institutional credit agencies. The debt from institutional credit agencies was only 28% in the case of lowest class as against a high 75% in highest class.

Conclusion

As a result of various initiatives by GOI, overall flow of intuitional credit has increased over the years, especially since 2004, when government decided to double the flow of agricultural credit. But this growth is not very much impressive in the case of flow of credit to small and marginal farmers. As 85% of Indian farmers are in the category of small and marginal farmers, it is a need of hour that government pays special attention to their needs.

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