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Institutional Credit to Agriculture in India: Certain Issues and Implications

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Abstract: *Timely availability of adequate credit is essential for any productive activity. This is more so in the case of agriculture because of its seasonal character. With the predominance of marginal and small cultivators in Indian agricultural sector, with limited resources of their own, the role of credit assumes crucial significance in Indian agriculture. A study of the recent trends in agricultural credit in India shows that though there has been an increasing flow of institutional credit to agriculture in the country, non-institutional sources have also been exhibiting an increasing trend in recent years. The study points out that attainment of the desired results in the agricultural field in the country requires measures to supplement the flow of institutional credit to agriculture by other non-credit measures, including objective credit appraisal and credit advice to the farmers. This paper is a brief discussion of these and related issues in the field of agricultural credit in India in recent years.*

Keywords: Institutional credit; Informal sources; Credit advice; Non-credit requirements; End-use supervision.

Introduction

Any productive activity, whether it is in the agricultural field or in the non-agricultural manufacturing or commercial or service field, requires adequate and timely credit. The adequate and timely availability of credit is especially important in the agricultural field, on account of its seasonal nature and dependence on seasonal factors for its success. Any delay in the undertaking of agricultural activity due to non-availability of adequate credit in time, or for other reasons, will result in heavy loss to the cultivator. Making provision for adequate and timely credit, is therefore, very important for the success of agriculture and in raising agricultural output in the country. According to an estimate made by The Reserve Bank of India, as pointed out by its Governor Sri Subbarao (2012), "every 1 per cent increase in real agricultural credit results in an increase in real agricultural GDP by 0.22 per cent with a one year lag". Institutional sources of credit play an important role in this context.

Sources of Agricultural Credit in India- the Unorganised and Organised Sources

The practice of lending and borrowing can be said to be as old as human civilisation itself. Individuals who are in need of resources, in addition to what they possess at any time, borrow from others, with surplus resources, in order to finance their commitments, agreeing to repay the amount with interest at an agreed date or after the mutually agreed period of time. Such informal arrangements were gradually formalised, and formal credit institutions emerged, though the

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informal arrangements continued to function alongside the formal or organised credit institutions like banks and co-operative credit institutions.

The different sources or institutions of agricultural credit in India fall into two broad categories;

i) The informal or unorganised institutions

ii) The formal or organised institutions.

While the traditional agricultural money lenders, professional money lenders, merchants and commission agents, land lords, relatives and others constitute the informal or the unorganised group of credit institutions that provide agriculturists with credit in India, the government, cooperative credit institutions, commercial banks and regional rural banks form the formal or the organised group of credit institutions that finance the agricultural sector in the country.

While the unorganised sector formed the traditional and main source of agricultural credit in India even as late as the 1950s, during which decade planned economic development of the country began with the launch of the First five Year Plan of the country on the 1st of April 1951, their role tended to decrease with the nationalisation of banks in 1969, and the formal or organised sector institutions started to play the more important role in providing agricultural credit in the country.

Table 1 presents data pertaining to the relative roles of the unorganised and organised sector credit institutions in financing agriculture in India in 1951-52 and 1961-62. The data show that Government, cooperatives and commercial banks supplied only 7.3 per cent of the total credit supplied to the agricultural sector in the country in 1951-52. While their role increased in importance since then, these three institutions together supplied only 18.7 percent of the total volume of credit that went to the agricultural sector in 1961-62. The data, thus, reveal that the role of the institutional sources in financing the credit needs of the agricultural sector in the country was very limited even in 1961-62.

Table 1: Sources of Agricultural Credit in India, 1951-52 and 1961-62

(Amount in Rs. Crore)

Source	**1951-52**		**1961-62**	
	Amount	**Percentage to Total**	**Amount**	**Percentage to Total**
1. Government	25	3.3	27	2.6
2. Co-operatives	23	3.1	161	15.5
3. Commercial Banks	7	0.9	6	0.6
4. Landlords	11	1.5	6	0.6
5. Agricultural Money Lenders	186	24.9	372	36.0
6. Professional Money Lenders	336	44.8	136	13.2
7. Traders and Commission Agents	41	5.5	91	8.8
8. Relatives	107	14.2	91	8.8
9. Others	14	1.8	144	13.9
Total	**750**	**100.0**	**1,034**	**100.0**

Source: Adopted from: Bhat, N S- Aspects of Rural Banking, P. 43.

Limitations of Informal Sources of Credit

The informal sources of credit have certain advantages for the agriculturists. They are locally available, easy to approach and are totally devoid of the type of loan formalities and procedures of the formal or organised sources which the agriculturists, particularly those with inadequate formal educational qualifications, find cumbersome and inconvenient.

However, the informal sources suffer from such drawbacks as high and usurious rates of interest, exploitative nature of these sources, such as not keeping proper accounts, not issuing valid receipts for repayments made, taking signatures of the borrowers in blank cheques and papers, confiscation of land and other forms of security for loans granted, deducting the amount of interest from the principal amount when the loan is given, etc.

Increasing Role of Institutional Credit since 1969

With the nationalisation of banks in the country in 1969, and with an emphasis on balanced banking expansion in the country, both regionally and sectorally, the role of the commercial banks in the provision of agricultural credit in the country tended to increase. Agriculture was made a priority sector for bank lending and the banks were assigned targets for such lending. Consequently, the role of institutional credit in agriculture tended to increase in the country since 1969.

Institutional Agencies Providing Agricultural Credit in the Country

The three institutional or formal agencies that provide agricultural credit in the country are

i) Cooperative credit institutions;

ii) Commercial banks;

iii) Regional Rural Banks.

While the co-operative credit societies supply short term credit to the agriculturists, the land mortgage banks or land development banks provide medium and long term credit to the agricultural sector for long term developmental purposes. The commercial banks play an increasing role in the provision of agricultural credit in the country since 1969. The regional rural banks, though similar to the commercial banks in their nature and functioning, are specially developed to meet the credit needs of the rural areas of the country for agricultural as well as nonagricultural purposes in their respective areas of operation. The first five regional rural banks in the country were inaugurated on October 2, 1975 and the number of RRBs went on increasing in the country since then till the launch of the banking sector reforms in 1991, and their number tended to decrease since then through a process of merger of the banks in the adjacent districts to increase their scale of operation with a view to make them profitable.

Institutional Credit to Agriculture in India, 1991-92 to 2014-15

Table 2 presents data pertaining to the relative roles of the three institutions, co-operative banks, regional rural banks and commercial banks in providing agricultural credit in India since 1991-92. The data show that while the co-operative banks supplied 51.78 per cent of the total agricultural crdit in the country in 1991-92, the commercial banks supplied 42.90 per cent and the regional rural banks supplied 5.32 per cent in 1991-92. The share of the co-operative banks decreased steadily since 1991-92 to 16.47 per cent in 2014-15 and that of the regional rural banks increased to 12.19 per cent 2014-15.

The share of the commercial banks in the provision of rural credit in the country increased steadily since 1991-92 and stood at 71.34 per cent in 2014-15. The data, thus, show that the commercial banks play the predominant role in meeting the credit needs of the agricultural sector in the country at present. However, the highest share of the commercial banks in agricultural credit was in 2009-10, with a share of 74.33 per cent. In contrast, the role of the co-operative banks in the provision of agricultural credit in the country decreased steadily from 51.78 per cent in 1991-92 to 16.47 per cent in 2014-15.

Table 2: Institutional Credit to Agriculture in India, 1991-92 to 2014-15
(Amount in Rs. Crore)

Year	Cooperative Banks	Regional Rural Banks	Commercial Banks	Total
1991-92	5,800	596	4,806	11,202
	(51.78)	(5.32)	(42.90)	(100.00)
1996-97	11,944	1,684	12,783	26,411
	(45.22)	(6.38)	(48.40)	(100.00)
2001-02	23,604	4,854	33,587	62,045
	(38.04)	(7.83)	(54.13)	(100.00)
2006-07	42,480	20,435	1,66,485	2,29,400
	(18.52)	(8.91)	(72.57)	(100.00)
2009-10	63,497	35,218	2,85,799	3,84,514
	(16.51)	(9.16)	(74.33)	(100.00)
2010-11	78,007	44,293	345877	468291
	(16.66)	(9.46)	(73.86)	(100.00)
2011-12	87,963	54,450	368616	511029
	(17.21)	(10.66)	(72.13)	(100.00)
2012-13	1,11,203.30	63,681.39	4,32,490.93	6,07,375.62
	(18.31)	(10.48)	(71.21)	(100.00)
2013-14	1,19,963.79	82,652.72	5,09,004.96	7,11,621.47
	(16.86)	(11.61)	(71.53)	(100.00)
2014-15	1,38,469.51	1,02,482.91	5,99,690.77	8,40,643.19
	(16.47)	(12.19)	(71.34)	(100.00)

Source: 1) Government of India- Economic Survey, different issues.
2) For 2012-13 to 2014-15: NABARD, Annual Report 2014-15.
Note: Total for 2010-11 includes Rs. 114 crore by other agencies.

The Availability and Cost of Agricultural Credit

Two important aspects of credit to any sector are one, easy availability of credit; and two, the cost of credit. Both these aspects have seen considerable progress in the country in recent years.

While measures are being adopted to make institutional credit easily accessible to the agriculturists, measures are being adopted simultaneously to reduce the interest burden of agricultural credit. A scheme of interest subvention was introduced by the Government of India (2008) with effect from the kharif crop of 2006-07 under which "Government of India would provide necessary interest subvention to NABARD and banks" so as to effectively reduce interest rates on crop loans to the farmers, so that a part of the interest cost of agricultural credit was borne by the Government. The scheme was continued since then and the scheme, as it stood during 2014-15, made the effective rate of interest on crop loans, available from banks up to a principal amount of Rs.3,00,000, was 4 per cent in the case of farmers who are prompt in repaying their loans. Government of India (2015).

Non-interest Aspects of the Cost of Credit

It is the non-interest aspect of the cost of institutional credit to agriculture that needs to be addressed. These aspects of the cost of credit take the form of the cost of processing a loan application such as cost of getting the required documents, application processing charges, repeated travel to the bank etc. all of which add to the real cost of credit, in addition to a feeling of inconvenience among the agriculturists who are in need of credit. As was pointed out by the former Governor of the Reserve Bank of India, Sri Subbarao, himself (2012a) in his NABARD 30th Anniversary Lecture, "Anecdotal evidence suggests that a number of factors inhibit smooth credit delivery to the agriculture sector. These are:

1. Insistence on collateral
2. Complicated loan administration procedures
3. Distance from the villages to the branches
4. Higher monitoring and follow up costs
5. Culture gap between bank officials and farmers
6. Political interference
7. Inflexible lending policies and procedures including cumbersome documentation
8. Difficulties in recoveries of overdue loans
9. Lack of provision for consumption credit
10. Absence of effective systems for screening credit risks and finally
11. A misplaced belief that the borrowers in the agricultural sector, particularly, small and marginal farmers with low per capita incomes are risky and hence non-bankable." Sri Subbarao (2012b) points out that "some of these factors ostensibly translate into higher transaction costs, which include expenses incurred in appraisal of borrowers, processing, documentation and disbursement charges, loan monitoring/supervision and collection, and the proportionately allocated cost of branch, division and head office expenses."

These aspects need to be addressed, apart from reducing the nominal rate of interest on agricultural credit, so that the effective rate of interest on agricultural credit gets reduced. It is the absence of these costs and the convenience of getting a loan from the informal sector that explains the continuation and a revival, in recent years, of the informal sources of rural credit in the country.

According to the Central Statistical Office (CSO), (2015) the data, gathered in the NSSO 70th Round of sample survey conducted during the period from June 2012 to July 2013 and released by the CSO on 8.5.2015, show that 52 per cent of the agricultural households in India are in debt, and that there is a high dependence of the agricultural households on non-institutional sources for financial assistance. The loans raised from informal sources formed as high as 40 per cent of all loans. Marginal land-holders, holding less than 0.1 hectare of land, raised 26 per cent of their loans from money lenders. The share of their loans raised from institutional sources, government, co-operative banks and commercial banks, formed only 15 per cent, while in the case of the rich agriculturists holding 10 or more hectares of land institutional sources supplied 79 per cent of the total finance raised by them.

The above data show that the benefit of institutional sources of agricultural credit in the country is highly skewed, benefitting the rich farmers, while the marginal farmers have to depend on the informal sources of credit, even in 2013, despite the expansion of institutional credit facilities in the country since 1969.

According to the NABARD (2015) "The rural credit market in India is characterized by the coexistence of both formal and informal sources of finance, although their relative importance has been changing over time. Informal credit as a percentage of the total debt, which was continuously declining till 2002, went up from 42.9 per cent (2002) to 44.0 per cent (2012), mainly on account of an increase in the share of professional money lenders from 19.6 per cent to 28.2 per cent".

The Spectre of Human Casualty

A disquieting aspect of agricultural credit in the country is the increasing burden of debt on the farmers that have been resulting in human tragedies in the form of farmer suicides because of the un-relievable burden of debt. A report in Udayavani (2016), kannada daily newspaper, states that over one thousand (1002 farmers) farmers in Karnataka had committed suicide during the period from April 1, 2015 to January 12, 2016 due to the burden of debt raised from different sources including commercial banks. The case is similar in Maharashtra as reports appear in media. While institutional sources of credit are increasingly made available to the farmers in the country, it looks paradoxical that easy availability of credit results in human tragedy instead of being a source of help to the farmers.

Small Size of Average Agricultural Holdings

A basic aspect of Indian agriculture that inhibits progress, despite measures at increased financing of agriculture, is the small and uneconomical size of the majority of farm holdings in the country. The Agriculture Census, 2010-11 of the country revealed, as reported in the Annual Report, 2013-14 of the NABARD (2014), that 117 million of the 138 million agricultural holdings in the country, forming around 85 per cent of the total, were small and marginal holdings; marginal holdings being holdings which are less than one hectare in size and small holdings being holdings which are between one hectare and two hectares in size. This percentage was 62 in 1960-61. The average size of an operational agricultural land holding in the country was only 1.16 hectare and these small and marginal cultivators together own 44 per cent of the total cultivated area in the country.

This small size of operational farm holding held by the majority of the agriculturists in the country makes agriculture unviable and the banks have to be careful and cautious while determining the amount of loan that such small and marginal farmers can absorb productively and safely bear, without the risk of landing themselves in unbearable burden of debt, at the micro level of the individual farmer, and mounting non-performing assets of the banks, at the macro level. This aspect of Indian agriculture has to be specially looked into at the time of credit appraisal, credit advice and sanctioning a loan.

Non-credit Requirements of a Sound System of Agricultural Credit

There are definitely other supporting requirements of a sound system of agricultural credit in the country. The following may be pointed out as the important ones of such requirements.

i) Objective and proper credit appraisal and advice: One such requirement is an objective and proper credit appraisal and advice to the farmers at the time of sanctioning a loan. This process should include not only the aspect of deciding the amount of the loan required for the project for which loan is applied for, but should also consider such aspects as the economic feasibility and viability of the type of crop that the farmer intends to raise or other projects that he plans to take up with the proceeds of the loan, the amount of loan that he currently has and the additional burden of loan that he can safely bear and service with the extent of land he owns and the nature and type of the crop that he raises. Such an advice, and restriction of the amount of the loan to be sanctioned, if found advisable, is essential to avoid the unbearable burden of debt on the farmers arising out of the increasing temptation of farmers to borrow lavishly when loan is easily available.

ii) Simplification and improvement in credit-delivery mechanism: The credit-delivery mechanism of the institutional sources of agricultural credit in the country should be made simple and easily understood and accessible to the agriculturists, particularly by the marginal farmers. This section of the agriculturists in the country, with their relatively low standard of education and knowledge of banking services and their procedure, go to the informal sources which are convenient and less cumbersome when compared with the institutional sources, giving rise to a situation where institutional credit facilities do not benefit those who need it most, as is evident from the data cited above..

iii) Non-credit requirements of agriculture: Finance is only a requirement of the farmers that enables them to acquire other real inputs of agriculture, including farm machinery. Unless the cost of such real inputs of agriculture are contained, easy availability of credit will not help the farmers. On the contrary, it will only impose additional burden on the farmers by tempting them to borrow and result in lavish borrowing by the farmers, irrespective of the genuine need for credit, and land them in debt.

iv) Supplementary fiscal and restrictive policies: Certain supplementary fiscal and other restrictive policies are also needed besides making provision for credit. It is often noticed that the prices of farm inputs and machinery are raised by their suppliers whenever such items are subsidised or credit is easily made available against them to help the farmers, so that the real benefit of such schemes goes to the suppliers of farm inputs and does not reach the farmers for whom they are meant. This trend has to be effectively checked and the cost of farm inputs has to be contained if the burden of debt on the farmers has to be relieved.

v) Marketing and infrastructural facilities: Provision of timely credit has to be buttressed by other infrastructural facilities to the farmers such as advice on scientific farming, transport and marketing facilities, etc. so that the farmers are enabled to raise agricultural productivity and get a fair price for the products they grow, resulting in additional income to the famers with which they can repay the loans raised by them.

vi) The end-use supervision of credit: A proper end-use supervision of the credit advanced by the banks, whether in the agricultural field or in the industrial field, should form an integral part of banks' financing activity so as to ensure timely servicing and repayment of the loans granted so as to minimise the accumulation of the non-performing assets of the banks, with adverse implications to the borrowers as well as to the economy as a whole.

Conclusion

The foregoing analysis points out the predominant role of commercial banks, among the three institutional agencies of agricultural credit, in provision of agricultural credit in the country. Though official emphasis is laid on the development of institutional credit for agriculture in the country, the traditional sources of agricultural credit in the country continue to operate and have reemerged in importance in recent years. Measures should, therefore, be taken to streamline the timely delivery of bank credit to agriculture, including procedural innovations, so as to attract agriculturists, particularly the small farmers, who need un-exploitative financial assistance the most. Measures have to be adopted, simultaneously, to supplement credit facilities with non-credit infrastructural facilities so as to enhance the productive use of credit resulting in increasing agricultural productivity in the country.

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