Mind and Society, ISSN 2277-6907
Vol .3, No. I & II, March & Jun. 2014, page 56-61

Institutional Finance For Agriculture Development In India

*** Vinay Kumar Singh**

Received	Reviewed	Accepted
13 Apr. 2014	20 Apr.2014	25 Apr. 2014

The present study highlights the agricultural credit scenario in India with special focus on institutional finance to agriculture sector in India. It also identifies the important issues in agriculture credit market. In India, it is well known that most of the farmers dependent on external finance to enable cultivation. In the recent years, increasing diversification of agriculture has seen an increase in credit needs. Easy availability of adequate agriculture finance at the right time has an important role in the development of the agriculture as well as for rural development. The result shows that in India, demand for agriculture credit is much higher than its actual supply. Within the institutional framework, co-operative banks have lost their leading position, while the commercial banks have emerged as an important segment. Though over the years, the institutional credit flow to agriculture has increased significantly, a large number of farmers are still out of reach of these institutional credits. In this situation the farmers are left with no alternatives but to move to the informal market. In this market they get trapped and are even compelled to commit the suicide. Inadequacy, weak institutional network, heavy indebtedness, high transaction cost, low credit-deposit ratios in several States and the continued presence of informal markets are the serious problems related to the agriculture credit. For the development of agriculture, as well as, for whole economy, it is necessary that these problems should be address on priority.

Keywords-Agriculture, Finance, India, Status, Problems

Introduction

Agriculture has always been India's most important economic sector, contributing about 18% of the country's gross domestic product (GDP) and employs nearly 60% of the population. In India agriculture is mostly depends on millions of small farmers, who need external finance to enable cultivation. In the recent years, increasing diversification of agriculture has seen an increase in credit needs. Easy availability of adequate agriculture finance at the right time has an important role in the development of the agriculture as well as in overall development of the Indian economy.

*(Asst. Prof.-Guest) Department of Economics, Govt. PG College Kawardha, (C.G.)

Agriculture credit system in India

In India multi agency approach is used for disbursing credit to agriculture. Agricultural credit delivery system comprises both formal (institutional) and informal sources. Institutional framework comprise a large number of agencies, including cooperatives, regional rural banks, commercial banks and self-help groups, whereas the important non-institutional sources are professional moneylenders, landlords, input suppliers, commission agents and also the large farmers. In a changing business environment the institutional sources of finance play a significant role in agriculture development.

Under institutional credit system, there are today over 80,369 commercial bank branches including around 15,144 RRB branches, about 94,942 primary agriculture credit societies and over 12,000 state and central co-operative banks in the country, which not only provide different financial services to the farmers but also play a key developmental role. Table 1 gives the quantum of institutional credit flow to agriculture between the years 2003-04 to 2007-08.[1]

Table 1: Agency-wise institutional credit flow to agriculture

(in crore Rs.)

Agency	2003-04	2004-05	2005-06	2006-07	2007-08
Commercial banks	52,441 (60.3)	81,481 (65.0)	1,25,477 (69.5)	1,66,485 (72.6)	1,28,495 (66.7)
Cooperatives	26,875 (30.9)	31,231 (24.9)	39,404 (21.8)	42,480 (18.5)	41,813 (21.7)
RRBs	7,581 (8.7)	12,404 (9.9)	15,223 (8.4)	20,434 (8.9)	22,227 (11.5)
Other agencies	84 (0.1)	193 (0.2)	382 (0.2)	-	-
Total	86,981 (100)	1,25,309 (100)	1,80,486 (100)	2,29,399 (100)	1,92,535 (100)

Note: Figures within the brackets are shares in total.
Source: NABARD (2008).

Current scenario of institutional credit to agriculture

The multi-agency organization of agriculture credit delivery system in India worked well over a period of time. However, this vast institutional framework has not been able to meet the rapidly increasing demand of agricultural credit in a comprehensive and satisfactory manner.

Table 2: Credit Flow to Agriculture from Different Sources (In percent)

Source of Credit	1951	1961	1971	1981	1991	2002
A. Non-institutional	**92.7**	**81.3**	**68.3**	**36.8**	**33.7**	**38.9**
Money lenders	69.7	49.2	36.1	16.1	17.5	26.8
Traders	5.5	8.8	8.4	3.2	2.2	--
Relatives/Friends	14.2	8.8	13.1	8.7	4.6	--
Landlords and others	3.3	14.5	10.7	8.8	6.3	--
Unspecified	---	--	--	--	3.1	--
B. Institutional	**7.3**	**18.7**	**31.7**	**63.2**	**66.3**	**61.1**
Government, etc.,	3.1	15.5	7.1	3.9	5.7	
Cooperative Society / Bank	3.3	2.6	22.0	29.8	23.6	30.2
Comm. Banks, etc.	0.9	0.6	2.4	28.8	35.2	26.3
Others	--	--	0.2	0.7	1.8	--
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: All India Debt and Investment Surveys

All-India Debt and Investment Survey (AIDIS) 2002 gave the clear picture of the share of different institutional and non-institutional sources in providing credit to agriculture (Table 2).[2] Over the period of 40 years, the share of non-institutional sources of credit to farmer's households has declined sharply from about 92.7 % in 1951 to about 33.7% in 1991, with the share of moneylenders having declined from 69.7% to 17.5%. The institutional credit to agriculture has started to grow after bank nationalization with a share of 7.3% in 1951 to 66.3% in 1991. However in 2002 the share of moneylenders has again increased to 26.8%, while the overall share of non-institutional sources rose to 38.9% and share of institutional credit declined to 61.1%. In other words, institutional credit system has not been able to adequately penetrate the informal financial markets and still the informal sources, especially the moneylenders, play an important role in agriculture credit delivery.

The NSSO Survey 2003 indicates that as much as 51 per cent of the farmers' households do not access debt at all and only 27 per cent of all cultivator households receive institutional credit. Formal credit to small and marginal farmers is also limited. [3]

Table 3: Finance to Agriculture by Commercial Banks (in percent)

	Mandatory	Public sector bank	Private sector bank
Mar 04	18	15.1	15.81
Mar 05	18	15.3	13.5
Mar 06	18	15.3	13.6
Mar 07	18	15.6	12.8

Source: Report on Trend and Progress of Banking in India 2006-07

The government-owned banks have not been able to meet the mandatory target of 18 % of advances to agriculture in the recent years. As on March 2007 only eight public sector banks and three private sector banks could achieve the 18 per cent sub-target of lending to agriculture (RBI). The outstanding credit to agriculture from public sector banks has improved marginally from 15.3 percent of net banking credit on March 2006 to 15.6 percent in March 2007, whereas the lending to agriculture by private sector banks has declined from 13.6 percent to 12.8 percent during the same period. [4]

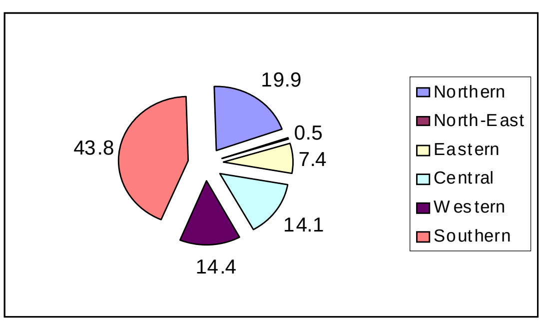

Figure 1: Region-wise credit flow to agriculture and allied activities by commercial banks

(As on 2001-02 in percent)Source: Mohan, 2006 [5]

There are large regional disparities in disbursement of agriculture credit by commercial banks. For instance, the southern region accounted for nearly half of the total outstanding farm credit disbursed nationally; on the other hand, the north-eastern and eastern region's share in credit is much lower (Figure 1).

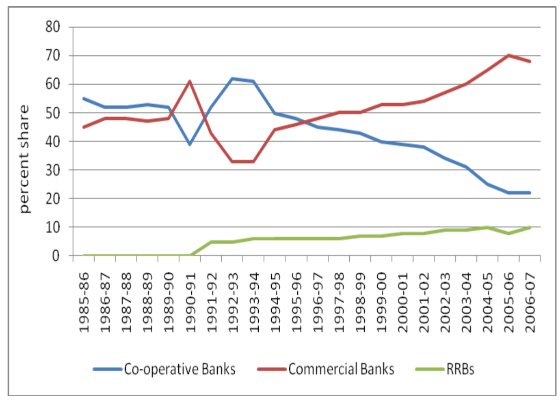

Figure 2: Institutional Agriculture Credit Flow by different sources

Source: Economic Survey and NABARD

Note: up to 1990-91 data of commercial banks includes RRBs also

Within the institutional framework, co-operative banks have lost their leading position to commercial banks. The share of co-operative banks has declined to 22 % during 2006-07 from 62 % in 1992-93, while the share of commercial banks has increased from 44 % to 68 % during the same period (Figure 2).[6]

Important Issues in agriculture credit delivery

The multi-agency framework of agriculture credit system was envisaged to provide the diverse financial needs of the farmers by giving a wide choice of the agencies, but in reality, the farmers hardly enjoyed the benefits of the approach as the system suffered from several drawbacks in the design, planning and implementation. Some of the deficiencies are expressed in terms of inadequacy, constraints on timely availability, heavy indebtedness, high transaction cost, neglect of small and marginal farmers, low credit-deposit ratios in several States and most important the continued presence of informal markets. [7]

Although the share of institutional credit to agriculture has increased over the years, yet there exist a considerable gap between the demand and supply. Farmers, specially the small and marginal farmers are still dependent on local moneylenders for their growing credit needs, as the reach of institutional agencies to these weaker sections has remained poor. High transaction costs attached with the institutional loans also discourage farmers to lend from the institutional sources. The procedures, systems and documentation formalities affixed to the institutional loans are also cumbersome for the farmers to follow. Furthermore, because of non availability of updated land records tenants and sharecroppers are not eligible to get the institutional credit. [8]

Conclusion

In India the institutional finance play a very significant role in agriculture development. Over the years, the institutional framework of agriculture credit work well but still there exist several gaps in their performance. The public policies on agriculture credit has always directed towards providing adequate credit to farmers at reasonable rate. But in reality, due to lack of proper implementation of the policies lay down for the benefit of farmers and bureaucratic hurdles in getting credit from institutional sources, a large number of farmers are still out of reach of these institutional credits and still dependent on informal sources, mainly on professional moneylenders, for their credit requirements. In this market they get trapped and are even compelled to commit the suicide.

For improving the credit flow to agriculture, the need of the hour is to make institutional framework more participative through proper implementation of the existing policy so that the agriculture sector can be served like any other sector of the economy. It is necessary that all institutions should work together and complement each other. Linkage among the different agencies at all level is needed for improving credit flow to agriculture.

References:

1. RBI (2004), Report of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Chairman: Prof. Vyas).

2. Government of India (2003), AIDIS, ***All India Debt and Investment Survey,*** Ministry of Statistics and Programme Implementation,

3. Binswanger, H., and Khandker, S. (1992), The impact of formal finance on the rural economy of India, ***Policy Research Working Paper Series, No. 949,*** World Bank

4. Gulati, A. and Bathla, S. (2002), Institutional credit to Indian agriculture: Defaults and policy options, ***Occasional Paper-23, NABARD,*** Mumbai.

5. Mohan, Rakesh (2006) Agricultural credit in India: Status, issues and future agenda, ***Economic and Political Weekly, 41(11):*** 1013-1021.

6. NABARD (2008), Annual Report 2007-08, National Bank for Agriculture and Rural Development, Head Office, Mumbai.

7. NSSO (2005) Indebtedness of Farmer Households, NSS Report No. 498, Central Statistical Organisation, Government of India, New Delhi.

8. Wasewar, A. U. and Sinha,B.(2009), A review of performance of agriculture credit system in India, paper presented in International conference on Arts, Science, Management and Engineering, Goa, India.

*