PalArch's Journal of Archaeology of Egypt / Egyptology

Role of institutional credit for agriculture

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Dr.PriyaKumari. Role of institutional credit for agriculture– Palarch's Journal Of Archaeology Of Egypt/Egyptology 17(9). ISSN 1567-214x

Keywords: Institutional Credit, Indian Agriculture, Agricultural GDP, farmers, Agricultural sector

ABSTRACT

Institutional credit is one of the crucial aspects for the development and continuation of modern day agriculture. Usually differentiated in two separate segments, agricultural credit is one of the essential commodity for the farmers within a nation to prosper and grow in their respective trade. This study includes the evaluation of institutional credit requirements as per Indian agricultural sector. It also consists of the complete discussion related to all the phases of institutional credit initiative policies for better understanding about the government's regulations for encouraging agriculture. Through detailed discussion about the inclusive aspects of "Credit" in Indian agricultural sector, the aspects which negatively affect the institutional credibility factor have also been cited. Proper usage of institutional credit will not only develop the agricultural sector of the country, it will also increase the entire countries GDP rate resulting in economic prosperity for the country.

Introduction

One of the critical inputs of agricultural development in India is credit. It enables the farmers of the country to incur new innovative technologies as well as undertake new investments relative to their respective trade. Agricultural credit in India is further dependent upon the poverty alleviation and macroeconomic framework of the country. Since the beginning of the strategic planning and development norms for the country, the institutional framework has always been emphasized and given importance for fostering development and growth in the agricultural sector.

Usually, the institutional agencies in India that are responsible for providing credits to its farmers and agricultural workers include the SCBs or the Scheduled Commercial Banks, the RRBs or the Regional Rural Banks, Co-operative Banks, NBFIs or the Non-Banking Financial Institutions, Self-Help Groups or Organizations, etc. According to Kumar et al. (2017), each of these agencies has been helping the Indian farmers both regarding their short-term as well as long-term requirements. There have also been several initiatives that have been developed to strengthen the rural credit system’s mechanism of the country. The original goal for the foundation of each of these initiatives was to provide the country’s farmers access to institutional credit. Some of these notable initiatives and reforms include the Rural Credit Survey Committee Report acceptance in 1954, commercial bank nationalization in 1969 and 1980, Regional Rural Bank establishment in 1975, National Bank for Agriculture and Rural Development establishment in 1982, and the establishment of reforms in the financial sector in 1991 and onwards, etc.

After the period of 1990s, there were some other innovative initiatives established which include the establishment of the Special Agricultural Credit Plan from the year 1994 to 1995, the introduction of the KCC or the Kisan Credit Cards from 1998 to 1999, Agricultural Credit Plan, Agricultural Debt Waiver and Debt Relief Scheme within the years 2004 and 2008. All these structured initiatives impacted agricultural credit positively. However, given the widespread population of farmers and people working in the agricultural sector in the country, the credits system is still debated to be inadequate (Narayanan 2016). A wide amount of farmers and agriculture-based employees are still dependent upon non-institutional sources like landlords and moneylenders. According to such situations, it is evident that the farmers within the extreme rural parts and even in some suburban parts of the country act upon their emotions rather than judging the benefit and credibility of the institutional credit system.

The objective of this respective study is to evaluate and establish the institutional credit flow in the agricultural sector of the country along with identification and evaluation of the factors on which the increase of institutional credit is dependent upon.

Literature Review

Approximately 58 per cent of the total population of India is involved in the field of agriculture or is dependent upon it for their livelihood. As per Singhal and Gupta (2020), when the term “credit” is added with agriculture, the basic idea simply translates to farmers obtaining financial help from different sources for the increase in their agricultural growth prosperity.

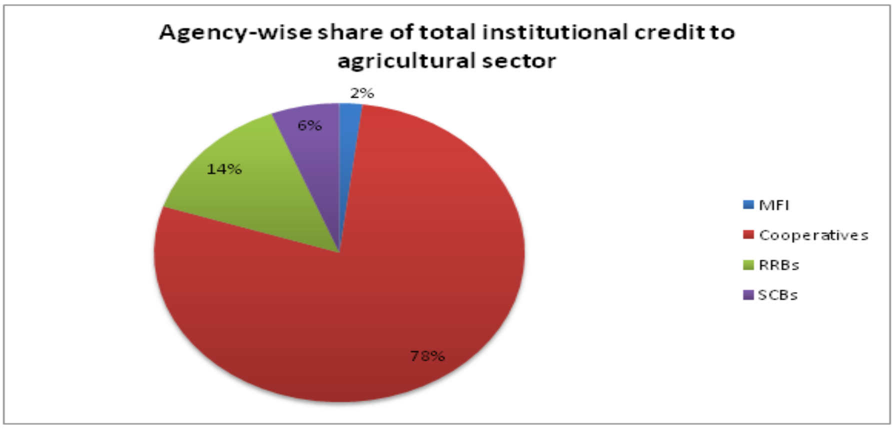

Figure 1: Agency-wise institutional credit distribution in Indian agricultural sector

(Source: Singhal and Gupta 2020, p. 47)

As depicted above, these credit sources are divided primarily into two separate segments, one being the institutional sources like the RRBs, SCBs and NBFIs and, the other being the non-institutional sources like conventional moneylenders, landlords, commission and trade agents, etc. While financial help can be obtained from both the credit sources, there are potential differences between them. Non-financial sources tend to exploit the help that they provide to these farmers. A significant amount of the farmer population still belongs to the poorer groups within the society, and usually do not possess the means to boost their productivity (Kumar et al. 2020).

The traders, agents and moneylenders come to the rescue of these farmers and provide them with liquid cash, which though instantly provides the farmers with instant help, often comes with heavy interest rates. If the farmers are not able to repay the taken loans as per their discussed times, these interest rates are often multiplied simply by solitary decisions, making the situations worse for them. During the collection and evaluation of relevant data from the secondary resources, it was found that almost 70 per cent of the Indian agricultural credit came from money lenders back in the early post-Independence periods. Contrarily, the goal of institutional credit is primarily to assist the farmers of the country in maximizing their profit and productivity.

According to Ali and Manoj (2018), they are primarily focused on helping the poor and needy farmers financially without any regulatory exploitation norms to them. As per the relevant data found in the secondary data sources, the co-operative Indian credit societies within the country has provided the farmers with an approximate amount of 6500 crores short term and long term loans in 1994, while it has drastically increased to 42500 crores in the year 2007. Then there are Primary Land development Banks which have also been providing the Indian farmers with short and mid-term loans.

The overarching demands of the nation shaped the agricultural finance and institutional framework of the country (Choudhri et al. 2020). The evolution of the overall credit policies of the agricultural segment of the country can be segmented into three broad phases, each belonging to different years and different time spans.

Institutional credit policy phases

>>The first phase

The first phase of the institutional credit policies of the agricultural sector of the nation started in the year 1951 when a five-year plan was initiated by the Government of India to develop the country's primary sectors. In a meeting that was held in July 1968, the National Credit Council emphasized on the increased involvement of commercial banks in the aspects of financing the country's agriculture and small scale industry sectors, as these were one of the core inclusions of the overall national priority of the country. In the year of 1969, the first phase of bank nationalization took place in the country. There were a total of 6954 public sector bank branches spread all over the country. As per Pathak (2020), each of these branches dealt with an average population ratio of 65000. The Reserve Bank of India prescribed a 1:3 ratio bank distribution among the country's urban and rural areas to boost the development of the rural areas.

>>The second phase

The second phase of institutional credit policy development happened between the years of 1970 and 1990. During the early phases of this period, the cooperative sector was the only sector to provide institutional credit to agriculture. This continued for the first two decades post-independence. In the year 1969 commercial banks were nationalized throughout the country, and this enabled commercial banks to enter the agricultural credit distribution market of the country. In these period two big development policies was introduced, one being the Lead Bank Scheme and the other, Priority Sector Lending (Sukanya

2016). These two schemes have been extremely beneficial for the agricultural development of the country and have been providing the agricultural sector of the country with credits to date.

In the year 1976, a policy named The Regional Rural Bank Act was introduced, which further assisted in the credibility aspect of the agricultural sector as well as the rural development of the country. It was the year 1982 when the National Bank for Agriculture and Rural Development was introduced. As per Panda (2017), it was a big step for the country towards providing its agricultural community with institutional credits. In the year 1992, Self-Help Groups were introduced by the National Bank for Agriculture and Rural Development, expanding their reach to the excluded portion of the country's agricultural community. In the year 1989, two distinct policies named Annual Credit Plan and Service Area Approach were introduced by the Reserve Bank as necessary tools for expanding their reach to the remote areas of the nation where agricultural practices were still the major source for livelihood.

>>The third phase

The year 1991 and onwards is usually included in the third phase of institutional credit policy development. Followed by the economic reforms of the 1990s the Narasimham Committee Report was first implemented in 1991, and this increased the operational efficiency and financial soundness of the rural financial institutions all over the country. The Reserve Bank of India further aided this policy by deregulating the interest rate regimes, which enhanced the operational efficiency of the banks. The third phase also included the announcement of the nationwide farm loan waiver which enforced Rs. 100 billion national exchequers all over the country (Udoka et al. 2016).

Then came the Union Budget Announcement which was done in the year of 1995, where RIDF or the Rural Infrastructure Development Fund was associated with the NABARD policies. The main reason behind the formulation of RIDF was to fund the infrastructure projects in the rural areas of the nation as such a policy implementation will result in deepening of the credit absorption capacity of the resultant states within the nation. Therefore, RIDF distributed loans to the state-owned corporations and the governments, simply so that they can work upon developing the agricultural aspects within them. Bhattacharya (2017) mentioned that along with the RIDF funding, commercial banks within the states also added to the institutional credit distribution among the national priorities within the states and resultantly enhanced the shortfall aspect of the lending targets within the priority sector. NABARD initiated another project that incorporated partnership between SHGs, NGOs and the banks-named as SHG-Bank Linkage programme. The project was initiated in the period of 1992-93, and though having a lesser amount of response in its initial years, it rose up to popularity gradually.

In the year 1998, for providing the farmers with easy credits without any hassle, Kisan Credit Cards were introduced. In the period of 2003-04, a policy named Ground Level Credit or GLC was introduced by the Union Government. Under this policy development, GLC will the union budget regarding the agricultural and allied sectors for each year and will also assist in the annual target achievement of the banks (Khan et al. 2017). The resultant targets are segregated institution and region-wise, which includes the RRBs, SCBs and Co-operative Banks, along with loan category aspects such as the term and crop loans. The period of 2004-2005 saw another initiative development, which consisted of the ideology to double the credit volumes in the agricultural sector of the nation over a period of three year and further expansion of this reach towards the formal segments of the national finance.

There were several developments and initiatives done in the year 2006. Firstly, IIS or the interest subvention scheme was introduced by the Union Government in the time-period of 2006-07, which primarily consisted of the idea of providing short term loans to farmers at reduced interest rates so that they can avail the efficient amount of farm credits. As per Kumar et al. (2015), the Reserve Bank of India further aided in the financial inclusions of the nation by incorporating Business Correspondents and Business Facilitators within their norms. Another model named Joint Liability Group was introduced by NABARD, which was developed as an addition to the previous SHG model so that the institutional credit policies can reach out to share-croppers and tenant farmers within the rural communities of the nation. In the year 2008, a famous policy named the Agricultural Debt Waiver and Debt Relief Scheme was introduced by the Union Government. This scheme was formulated primarily so that poor and needy farmers can be provided with a one-time settlement opportunity along with waiving of their institutional debts. This massive scheme was introduced simply to provide the farmers with solutions and relief regarding the persistent problems that they faced relative to indebtedness and financial hardships.

According to Chakraborty and Gupta (2017), the time period of 2009-2010 included the development of the prompt repayment incentive. Under this policy, the farmers and the loan-takers were to be given 3 per cent compensation on the regulatory 4 per cent interest rates if they successfully managed to repay their loans before or on the secluded times. The Priority Sector Guidelines or the PSL were revised in July 2012, by the Reserve Bank of India so that their operationality and activities can be widened.

The guidelines were again restructured in April of 2015, based upon the recommendations of the Internal Working Group or IWG. As per the features mentioned in the guidelines, the mentionable ones are:

>> A proper distinction between indirect and direct credit dispense.

>>Shifting the focus to “credit for agriculture” instead of “credit within agriculture”.

>>An average-target percentage of 8 per cent corresponding to the Credit Equivalent Amount, Off-Balance Sheet Exposure and ANBC so that the highest returns can be applied and provided to the small-scale farmers and agricultural practitioners (Yadav 2017).

Discussion according to secondary data analysis

Indian economy gets hugely affected by the agricultural sector as a large segment of the total Indian population is dependent upon it. According to the data evaluated from the secondary resources, there are approximately 482 million agricultural workers in the country; among which 145 million are agricultural laborers, 119 million are cultivators and the rest of them are farmers and general workers. But, there as per statistical data presented by the Census 2011, the number of workers in this field is gradually declining.

Father evaluation of the agricultural census of India, (2015-2016), showcased that the nation consisted of approximately 158 million hectares of land along with 146 million total operational holdings (Datta et al. 2018). Including the small and the marginal holdings, the ratio accounted to be approximately 87 per cent, which further describes that a significant proportion of agricultural activity in this nation consists of small scale lands and farmers. This decline in the workability and prosperity of Indian agriculture is further proved by the contribution of the agricultural sector towards the country's GDP, where the number went from approx. 53 per cent around the 1950s to even less than 20 per cent 2010 onwards.

Such reports and stats have forced the government to imply some revolutionary policies and norms that are mentioned prior in this study. Even after the formulation of such revolutionary initiatives and policy, there were some significant drawbacks noticed in the institutional credit availability aspect. Some of the key mentionable pointers in this aspect include.

>>Loan waivers

The credit culture of the country has been hugely affected by the announced loan waivers by the respective state governments. Most of the loan-takers and borrowers are withholding their payments simply because of their anticipation regarding loan waivers (Parvathamma 2016). As most of the agriculture-based population of the country has been in touch with minimal education, they do not understand that such action negatively affect their credit scores and puts them at a disadvantage during their emergence or need of fresh loans. Such a factor has added up to the ailments of the general credit culture deterioration and has resulted in less credit distribution among the rural farmers.

>>Credit Reach

As per the secondary data collected from the NAFIS report of 2016-17, 61 per cent of the agricultural households in India have obtained their credits from institutional sources. But, due to the aspects such as loan waivers along with the decreased reach of institutional credit in the rural parts of the country, there is still a quite amount of agriculture-based population who prefer to obtain credit from non-institutional sources. Upon further introspection in the relative secondary data sources, it was found that such instances are increasing day by day, indicating people's dissatisfaction or mere disregarding of institutional credit options. Therefore, the non-institutional sources are still being relevant in the country and are being able to hamper the credibility aspect of the institutional sources and government-issued norms (Duncan et al. 2017).

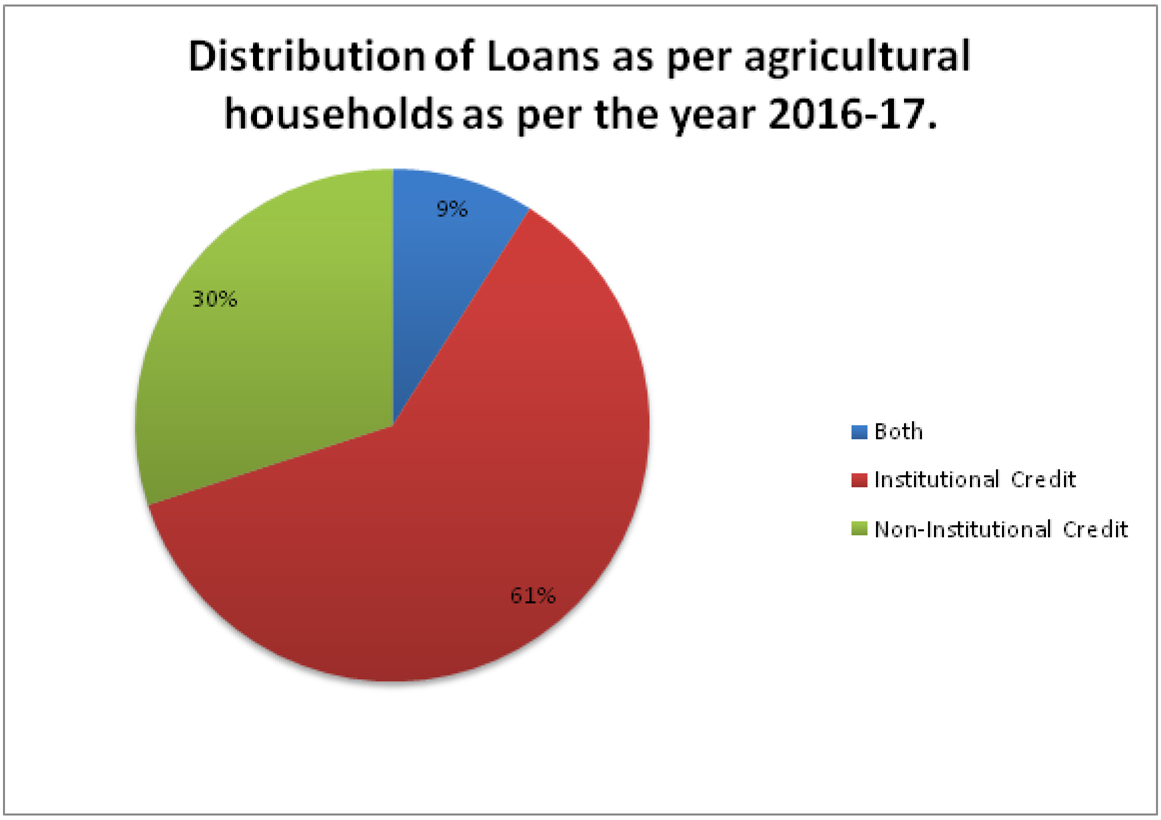

Figure 2: Distribution of loans as per agricultural households in India 2016-17

(Source: Duncan et al. 2017, p. 22)

>>Disparity among the Agricultural Credit

Some states are getting higher shares of institutional credit and opportunities than the others, which upon introspection have even seen to be almost 10 per cent of the total agricultural credit investments. As per Nadkarni (2018), such a disoriented credit distribution and segregation have resulted in the poor distribution of institutional credit among other regions, which also has further resulted in a disproportionate balance between the incurred credits to the output productivity ratios.

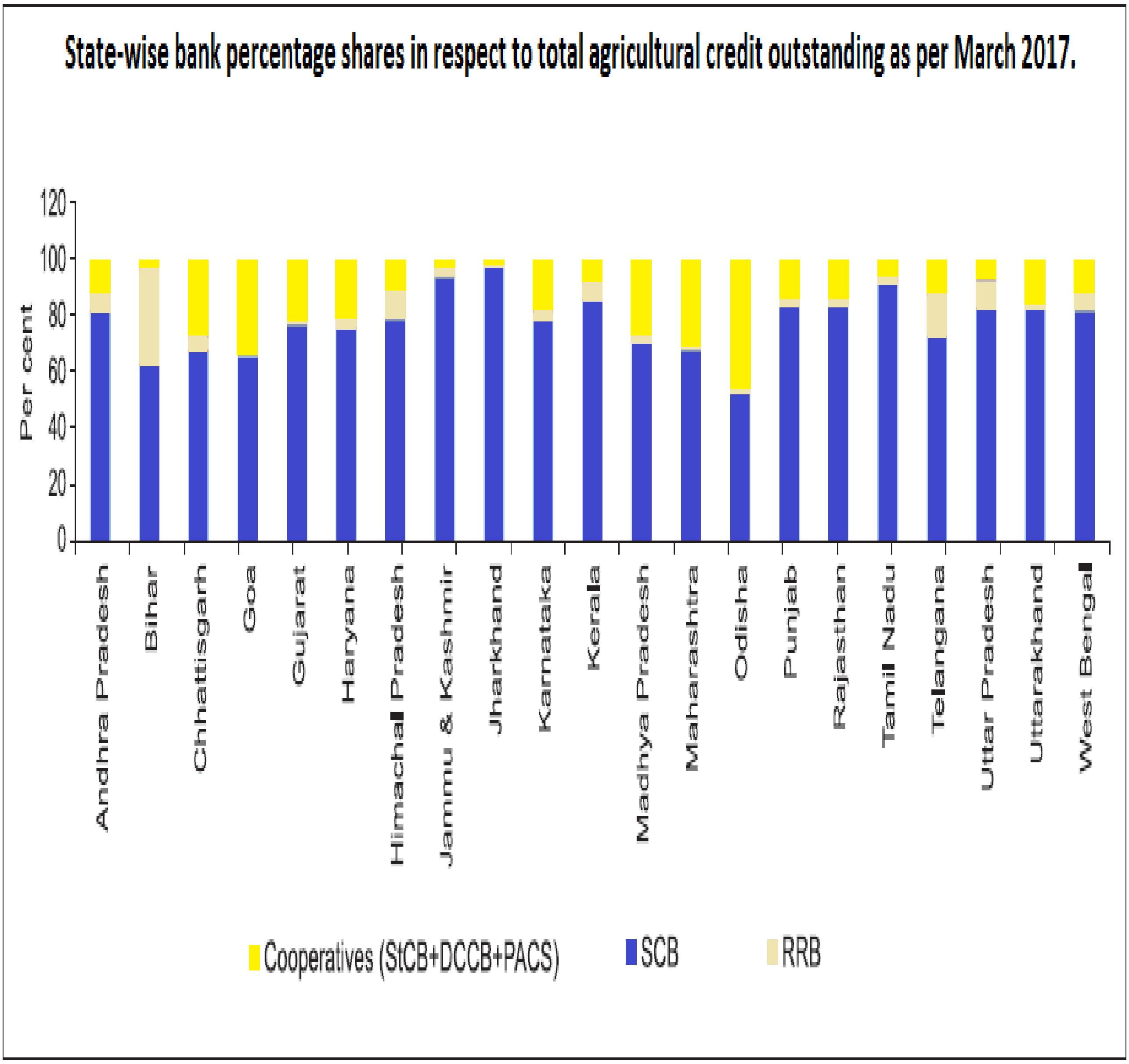

Figure 3: State-wise bank share distribution in India as per March 2017

(Source: RBI)

Conclusion

Agricultural credit distribution is amongst one of the crucial factors that determine the agricultural performance of a company. The evaluation and discussions cited above showcase the distribution and the user mentality of the population of the Indian nation who are involved in the agricultural sector. The depictions and proofs from the secondary data showcase the constant push of the nation's government to standardize institutional credit in the agricultural sector, which has been pretty successful. But, there are still some concerning factors, namely disproportionate credit reach, disregarding credit score aspect and increase in the number of loan waivers. Such aspects increase the nonperforming assets of the banks and also negatively impact the economy of the country.

Education is one of the biggest solutions to most of the mentality based and technicality related problems of a nation. Providing the farmers, especially the farmers from the rural area with basic financial education related to institutional and non-institutional credits is a good option. The weaker sections of the agricultural society, namely the SCs, STs and OBCs should be trained to acknowledge the difference between the benefits and loss terminologies relative to the different credit obtainments.

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