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Trends in Agricultural Credit in India from 1950-2018

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Abstract: As per the NAFIS Report 2016-17, the average loan taken by agricultural households indicated that 72 per cent of the credit requirement was met through institutional sources and 28 per cent from non-institutional sources. Further, in the absence of a proper legal framework and lack of records relating to their agricultural activity, tenant farmers/ share croppers/ oral lessees/ landless labourers face difficulty in accessing institutional credit. As per PSA Annual return (2015-16), only 41 per cent of small and marginal farmers could be covered by public and private sector banks. Besides these problems and challenges of accessibility in credit, the share of credit to allied activities i.e., livestock, forestry and fisheries was sub-optimal compared to its contribution to agricultural output.

Introduction

The agriculture sector is an important component of the Indian economy as it provides livelihood to a large section of the population. According to Census 2011, out of the total workers of 481.7 million, there are 118.7 million cultivators and 144.3 million agricultural labourers, which mean approximately 55 per cent of the total workers, were employed in agriculture and allied sector. As per Agriculture Census 2015-16, the total number of operational holdings in the country was 146 million and total operated area was 157.14 million hectares in 2015-16. The small and marginal holdings taken together (0.00-2.00 ha) constituted 86.21 per cent, while their share in the operated area stood at 47.34 per cent in 2015-16. The average size of land holding in 2015-16 was 1.08 hectare. As per the NAFIS Report 2016-17, the average loan taken by agricultural households indicated that 72 per cent of the credit requirement was met through institutional sources and 28 per cent from non-institutional sources.

Regional Disparity in Agricultural Credit – Some of the states are getting much higher share, as high as 10 per cent of total agricultural credit compared to other states getting as low as 0.5 per cent. Also, in some states, viz., Bihar, Chhattisgarh, Jharkhand, West Bengal, etc., bank credit was not proportionate to their share in agricultural output. Loan Waiver - Loan waivers announced by state governments have affected the credit culture in the country with many borrowers withholding repayment, in anticipation of a loan waiver. This adversely affected the credit history of borrowers and their future prospects of availing fresh loan for agricultural purposes. This led to further deterioration of credit culture as evident from the high level of Gross NPA of 8.44 per cent as on March 31, 2019 in the agriculture sector.

This paper divided into three sections section I describes Methodology and data sources and objectives of the study section two explains analysis of the study regarding objectives section three focuses on conclusion and policy implications.

Section I

1.1 Methodology and Data Sources

Present paper focused on availability of agricultural credit to the farmers from 1950 from various institutional sources like Scheduled Commercial Banks (SCBs), Cooperative Societies (CSs), and Regional Rural Banks (RRBs). Data taken by tapping various secondary sources like RBI Bulletins, economic survey, agricultural census etc. Simple statistical techniques like percentages and diagrammatic explanation like bar charts, pie charts and lie grapes are used for the study.

1.2 Objectives of the study:

1. To review the existing institutional credit structure in India,
2. To study flow of agricultural credit as GDP of India from 1950-2019,
3. To study the agricultural share of agricultural credit from various sources in India
4. To study the regional disparities in issuing credit flow for the agricultural sector in India
5. To give some policy measures based on findings of the study.

1.3 Limitations of the Study: This study strictly confined to the Secondary data and it restricted to the agricultural credit only.

Section –II

2.1.0 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.

2.1.1 Phase 1 (1951 – 1969)

i. 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, viz., agriculture and small-scale industries, sectors deemed as 'national priority'.

ii. 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 ratio for opening of branches in urban and rural/semi-urban centres.

2.1.2 Phase 2 (1970-1990)

i. 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 development policies that have not only survived till date but have also served as the fuel for channelling agricultural credit and rural development.

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ii. The Regional Rural Bank Act, 1976 was enacted to provide sufficient banking and credit facility for agriculture and other rural sectors.

iii. 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.

iv. NABARD, in 1992 introduced the Self-Help Group (SHG) model to further financial inclusion of the excluded segments.

v. 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.

2.1.3 Phase 3 (1991 onwards)

i. 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.

ii. The first major nationwide farm loan waiver was announced in 1990 and the cost to the national exchequer was around ₹100 billion.

iii. 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.

iv. 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.

v. The Kisan Credit Card (KCC) was introduced as a financial product in 1998 to provide hassle free credit to farmers.

vi. The Union Government introduced the Ground Level Credit (GLC) policy in year 2003-04. Under this policy, GoI 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 (crop and term loan).

vii. 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.

viii. 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.

ix. 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 ₹525.16[6] billion was envisaged to provide relief to the persistent problem of farmers' indebtedness and alleviate the financial pressure faced by the farmers.

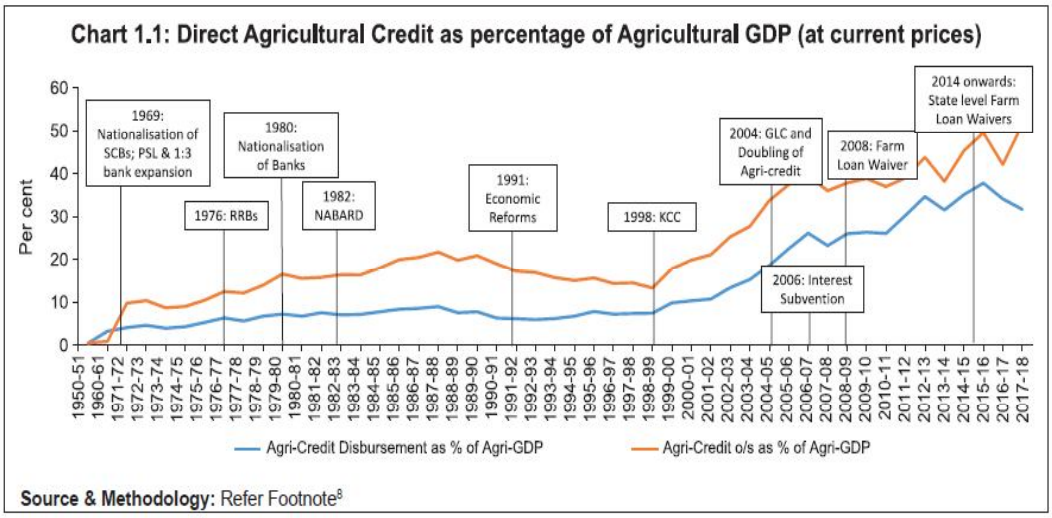
x. In 2009-10, the Government introduced the prompt repayment incentive (PRI) of 3 per cent under the ISS to bring down the effective rate of interest to 4 per cent to those farmers who repaid their loans on or before the due date to inculcate repayment habits.

xi. In July 2012, the Priority Sector Lending (PSL) guidelines were revised by the Reserve Bank to widen the eligible activities. Again in April 2015[7], the guidelines were revamped based on the recommendations of the Internal Working Group (IWG). The salient features of the revamped PSL guidelines relating to agricultural sector are:

- The distinction between direct and indirect agricultural credit was dispensed with. A sub-target of 8 per cent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, was prescribed for small and marginal farmers. Focus shifted from 'credit in agriculture' to 'credit for agriculture'.

2.2.0 Agricultural Credit as percentage of GDP in India

2.2.1 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. Accordingly, two line graphs are plotted in the following chart.



Source: RBI report of the internal working group to review agricultural credit -2019

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Above chart explains about 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. 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. 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.

2.3.0 Institutional vis-à-vis Non-Institutional Agricultural Credit

2.3.1 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 chart below. Position for 2015 has been plotted based on 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.

As per the NAFIS Report 2016-17, the average loan taken by agricultural households indicated that 72 per cent of the credit requirement was met through institutional sources and 28 per cent from non-institutional sources. Further, in the absence of a proper legal framework and lack of records relating to their agricultural activity, tenant farmers/ share croppers/ oral lessees/ landless labourers face difficulty in accessing institutional credit. As per PSA Annual return (2015-16), only 41 per cent of small and marginal farmers could be covered by public and private sector banks. Besides these problems and challenges of accessibility in credit, the share of credit to allied activities i.e., livestock, forestry and fisheries was sub-optimal compared to its contribution to agricultural output.

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To look into these issues, the Reserve Bank of India vide its Sixth Bi-Monthly Monetary Policy Committee (MPC) meeting held during February 05-07, 2019 announced the setting up of an 'Internal Working Group to Review Agricultural Credit' to understand the reasons for regional disparity and other agricultural credit related aspects and suggest workable solutions to address the constraints in accessing institutional agricultural credit.

2.4.0 Institutional and Non institutional credit

It revelas that 61 percent of the people in India getting agricultural credit from institutional sources remaining people are getting loans from non-institutional sources as per NAFIS 2016-17.

2.5.0 Institutional Agricultural Credit - Agency-wise Share

In order to understand the performance of different agencies in lending to agriculture sector, a comparative analysis has been done showing their share in total agricultural and allied credit outstanding as on March 31, 2017.

Above diagram shows that SCBs covers 79 percent agricultural credit with first position after SCBs second place occupies RRBs remaining contribution goes to the RRBs and MFI.

The state-wise[10] share of SCBs, RRBs and cooperatives in agricultural credit outstanding as on March 31, 2017 is shown in below chart.

The SCBs are the leading institutions in providing agricultural credit in all the states. The RRBs have significant presence in some states, viz., Bihar (35 per cent), Telangana (15 per cent), Himachal Pradesh (10 per cent) and Uttar Pradesh (10 per cent). Cooperatives have played a significant role in Odisha (46 per cent), Goa (34 per cent), Maharashtra (31 per cent), Chhattisgarh (27 per cent), Madhya Pradesh (27 per cent), Gujarat (22 per cent) and Haryana (20 per cent) in providing agricultural credit. The high share of cooperative banks and RRBs in agricultural credit in these states is on account of their significant presence as compared to commercial bank branches in rural areas.

Section III

Conclusion : Based on the above facts from 1950 to 2018 the institutional credit has been increased still there a need to encourage more institutional credit to the farmers the share of agricultural lending increased sharply when compared to 1950 no doubt but this is the right time to check whether it is using farmers appropriately or not in India lease in farmers are increasing year by year but loans and credit and various benefits like waiving etc are utilising by the land owners actual tiller of the soil not getting any benefits in ground level there is a need to study extensively for the benefit of real farmers who are growing food grains are non food grains otherwise in future farmers will face more problems even though institution credit reaches 100 percent towards agriculture.

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