International Journal of Business Quantitative Economics and Applied Management Research
ISSN: 2349-5677
Volume 1, Issue 4, September 2014

Agriculture Credit Reform And Financial Inclusion In India

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Abstract

Financial Inclusion is a flagship programme started by the RBI to bring people under the ambit of formal financial inclusion. It is now an established fact that without access to formal finance at an affordable cost, inclusive growth is not possible. In order to provide credit to the agriculture sector, which has the potential for employment generation in rural area, the RBI has initiated several programme including revising priority sector lending guidelines. Under this scheme RBI has adopted a policy of providing credit through multiple channels and simplifying procedure for small and marginal farmers.

Since 2004, there has been a spurt in agricultural credit due to Govt. of India initiatives such as Doubling of Agriculture Credit in 2004-06, Debt Waiver Scheme and Strengthening of Co-operative. Thus, agricultural credit scenario has been good in past years but the average agriculture GDP growth declined to around 2 percent. Although agricultural credit flow data is impressive but the small and marginal farmers are unable to get credit easily. Therefore more innovative models are needed to reach small and marginal farmers in rural areas for the success of financial inclusion programme.

Key words- Financial Inclusion, Agricultural Credit, Poverty, Productivity.

Need of the Study:

*****Agricultural credit becomes a strong force to enhance the production level, productivity and income of the farmers, which play important role to alleviate rural poverty.

*The need of agriculture credit arises because capital is one of the vital inputs for the development of agriculture.

* As we know that Indian economy is based on agriculture, so financial inclusion in agriculture may be a better way to empower the Indian farmer.

Research Methodology:

This a descriptive research paper based on secondary data. Data have been found out from R.B.I, NABARD, Commercial Bank, Cooperative Banks and RRBs on different view point.

Introduction:

Rapid growth of Agriculture will not only ensure continued food security but also aid in growth in industry and the GDP. To sustain the growth in agriculture, it is imperative that required capital must be invested because capital is one of the vital inputs contributing to the success of all agricultural development programme. Therefore, financing for agriculture is an important task to fulfill the capital demand in Indian agriculture and credit plays the catalyst role in the process to accelerate the agriculture including industries, business and service sector of the economy. Simultaneously agricultural credit becomes a strong force to enhance productivity, production and profitability of farming, which play an important role to alleviate rural poverty.

Agriculture provided employment opportunities and supplementing of small, marginal farmers and land less labours especially in rain fed and drought prone areas. Dynamic and vibrant agriculture alone will effectively address the problems of rural poverty (RBI 2004). Therefore agriculture is not just a question of economics and trade but of dignity and survival (Swaminathan 2004). So agriculture is the root of prosperity in rural India. Credit is often a key

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element in modernization of agriculture and accelerates the adoption of new technology. It is also an integral part of the process of commercialization of the rural economy.

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Sources of Agriculture Credit:

There are mainly two source of credit to agriculture

(a) Non-Institutional/informal sources.
(b) Institutional/ Formal sources

Non-Institutional:- They include money lends traders, commission agents, relatives and land lords. There are rich farmers or land lords, who combine farming with money lending, freely supply credit to farmers for productive and non-productive purpose. Traders and commission agents supply funds to farmers for productive purpose especially for crop production. These types of sources of finance are important in the case of cash crops. Farmer often borrows from their own relatives in cash or kind for various purposes.

Institutional: - Earlier agriculture credit requirement was depends upon private money lender and they charged high interest rate and land or other assets were kept as collateral. This arise the need for institutional credit arrangement for agriculture. The institutional arrangement for agriculture credit comprises cooperatives, commercial banks, RRBs, NABARD and micro Finance Institution in India.

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Cooperative credit Societies – Commonly known as the primary agricultural credit society, is the gross root arm of the short term credit structure, dealing directly with farmer borrowers and also undertaking farm input marketing and distribution function.

Commercial Banks – They are providing direct and indirect finance to the farmers and distribution firms or agencies and cooperative engaged in supply of farm implements and machinery on a hire purchase basis. They finance the operations of state and central government for procurement and storage of food grains.

Co-operative Agriculture and Rural Development Banks – They grant loans on the basis of agricultural properties. They provide credit for a variety of purpose such as redemption of old debts, land improvement, to purchase expensive agricultural machinery and construction of wells.

Regional Rural Banks (RRBs) – RRBs were setup under the recommendation of the working group on rural banks headed by M.Narsimham in 1975 to provide banking facilities in rural and backward areas. The main objective of RRBs is to provide credit and other banking facilities particularly small and marginal farmers, agricultural labourers and rural artisan.

National Bank for Agricultural and Rural Development (NABARD) – Recommendation of the committee to review arrangements for institutional credit for agricultural and rural development, The NABARD was set up in 1982 as the apex of rural institutional credit network.

Agricultural Credit: A Review

As we see today, the rural credit system has evolved over the last six decade. During this course, the system witnessed many reforms as recommended and suggested by various committees and expert group appointed by government of India and R.B.I. from time to time.

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The agriculture credit system received its first and significant policy direction from All India Rural Credit Survey (AIRCS) committee, 1954. The committee highlighted that share of institutional and non-institutional credit was 7.3% and 92.7% respectively and proposed new initiatives and financial support to agriculture. The committee recognized the existence of cooperative structure and recommended the establishment of large sized multipurpose credit societies and extending banking services in rural areas.

The emergence of green revolution in the mid 1960 demonstrated the need for effective credit support to farmers and also explored the inability of credit cooperatives to meet the challenge. Consequently, the Government of India intervened to encourage commercial banks to play a major role in providing agriculture credit by nationalization of commercial banks in 1969 and 1980.The other major development in agriculture credit from the supply side were establishment of RRBs in 1975 and Establishment of NABARD in 1982.All these institutional development of the rural credit structure and initiative brought out significant changes in agriculture credit delivery.

Financial Inclusion and Reforms in Agriculture Credit:

At the time of the 1991 reform, the rural credit delivery system was again found to be in poor shape. The agriculture credit review committee (ACRC) examined the existing rural credit system and pointed out the wide gap between income generated and cost incurred by rural credit institution.

The Narshimham committee 1991 on financial sector reform recommended a redefinition of a priority sector, gradual phasing out of directed credit to 10 percent from 40 percent and deregulation of interest rate. However, weakness in the performance of credit supply, the Govt. and R.B.I setting up of various committees/ working groups/ task force to look into the supply of agricultural credit. These committees/ working groups/ task force made recommendation and suggestions for enhancement of cost effective institutional agriculture credit supply.

Jagdish Kapoor task force (1999) on co-operative credit system, recommended setting up of a co-operative rehabilitation and development fund at NABARD. The Vyas expert committee on rural credit (2001) suggested restoration of the health of primary agricultural credit societies (PACs).

The process of globalization and deregulation of financial have thrown open new challenge and opportunities. In an emerging situation, agriculture sector require higher credit to strengthen primary production base, investment in farm machinery and current inputs, in order to enable it to high value addition and export orientation. Continuing its endeavor to enhance the flow of credit to agriculture by removing delivery bottlenecks, the RBI and Govt. of India implemented on the basis of several committees suggestion and recommendation on flow of agriculture credit, in 1998-99 an innovative credit delivery mechanism to facilitate farmers easy and timely access to short term credit for agricultural operations. For this purpose Govt. of India started "**Kishan Credit Card**" in 1998 so as to provide timely and adequate credit from commercial bank and RRBs.About 970.64 lakh KCC have been issued up to September 2010.

Another revolutionary step making the credit access by NABARD started in 1992.NABARD has been making continuous efforts through Bank Linkage Programme for improving credit access of the rural poor. The Self-Help-Group (SHG) was introduced as a mechanism to provide cost effective, easy and self managed institutional financial services on a sustainable basis in rural areas.

Status of Institutional Credit to Agriculture and Allied Sector:

As a result of the institutional expansion policy thousands of bank branches were opened in rural and semi urban areas and government established a new network of RRBs in 1975 for strengthening the rural credit delivery mechanism. Consequently, RBI in 1982 transformed its agricultural credit department with a new bank-NABARD. The opening up of rural bank branches was not only the supply side push of credit but increase in demand side due to population increase and diversification of agriculture in the post-Green Revolution era. In order

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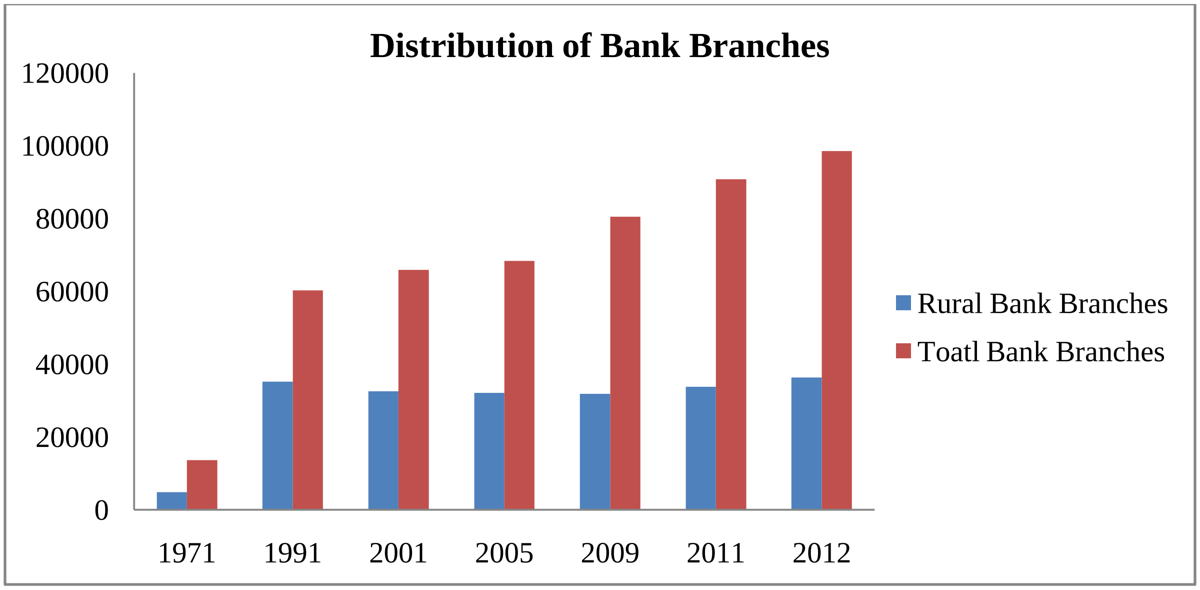
to expand the credit and financial services to the wider sections of the population, a wide network of financial institutions has been established over the years. The initiatives taken by the Reserve Bank and the Government of India towards promoting financial inclusion since the late 1960s have considerably improved the access to the formal financial institutions. Banking sector plays considerable role in bringing financially excluded people in to formal financial sector as policies of the government and Reserve Bank towards financial inclusion are implemented through banking sector. Distribution of banking system is another indicator of level of financial inclusion in a country. The expansion of rural bank branches presented in table-1.

Table-1 Distribution of Bank Branches in Rural

Year	**% of Rural Population to Total Population**	**Bank office**		**% of Rural banks to Total Banks**
		Rural	**Total**	
1971	75.1	4817	13622	35.4
1991	65.4	35206	60220	58.5
2001	72.2	32562	65919	49.4
2005	71.3	32082	68355	46.9
2009	70.4	31829	80514	39.5
2011	70.2	33779	90775	37.2
2012	71.0	36334	98536	36.9

Source: Reserve bank of India (www.rbi.org.in)



The data presented in table-1and figure shows that after nationalization of private banks there were 4817 rural bank office in 1971 for 75 percent population. The corresponding figures for 2012 were 36334 and 71 percent respectively.While the rural bank office to total bank office in percent was the highest(58.5) in 1991, it gradually reduced to 36.9 percent in 2012 post banking reform era. It is a concern for financial inclusion.

Co-Operatives and Micro-Finance:

The cooperatives have a great potential in enhancing credit facilities to the farmer and distributing effectively agricultural inputs and essential items at village level. Primary Agricultural Cooperative societies (PACs) are the grass root level arms of the cooperative credit delivery system in India. The selected indicators of PACs presented in table-2

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Table-2

Present Status of PACs in 2012

S.N	Description	Figure
1	No. of PACs	93413
2	No. of village covered	727911
3	Village/ PACs Ratio	8:1
4	No. of profit making PACs	44554
5	No. of loss making PACs	38065
6	Profit Making PACs to Total in %	47.69
7	Loss Making PACs to Total in %	40.74

Source: Trend and Progress of Banking in India, RBI (2012)

As on 31 March 2012, as many as 7.27 lakh villages in India are covered with 93413 PACs shows in table-2.Out of 93413 PACs, 40.74 were loss making in March 2012.This clearly indicates that PACs was unable to provide adequate support to the farmers and rural entrepreneurs for increasing demand as credit for agricultural inputs, seeds and fertilizer, farm equipment and other allied activities. The increasing NPAs of loans indicate a weak financial health of the cooperative institutions and this has impacted the financial and operational sustainability of the cooperative institutions.

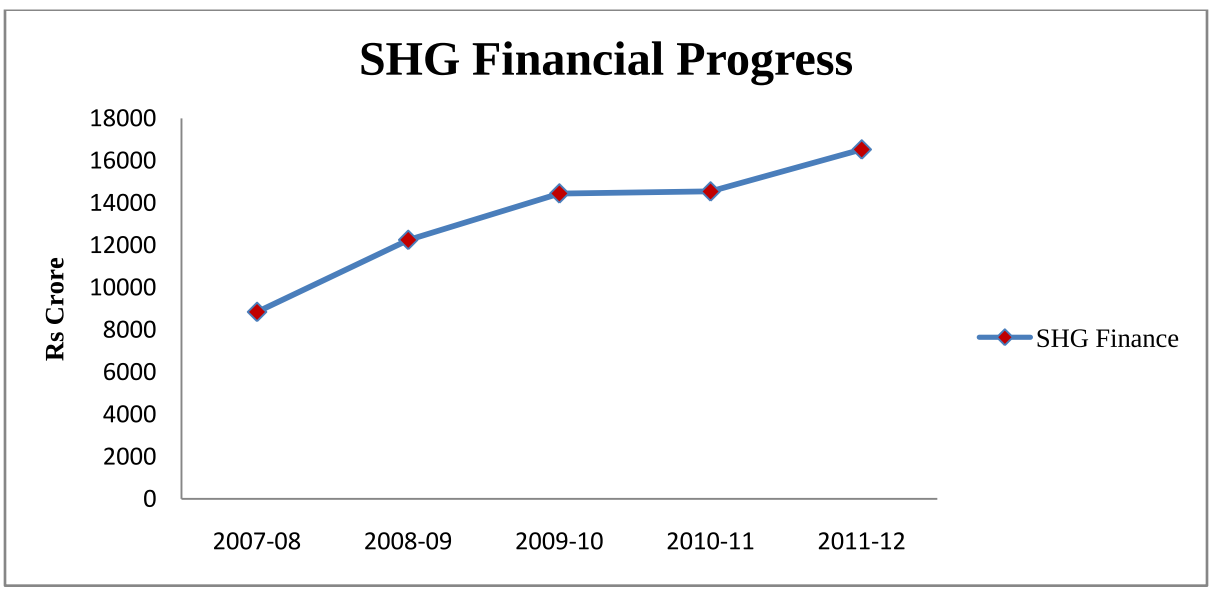
In view of the failure of rural credit system to reach the rural poor NABARD found that micro-finance programme through SHG-Bank Linkage would be highly suitable for poor and women particularly marginalized.On the basis of its own studies and also inspired by the linkage experience under APRACA,NABARD argued for a different approach with the following elements (a) using the existing infrastructure of banks and social organization, (b) it should be savings-rather than credit-led (c) and using bank rather than donor resources in the provision of credit. India has adopted the micro-finance scheme through SHG-Bank Linkage model and started in 1992 with a modest 250 groups. Progress of SHG presented in table-3

Table-3

Progress of Self Help Groups in India

Year	Self Help Groups Financed By Bank		
	No. of SHG in Lakh	Amount in Rs crore	Growth %
2007-08	12.28	8849.26	-
2008-09	16.09	12256.51	38.50
2009-10	15.87	14453.30	17.90
2010-11	11.96	14547.73	0.65
2011-12	11.48	16534.77	13.66

Source: Status of Micro Finance India- NABARD



Under the SHG-Bank Linkage programme as on 31March 2012, 79.60 lakh SHG held savings bank accounts were in operation. However, the development of SHG is not even in different

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states. Its progress in North Indian states is slow because of illiteracy, rigidity of cast system, dominance of money lender and lack of awareness.

Credit Flow to Agriculture and Allied Sector:

To get the best from their land, farmers need access to affordable credit. Bank and rural credit institutions have been consistently meeting the target set for agriculture credit flow in the past years. There has been a massive expansion of institutional credit to agriculture over the years; this is clear from the credit flow data present agency- wise in the following table-4

Table-4

Flow of Institutional Credit to Agricultural and Allied Activities

Agency-wise in Rs crore

Agency	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Co-operative	39786 (22)	42480 (18)	48258 (19)	36762 (13)	63492 (17)	78121 (16.68)
RRBs	15223 (8)	20435 (9)	25312 (10)	26724 (9)	35218 (9)	44293 (9.46)
Commercial bank	125477 (70)	166486 (73)	181088 (71)	228951 (78)	285799 (74)	345877 (73.86)
Total	180486 (100)	229401 (100)	254658 (100)	292437 (100)	384514 (100)	468291 (100)

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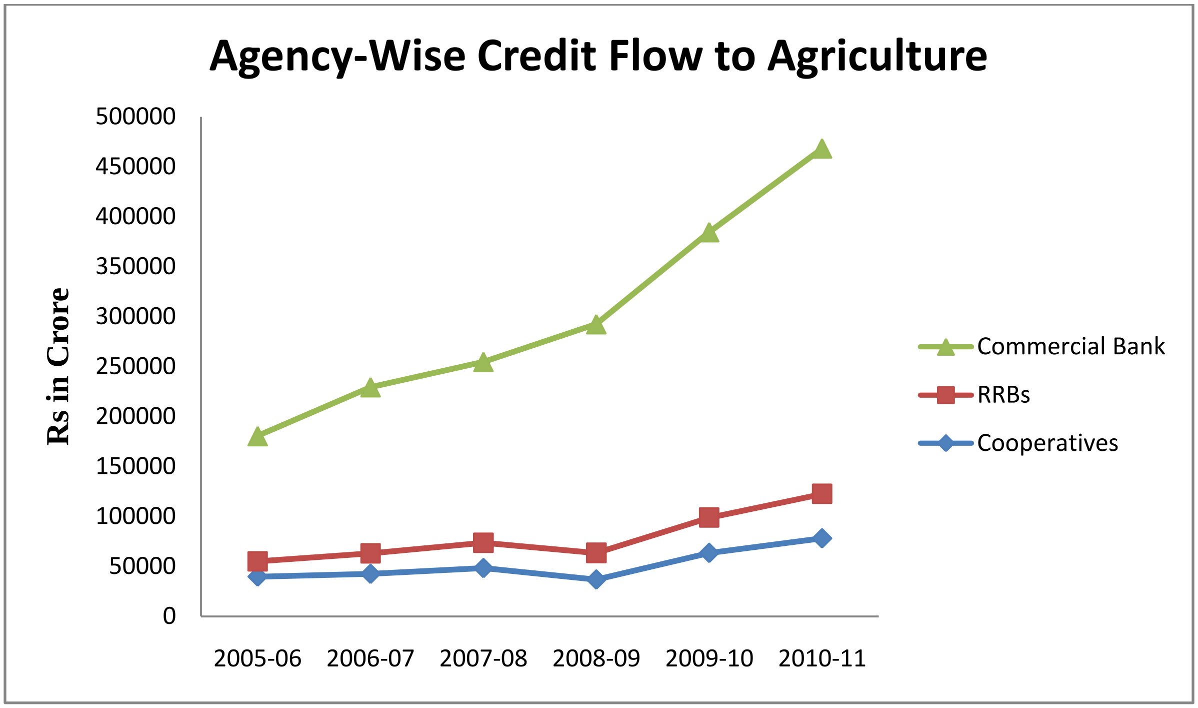
Source- Economic Survey 2011-12



As against the target of Rs 325000 crore for agricultural credit in 2009-10, the banking system disbursed Rs 384514 crore to the agriculture sector, there by exceeding the target by around 18 percent. Commercial banks and RRBs together extended credit to 77.49 lakh new farmers during 2009-10 and co-operative banks to 13.43lakh, thus taking the total number of farmers brought newly under the banking system to 90.92 lakh. The total credit flow to agriculture during 2010-11 by commercial banks, RRBs and co-operative up to was Rs 468291 crore as compared to the annual target of Rs 375000.

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Conclusion:

It is now an established fact that without access to formal finance at an affordable cost, inclusive growth is not possible. In order to provide credit to the productive sector, which has the potential for employment generation, government should adopt multi channel credit policy involving SHGs and Micro-Finance institution.

Since 2004, there has been a spurt in agricultural credit due to Govt. of India initiatives such as Doubling of Agriculture Credit in 2004-06, Debt Waiver Scheme and Strengthening of Co-operative. Thus, agricultural credit scenario has been good in past years but the average agriculture GDP growth declined to around 2 percent. Although agricultural credit flow data is impressive but the small and marginal farmers are unable to get credit easily. While the overall credit to agriculture has been growing and the interest rates for farmers have also been reduced to 7 percent (4 percent after taking in to the 3 percent interest subvention for timely repayment of crop loans) yet the biggest challenge remains in terms of increasing access to credit, particularly for the marginal and lease based farmers. While defining a credit policy, there cannot be a uniform policy across the country. It should be flexible and decentralized, based on the local socio-economic condition. Therefore more innovative models are needed to reach small and marginal farmers in rural areas for the success of financial inclusion programme.

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