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Sources of Agriculture Finance in Punjab

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Abstract
When agriculture sector transforms from traditional towards commercialized, the demand for capital increases for variable and fixed expenses. So, in agricultural finance, many formal institutional arrangements were initiated to reduce uncertainty and to reduce cost. This paper studies the availability and growth of agricultural credit in Punjab.

Introduction

Agriculture sector is vital for India more than 58 per cent of the population is dependent on this sector. Its contribution to the national Gross Domestic Product (GDP) has declined over the past years and has reached 14.2 per cent in 2010-11 due to higher growth experienced in industries and services sectors (GoI, 2011). Indian agriculture is dominated by small and marginal farmers as their holdings (below 2 hectare) taken together constituted 83.29 percent of the total number of holdings in 2005-06 against 81.80 in 2000-01 (GoI, 2011). Increased use of agricultural inputs, technological change and technical efficiency are the three main factors that contribute to agricultural growth. With savings being negligible among the small farmers, agricultural credit appears to be an essential input along with modern technology for higher productivity.. The agriculture was largely the traditional and subsistence before 1965, and the savings of the farmers were not sufficient to meet even their small production requirements. The farming community of the country was badly caught in the clutches of moneylenders. Major proportion of the credit demand of farmers was provided by non-institutional sources of finance and rest was being met by the cooperative credit institutions. The participation of the commercial banks in the agricultural credit was negligible due to low rates of return. Whatever the small surpluses were generated by even medium and large farmers, were usurped by the moneylenders in the shape of interest payments. Under these circumstances, the possibility of adoption of new production technology was very less.. In agricultural credit policy of the country, the emphasis has remained on adequate availability of credit at lower rates of interest and at a time when it is required.

An important aspect that has emerged in last three decades is that the credit is not only obtained by the small and marginal farmers for survival but also by the large farmers for enhancing their income. For agricultural operations, availability of credit is a critical input as the farmers have to purchase inputs like fertilizers, pesticides and make payments for irrigation, labour and hiring machinery, etc., for agricultural operations. Small and marginal farmers are dependent on credit as they are resource poor.

Sources of Agriculture Credit in India

India has systematically pursued a supply leading approach to increase agricultural credit. The objectives have been to replace moneylenders, relieve farmers from indebtedness and to achieve higher levels of agricultural credit, investment and agricultural output. The agricultural credit system of India consists of informal and formal sources of credit supply. The informal sources include friends, relatives, commission agents, traders, private moneylenders, etc. Three major channels for disbursement of formal credit include commercial banks, cooperatives and micro-finance institutions (MFI) covering the whole length and breadth of the country.

Recognizing the importance of credit in the development of agricultural sector in India's economy, the Government of India, the Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) have played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector by way of multi-agency network consisting of Commercial Banks (CBs), Regional Rural Banks (RRBs) and Cooperatives. There are approximately 121225 million village level Primary Agricultural Credit Societies (PACS), 371 District Central Cooperative Banks (DCCBs) with 13327 branches and 31 State Cooperative Banks (SCBs) with 1028 branches providing primarily short-term and medium term agricultural credit in the country. The long term cooperative structure consists of 19 State Cooperative Agriculture and Rural Development Banks (SCARDBs) and 755 Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) with 1219 branches and 689 branches respectively, which are catering to the requirement of investment credit. Besides, there are 45957 rural and semi-urban branches of Commercial Banks, 14462 branches of RRBs and more than 7 million micro finance institutions.
Though the outreach and the amount of agricultural credit have increased over the years, several weaknesses have crept which have affected the viability and sustainability of these institutions.

Role of Agriculture in Punjab

The state economy is predominantly an agrarian economy and it is popularly known as the wheat basket of India. The state contributes a considerable share in national food grain production and thereby aids in ensuring the national food security. Punjab has proposed budget of Rs. 453 crore for agriculture and allied sectors in the annual budget of financial year 2011-12, which is around 37 per cent higher in comparison to last year.

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Agricultural Statistics

Sr.No	Components	Growth/ratio/production
1	Agriculture GSDP at Current prices (FY2011-12)	Rs 64045 Crore
2	Growth of Agriculture & Allied real GSDP (Avg. from FY2003 to FY 2011-12)	2.69%
3	Agricultural sector's contribution in GSDP (FY 2011-12)	27.9%
4	Food Grain production (FY2010-11)	27224 (Thousand Tonnes)
5	State's contribution to national food grain production (FY2011-12)	11.26%
6	State's rank in national food grains production (FY2011-12)	2nd
7	Yield --total food grains (FY2010-11)	4148 Kg/ Hectare
8	Gross area irrigated (FY2009-10)	7724000(Hectare)
9	Population dependent on agriculture	Two-third
10	Rice Production (FY2011-12)	10837 (Thousand Tonnes)
11	Wheat Production (FY2011-12)	15828 (Thousand Tonnes)
12	Coarse Cereals (FY2011-12)	540 (Thousand Tonnes)
13	Pulses (FY2011-12)	18(Thousand Tonnes)
14	Oil Seeds (FY2011-12)	71 (Thousand Tonnes)
15	Sugarcane (FY2011-12)	4170 (Thousand Tonnes)
16	Rank in Rice production (FY2011-12)	3rd
17	Rank in Wheat production (FY2011-12)	2nd

Source: PHD Research Bureau, Compiled from RBI & Ministry of Agriculture.

Punjab stands at second position at all India level in terms of food grain production. The state's food grain production has grown from 25.32 million tones in FY2001-02 to 27.22 million tones in FY2011-12, marking a growth of more than 7 percent.

Factors like loan collateral, documentation required, witness requirement, corruption involved in the lending process, are major barriers in the success of institutional credit. Yet, the role and contribution of institutional agricultural credit towards agricultural growth cannot be negated. It has immensely helped in adoption of modern production technology and encouraging private investments on irrigation, farm machinery and land development. With rising over dues of institutional sources of finance and increasing burden of indebtedness, it is required to measure the extent of diversion of loans and also the actual share of credit in investment for various purposes on the farm. The reasons responsible for diversion of loans should be traced. The Debt

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and Investment survey of 2003 brought out startling results on debt position in different states of India. The amount of debt was higher in developed states and was the highest in Punjab at Rs. 41576 per farm. Secondly, the proportion of non-institutional debt in total debt has gone up as compared to the year 1991 (Sidhu and Gill 2006). Despite significant increase in the availability of institutional agricultural credit, the share of non-institutional finance is still high (Sidhu et al 2000).

Growth of Agriculture Credit in Punjab

Punjab has entered the new millennium with problems in the agriculture sector. During the mid 1960s, the green revolution transformed the state's agriculture and contributed significantly in making the country self-reliant in food. The increase in production and productivity of wheat and rice in the state is legendary in the history of agriculture in India. These achievements presented a better picture of agriculture in Punjab until recently, as the achievements of the state in agriculture have run out of steam. Growth rates in agricultural production and productivity are stagnating and profitability in farming progressively getting reduced. Today, Punjab is at the crossroads, as the existing production pattern and marketing systems are out of tune with the immediate and long-term supply and demand situation in both national and international markets. A package of dynamic, pro-active and responsive policies and action programmes are required to revive Punjab agriculture, so as to meet the upcoming pressures of free trade, liberalization and globalization. The seed of commercialization in Punjab agriculture was sown by the introduction of high yielding varieties of wheat and rice followed by the use of chemical fertilizers, investments in irrigation especially on tubewells, use of agrochemicals to control weeds, diseases and insect pests, and tractorisation to ensure timeliness and precision in farm operations.

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Advances to Agriculture Sector by Scheduled Commercial Banks in Punjab

(Rs. Lakh)

Purpose

Year (Last Friday of December	Finance for distribution of fertilizer and other Input		Loans to State Electricity Borad for energisation of tubewells		Other types of Indirect finance		Direct Finances to farmers		Total	
	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding
	1	2	3	4	5	6	7	8	9	10
2002	1875	9321.5	41	26958.79	5051 @	44230.68 @	601917 @@	347554.78 @@	608884	428065.75
2003	2751	12164.93	130	24864.72	6215 @	60860.14 @	653605 @@	442489.54 @@	662701	540379.33
2004	1966	17242.22	63	17609.24	8236@	80856.19 @	700298@ @	556690.06 @@	710563	672397.71
2005	1835	22493.78	40	75590.65	8404 @	98547.16 @	716695 @@	664424.01 @@	726974	861055.6
2006	2731	35490.51	21	57199.13	12603 @	166925.10 @	761373 @@	814885.10 @@	776728	1074499.84
2007										
2008	..	..	..	..	22330	414474.56	805285@	1209438.49 @	827615	1623913.05
2009	..	..	..	..	29065	572405.55	860290@	1504511.41 @	889395	2076916.96
2010	..	..	..	..	37569	836466.92	945882@	1844060.13 @	983451	2680527.05
2011	..	..	..	..	40053	806467	951343@	2161284.00 @	991396	2967751

Source: Rural Planning and Credit Department, Reserve Bank of India

@@Direct Finance to Agriculture

Loans to farmers through PAC/PSS/LAMPS/LMPS are also included

The historic All India Rural Credit Survey (AIRCS) carried out in 1954 confirmed that formal credit institutions provided less than 9 per cent of rural credit needs in India. Moneylenders, traders and rich landlords accounted for more than 75 per cent of rural credit. Cooperative credit societies had already been in existence for 50 years but their share in rural credit was still less than 5 percent. The 1945 Cooperative Planning Committee had discerned early signs of sickness in India's cooperative movement, finding that a large number of cooperatives were "saddled with the problem of frozen assets, because of heavy overdues in repayment" (GoI, 2005, p.8). Even so, in the 1950s and 1960s, the way forward was seen to lie in cooperative credit societies. These cooperatives were to take the lead in the Integrated Scheme of Rural Credit suggested by the

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AIRCS. The share of cooperatives in rural credit did rise to cross 20 per cent in 1971. Today, India's cooperative credit structure (CCS), with over 13 crore members (including 6 crore borrowers), constitutes one of the largest rural financial systems in the world. The over 1 lakh Primary Agriculture Credit Societies (PACS) can, be regarded as the veritable bedrock of India's rural economy. The CCS has 50 percent more clients than commercial banks and Regional Rural Banks (RRBs) put together. Directly or indirectly, it covers nearly half of India's total population (GoI, 2005, p.15).

Position of Outstanding Loans from SCBs

Credit Limit size class	Share of amount outstanding [%]		
	2000	2005	2009
Less then 2 lakh	67.6	51.9	44.3
2 lakh to 10 lakh	11.7	17.9	22.6
10 lakh to 1 crore	6.6	6.4	6.4
1 crore to 10 crore	6.7	8.0	6.3
10 crore to 25 crore	1.7	3.3	2.7
Above 25 crore	5.7	12.6	17.7
Total advances	100	100	100

Source: “Basic Statistical Returns”, Reserve bank Of India, Various issues.

Above table shows the position of outstanding loans from SC banks and it is given as per credit limit size as well as classes of loans. When analyses these figures it would become amply clear which way is government serious rural or urban elite. It is understandable larger loans are always enjoyed by elite class and not by the poor farmers. So net result could neglect of agriculture sector and duplicity is clear from overlapping areas of commission agent’s loans and primary agricultural societal cooperatives.

Now it be highly relevant to present the picture of banks sector wise lending as primary cooperatives are in rural areas at least in this sector primary agriculture credit societies do not have much scope for distortions the following table presents this picture.

Conclusion

Even after years of implementing mass banking in the country; committed to extend services of financial intermediaries to the poorest of the poor and downtrodden, a vast majority of rural households are excluded from the formal banking services forced to remain in the grip of non formal agencies. There is a vast investment gap in the provision of financial services to the poor all over the world. Therefore, the majority of these people depend on the informal sources of finance for meeting their livelihood and consumption needs. Rural households need credit for

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investing in agriculture and smoothening out seasonal fluctuations in earnings. The suicides in Punjab are the result of mental stress which is caused by poverty and especially by indebtedness.

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