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Flow of Credit to Agricultural and Allied Sectors

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Abstract: Credit is much more than just another input such as fertilizer or improved seeds. It is a command over resources; an instrument which enables a person to obtain access to or extend control over resources. Being a generalized claim on goods and services, credit has the potential to improve the bargaining power of the poor in their dealings with other groups in a population. Hence, access to credit is also considered an important factor in development approaches that seek to empower the poor. The role of credit in development efforts has received renewed focus in more recent years in the context of market-oriented policies and corresponding efforts to promote private sector initiatives, whether as individual enterprises or self-help group efforts. Micro enterprises are being increasingly looked upon as a major development mechanism for income and employment generation among the poor as well as for social stabilization. Hence, an attempt is made to study the flow of credit to agricultural and allied sectors in India.

Keywords: Agriculture, Allied Sector, Credit Flow, Lending, and Priority Sector.

I. INTRODUCTION

There is a growing need for capital to transform Indian agriculture. But the poor income earned by the farmers due to irregularity and shortage of monsoon prevent the farmers from spending on their own on agricultural activities. Moreover, most of the farmers were inherent with their family liabilities. Therefore credit requirements of the farmers should be adequately met through institutional sources.

Provision of sufficient and timely credit at fair rates of interest has, therefore, to be considered as an integral part of agricultural development. For providing these facilities all the existing agencies like moneylenders and landlords, commercial banks, the government and co-operative societies should provide finance to cultivators.

Agricultural growth is crucial for alleviating rural poverty. Access to institutional credit to all farmers and appropriate quantity and quality of agricultural credit are crucial for realizing the full potential of agriculture as a profitable activity.

II. IMPORTANCE AND NEED OF THE STUDY

Need for agricultural credit arises because modern farm technology is costly and the personal resources of the farmers are inadequate. Provision of agricultural credit, as an input, is essential for widespread use of improved agricultural methods. It is needed by farmers for both productive and unproductive purposes.

The productive credit for agriculture is of three types, namely, short-term, medium term and long-term credit. Short-term credit is usually for a period not exceeding one year. It is required for purchasing seeds, manures and fertilizers or for meeting labour charges and these are expected to be repaid after the harvest. Medium term credit is extended for a period of more than one year but less than five years. Such loans are granted for purposes such as sinking of wells, purchasing cattle, pumping plants and other improved implements. Loans repayable over a period five years are classified as long-term credit. These are utilized for repayment of old debts, purchase of heavy machines, making permanent improvements and increasing the size of the holding.

It is common knowledge that inadequate short-term credit support for investment – credit often results in underproduction. Besides, when development credit is not forthcoming in areas where short-term credit is being provided to the farmers, it is difficult to sustain higher growth rate of agricultural productivity in such areas.

The provision of long-term credit without short-term credit and vice versa defeats the purpose of credit for optimum economic development of agriculture. Ever since the breakthrough in agricultural production technology, farm credit comprising about 60 per cent short-term credit and 40 per cent long-term credit, has played a crucial role in stepping up agricultural production and employment in India.

III. Previous Literature

Shaik Saleem (2014) in his study entitled "Kisan Credit Card – Measure for Agricultural Development", found that Kisan Credit Card Scheme was introduced in the year 1998-99, subsequent to the announcement of introduction of this scheme in the union budget for the year 1998-99. Based on the announcement, a model Kisan Card Scheme was formulated by NABARD and was circulated among the banks in August 1998. Since then there is a good progress in the scheme and mainly scheme offered by the Scheduled Commercial Banks. Further progress in the scheme is helping the growth in Agricultural and allied activities GDP and GDP of India. Harjinder Pal Singh Saluja (2013) in a study entitled "Role of cooperative bank in agricultural credit: A study based on Chhattisgarh", found that the cooperative banking sector is one of the main partners of Indian banking structure, the cooperative banks have more reach to the rural India, through their huge network of credit societies in the institutional credit structure. Najmi Shabbir (2013) in an article titled "Sector wise Priority Sector Advances in India", analyzed about the breakup of Priority Sector Advances to Sub-sectors within the overall Priority Sector Advances (PSA). In this study, the comparative analysis of Agricultural Sector advances and Small Scale Industries advances by SCBs and PSBs (Public Sector Banks) from 1969 to 2011 has been carried out. Takale Dinkar (2013) in his study entitled "Role of banking sector in Indian agricultural development", found that the about 75 per cent of total institutional credit provided by the commercial banks go to the agricultural sector. An analysis of term loan in the recent year indicated that minor irrigations witnessed the highest annual growth rate. Kisan Credit Cards are provided to Indian farmers by the banking sector. Commercial and cooperative banks role in this purpose are progressive. The present study strongly recommended the commercial banks (including nationalized banks) to increase their branches in rural areas for providing rural credit facility. Sudarsana Murthy (2012) in an article titled "Agricultural Credit by Regional Rural Banks: An Empirical Study", analyzed about the performance of RRB's in deploying agricultural credit and evolved a package of measures for effective and efficient performance of RRBs. The objectives of the study are to review the historical performance of institutional agencies in deploying agricultural credit, to examine the progress made by RRBs in Agricultural Credit, to assess the Agricultural Credit performance through sample respondents and lastly, to evolve a package of measures for making RRBs effective in agricultural credit deploying. Guo K. and V. Stepanyan (2011) carried out a study titled "Determinants of Bank Credit in Emerging Market Economies". They pointed out that in India the credit plays an important role in the overall growth dynamic in the bank based financial system. An empirical analysis also suggests that credit growth is positively influenced by deposit growth, GDP growth, easy global liquidity conditions and exchange rate depreciation, whereas inflation dampens real credit growth.

IV. Objectives of the Study

The main objective of the study is to assess the progress of credit flow to agricultural and allied sector.

V. METHODOLOGY

Secondary data is the main source of the study. The secondary data needed for the study was collected from the official records of annual reports of the Reserve Bank of India and NABARD, books, peer reviewed national and international journals, and web portals.

VI. ASSESSMENT OF PROGRESS IN AGRICULTURE CREDIT

This section provides the details regarding the growth rate of agricultural and allied sectors. Further, it gives details about the performance of priority sector lending, agency-wise credit flow, and recovery of direct agriculture advances.

A. Growth Rate of Agricultural and Allied Sectors

The share of agriculture in the total gross domestic product (GDP) has declined over time, which is in line with the state of development of the overall economy. The growth rate of agricultural and allied sectors is shown in Table I.

TABLE I Growth Rate of Agricultural and Allied Sectors

Period	Share of Agriculture in GDP (%)	Growth Rate of Agriculture and Allied Sectors (%)	Growth Rate of GDP (%)
IX Five Year Plan	23.4	2.5	5.7
X Five Year Plan	19.0	2.4	7.6
XI Five Year Plan (2007-08 to 2011-12):			
2007-08	16.8	5.8	9.3
2008-09	15.8	0.1	6.7
2009-10	14.7	1.0	8.4
2010-11	14.5	7.0	8.4
2011-12	14.0	2.8	6.5
XI Five Year Plan (Average)	15.2	3.3	7.9

Source: Twelfth Five-Year Plan (2012-17), Planning Commission of India, Ministry of Finance, Government of India, Vol. II.

It can be seen from the Table I that the share of agriculture in the GDP grew at 3.3 per cent during the XI Five Year Plan period, whereas the growth rate of the total economy was 7.9 per cent. Though agriculture failed to achieve the much elusive 4 per cent growth rate for quite some time, the performance of the sector has been impressive since 2004–05. The average growth rate during 2005–06 to 2013–14 was 4.0 per cent, compared to 2.4 per cent during 1995–96 to 2004–05. This growth was the result of an increase in public investment and credit. In addition, favourable terms of trade during this period must have contributed to the growth.

B. Performance of Priority Sector Lending

Priority sector refers to those sectors of the economy which, though viable and creditworthy, may not get timely and adequate credit in the absence of a special dispensation. Typically, priority sector loans are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education, other low income groups and weaker sections. Priority sector lending needs to be extended by banks as part of their normal business operations and should not be viewed as a corporate social responsibility. Towards this end, pricing of all credit has been made free, though with the expectation that pricing should not be exploitative. The performance of priority sector lending from 2004 to 2015 by the public sector, the private sector and the foreign banks was shown in Table II.

TABLE II Performance of Priority Sector Lending / Advances

(Amount in Rs. Billion)

Year (As at 31st March	Public Sector Banks	Annual Growth Rate	Private Sector Banks	Annual Growth Rate	Foreign Banks	Annual Growth Rate
2004	2445	-	489	-	180	-
2005	3070	25.56	699	42.94	238	32.22
2006	4097	33.45	1066	52.50	304	27.73
2007	5214	27.26	1445	35.55	378	24.34
2008	6104	17.07	1641	13.56	502	32.80
2009	7201	17.97	1902	15.90	555	10.56

2010	8638	19.96	2146	12.83	600	8.11
2011	10229	18.42	2491	16.08	667	11.17
2012	11300	10.47	2864	14.97	806	20.84
2013	12822	13.47	3274	14.32	849	5.33
2014	16190	26.27	4645	41.88	907	6.83
2015	17512	8.17	5303	14.17	970	6.95
CGR%	19.60		24.20		16.55	

Notes: Computed from various Annual Reports of Reserve Bank of India.

It is inferred from Table II that the compound growth rate (CGR) for public sector bank is 19.6 per cent whereas it 24.2 per cent for private sector banks. The CGR for foreign banks worked out to 16.55 per cent.

C. Agency-wise Credit Flow

The target for agricultural credit is fixed by the Government every year. Led by the performance of commercial banks, the actual flow of credit to the agriculture sector has been consistently growing in recent years. The agency-wise credit flow is exhibited in Table III.

TABLE III Agency-wise Credit Flow from 2004-05 to 2014-15

(Rs. in Crore)

End March	Commercial Banks	% to Total	Cooperative Banks	% to Total	Regional Rural Banks	% to Total	Total	%
2004-05	81481	65	31424	25	12404	10	125309	100
2005-06	125477	70	39786	22	15223	8	180486	100
2006-07	166486	73	42480	19	20435	9	229401	100
2007-08	181088	71	48258	19	25312	10	254658	100
2008-09	223663	78	36762	13	26724	9	287149	100
2009-10	274963	75	57500	16	34456	9	366919	100
2010-11	345877	74	78121	17	44293	9	468291	100
2011-12	368616	72	87963	17	54450	11	511029	100
2012-13	432491	71	111203	18	63681	10	607305	100
2013-14	509005	72	119964	17	82652	12	711621	100
2014-15 (Provisional)	599691	71	138469	16	102483	12	840643	100
CGR %	22.09		15.99		23.51		20.97	

Source: Computed from various Annual Reports of Reserve Bank of India and NABARD.

The agency-wise share of credit flow to the agricultural sector for from 2004-05 to 2014-15 has been furnished in Table III. It is observed from the table that the agricultural credit disbursement is dominated by commercial banks, followed by co-operative banks and RRBs. There has been an impressive growth in total agricultural credit flow from Rs.1.25 lakh crore to Rs.8.41 lakh crore during the eleven-year period of 2004–05 to 2014–15.

Further, it is noticed from the Table 2.6 that the agency-wise credit flow seems to be fluctuating from 2004-05 to 2014-15. The average credit flow of commercial banks during this period worked out to 72 per cent; co-operative banks 18 per cent and regional rural banks 10 per cent.

The compound growth rate (CGR) in respect of credit flow of commercial banks, cooperative banks, and regional rural banks are 22.09 per cent, 15.99 per cent and 23.51 per cent respectively. The CGR for the total credit flow work out to 20.97 per cent.

D. Recovery of Direct Agriculture Advances

The demand and recovery of direct agriculture advances from 2004 to 2015 is gathered and it is shown in Table IV.

TABLE IV Recovery of Direct Agriculture Advances

Year (As at 30th June)	Demand (Rs. Billion)	Recovery (Rs. Billion)	Overdue (Rs. Billion)	Per cent of Recovery to Demand
2004	335	250	85	74.5
2005	454	357	97	78.6
2006	466	373	93	80.1

2007	737	588	149	79.7
2008	951	717	234	75.4
2009	1191	907	284	76.1
2010	1244	922	322	74.1
2011	1822	1383	439	75.9
2012	1918	1429	489	74.5
2013	2596	1976	620	76.1
2014	2815	2066	749	73.4

Source: Computed from various Annual Reports of Reserve Bank of India and NABARD.

It is observed from the Table IV that the recovery of agriculture advances during 2004 is 74.5 per cent and it has increased to 8.1 per cent in 2006. Then it is decreased to 73.4 per cent in 2014. There is a fluctuating trend in the recovery of agriculture advances from 2004 to 2014. The recovery percentage is lowest in 2014 and it is highest in 2006.

It is concluded that the recovery of agriculture advances has been almost stagnant at around 75 per cent and needs improvement.

VII. FINDINGS

- The study indicates that the average growth of agricultural and allied sector during the XI Five Year Plan Period is 3.3.
- Regarding the performance of priority sector lending from 2004 to 2015, the private sector banks dominate in compound growth rate (i.e. 24.20%) when compared with the public sector banks (i.e. 19.60%).
- The total agency-wise credit flow to agriculture from 2004-05 to 2014-15 shows a compound growth rate of 20.97 per cent. The regional rural banks accounts for 23.51 per cent whereas the commercial banks.
- The recovery of agriculture advances from 2004 to 2014 shows a fluctuating trend. The lowest recovery percentage is 73.4 during 2014 and the highest recovery percentage is 80.1 in 2006.

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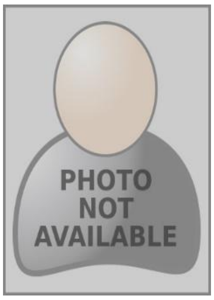
AUTHOR(S) PROFILE



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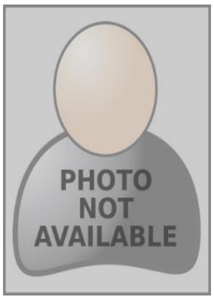

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