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Recent Trends in Institutional and Non-Institutional Agricultural Credit in India

Rajkumar .K
MBA, Department of Management Studies
Bharath Institute of Science and Technology,
Selaiyur, Chennai, Tamil Nadu 600 073
Bharath Institute of Higher Education and Research

ABSTRACT

Agriculture credit is an important prerequisite for agricultural growth. Agricultural policies have been reviewed from time to time to provide adequate and timely availability of finance to this sector. Rural credit system assumes importance because for most of the Indian rural families, savings are inadequate to finance farming and other economic activities. The institutional sources are inadequate to meet their credit needs and farmers need to approach non-institutional sources for additional credit facilities. In India a multi-agency approach comprising co-operative banks, scheduled commercial banks and regional rural banks (RRBs) has been followed to allow credit to agricultural sector. The information required for the study has been collected from the secondary sources. Average and percentage analysis was carried out to draw meaningful interpretation of the results. In the present study, it has been found that the institutional credit to agriculture in real terms has increased tremendously during the past four decades. The structure of credit outlets has witnessed a significant change and commercial banks have emerged as the major source of institutional credit in recent years.

Keywords : Types, Sources and trends in institutional and non-institutional agriculture credit in India

1. INTRODUCTION

Agricultural credit is considered as one of the most basic inputs for conducting all agricultural development programmes. In India there is an immense need for proper agricultural credit as Indian farmers are very poor. From the very beginning the prime source of agricultural credit in India was moneylenders. After independence the Government adopted the institutional credit approach through various agencies like co-operatives, commercial banks, regional rural banks etc. to provide adequate credit to farmers, at a cheaper rate of interest. Moreover, with growing modernisation of agriculture during post-green revolution period the requirement of agricultural credit has increased further in recent years.

TYPES OF AGRICULTURE CREDIT

Considering the period and purpose of the credit requirement of the farmers of the country, agricultural credit in India can be classified into three major types:

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SHORT-TERM

It refers to the loans required for meeting the short-term requirements of the cultivators. These loans are generally for a period not exceeding and repaid after the harvest. For example loans required for the purchase of fertilizers, HYV seed and paying wages to hired workers etc., for meeting expense on religious or social ceremonies etc.

MEDIUM TERM CREDIT

This type of credit includes credit requirement of farmers for medium period ranging between 15 months and 5 years and it is required for purchasing cattle, pumping sets, other agricultural implements etc. Medium term credits are normally larger in size than short term credit.

LONG TERM CREDIT

Farmers also require finance for a long period of more than 5 years just for the purpose of buying additional land or for making any permanent improvement on land like sinking of wells, reclamation of land, horticulture etc. Thus, the long term credit requires sufficient time for the repayment of such loan.

SOURCE OF AGRICULTURAL CREDIT IN INDIA

In India, agricultural credit are being advanced by different sources. The short term and medium term loan requirements of Indian farmers are mostly met by moneylenders, co-operative credit societies and Government. But the long-term loan requirements of the Indian farmers are also met by moneylenders, land development banks and the Government. Nowadays, the long term and short term credit needs of these institutions are also being met by National Bank for Agricultural and Rural Development (NABARD).Sources of agricultural credit can be broadly classified into institutional and non-institutional sources. Non-Institutional sources include moneylenders, traders and commission agents, relatives and landlords, but institutional sources include co-operatives, commercial banks including the SBI Group, RBI and NABARD.There are two broad sources of agricultural credit in India:

- **Non-Institutional Sources**
- **Institutional Sources**

(1) Non-Institutional Sources: The non-institutional finance forms an important source of rural credit in India, constituting around 40 percent of total credit in India. The interest charged by the non-institutional lenders is usually very high. The land or other assets are kept as collateral. The important sources of non-institutional credit are as follows:
(i) Money-Lenders: Money-lending has been the widely prevalent profession in the rural areas. The money-lenders charge huge rate of interest and mortgage the property of the cultivators and in some cases even the peasants and members of his family are kept as collateral.
(ii) Other Private Sources:
(a) Traders, landlords and commission agents: The agents give credit on the hypothecation of crops which when harvested is used to repay loans.
(b) Credit from relatives: These credits are generally used for meeting personal expenditure.

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(2) Institutional Sources: The general policy on agricultural credit has been one of progressive institutionalization aimed at providing timely and adequate credit to farmers for increasing agricultural production and productivity. Providing better access to institutional credit for the small and marginal farmers and other weaker sections to enable them to adopt modern technology and improved agricultural practices has been a major thrust of the policy. National Bank for Agriculture and Rural Development (NABARD) is an apex institution established in 1982 for rural credit in India. It doesn't directly finance farmers and other rural people. It grants assistance to them through the institutions described as follows:

RURAL CO-OPERATIVE CREDIT INSTITUTIONS

Rural Credit cooperatives are the oldest and most extensive form of rural institutional financing in India. The major thrust of these cooperatives in the area of agricultural credit is the prevention of exploitation of the peasants by moneylenders. The rural credit cooperatives may be further divided into short-term credit cooperatives and long-term credit cooperatives. The short-term credit cooperatives provide short-term rural credit and are based on a three-tier structure as follows:

(a) Primary Agricultural Credit Societies (PACS): These are organized at the village level. These societies generally advance loans only for productive purposes. The main objective of a PACS is to raise capital for the purpose of giving loans and supporting the essential activities of the members such as supply of agricultural inputs at cheap price, improving irrigation on land owned by members, encourage various income-augmenting activities such as horticulture, animal husbandry, poultry etc. In India, around 99.5 percent of villages are covered by PACS.

(b) District Central Cooperative Banks: These cooperatives are organized at the district level. The PACS are affiliated to the District Central Co-operative Banks (DCCBs). DCCBs coordinate the activities of district central financing agencies, organize credit for PACS and carry out banking business.

(c) State Co-Operative Banks: The DCCBs are affiliated to State Co-operative Banks (SCBs), which coordinate the activities of DCCBs, organize provision of finance for credit worthy farmers, carry out banking business and act as leader of the Co-operatives in the States.

Long-term credit Cooperatives: These cooperatives meet long-term credit of the farmers and are organized at two levels:

(i) Primary Co-Operative Agriculture and Rural Development Banks: These banks operate at the village level as an independent unit.

(ii) State Co-Operative Agriculture and Rural Development Banks: These banks operate at state level through their branches in different villages.

COMMERCIAL BANKS

Commercial Banks(CBs) provide rural credit by establishing their branches in the rural areas. The share of commercial banks in rural credit was very meager till 1969. The All India Rural Credit Review Committee (1969) recommended multi agency approach to the rural and especially agricultural credit. It suggested the increasing role of the CBs in providing agricultural credit. Further, under the Social Control Policy introduced in 1967 and subsequently the nationalization of 14 major CBs in 1969 (followed by another six banks in 1980), CBs have been given a special responsibility to set up their advances for agricultural and allied activities in the country. The major expansion of rural branches took place and CBs introduced Lead Bank scheme and district credit plans for rural areas. Banks were asked to lend 18 percent of their total advances to agriculture within the quota of 40 percent of priority sector lending. This expansion of rural credit remained till the late 1980s. However, during late 80's, CBs suffered huge losses due to waiving of agricultural

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loans by the government. The financial liberalization process with the adoption of Narasimham Committee report in 1993 has necessitated the banks to focus on profitability and adopt prudential norms. The proportion of bank credit to rural areas especially small borrowers has come down steadily.

REGIONAL RURAL BANKS (RRBS)

RRBs are the specialised banks established under RRB Act, 1976 to cater to the needs of the rural poor. RRBs are set-up as rural-oriented commercial banks with the low cost profile of cooperatives but with the professional discipline and modern outlook of commercial banks. Between 1975 and 1987, 196 RRBs were established with over 14,000 branches. As a result of the amalgamation, the number of RRBs was reduced from 196 to 133 as on 31 March, 2006 and to 96 as on 30 April 2007. RRBs covered 525 out of 605 districts as on 31 March 2006. After amalgamation, RRBs have become quite large covering most parts of the State. Increased coverage of districts by RRBs makes them an important segment of the Rural Financial Institutions (RFI). The branch network of RRBs in the rural area form around 43 per cent of the total rural branches of commercial banks. A large number of branches of RRBs were opened in the un-banked or under-banked areas providing services to the interior and far-flung areas of the country. RRBs primarily cover small and marginal farmers, landless laborers, rural artisans, small traders and other weaker sections of the rural community. However, even after so many years, the market share of RRBs in rural credit remained low and have suffered huge losses. In recent years Government has initiated reform process to improve the functioning of RRBs.

NOTE ON NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

NABARD was established in July 1992 as an apex institution to coordinate the activities of organizations engaged in the area of rural credit. It took over from RBI all the functions that the latter performed in the field of rural credit. It is designed specifically to provide undivided attention and focus to the credit problems of rural sector. As an apex bank it is involved in refinancing credit needs of major financial institutions in the country engaged in offering financial assistance to agriculture and rural development operations and programmes. The functions of NABARD can be divided into three categories: (i) Credit Functions (ii) Developmental and Promotional Measures (iii) Supervisory Functions.

SOURCES OF DATA &METHODOLOGY

This study is based on secondary data obtained from Annual Reports of State of Indian Agriculture 2015-16 and MOSPI for the period from 1998-99 to 2015-16. The other data were collected from websites further data supplemented with relevant information from various journals and books. In order to examine the various objectives of the study several statistical techniques such as percentages and growth rates have been used in this study.

2. RECENT TRENDS IN INSTITUTIONAL CREDIT IN INDIA

Over time, the flow of credit to agriculture and rural sector has expanded impressively (Table 1). The ground level credit flow had registered an increase from Rs. 36860 crore in 1998-99 to Rs.125309 crore in 2004-05 and further to Rs.840643 crore in 2014-15.

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INSTITUTIONAL CREDIT FLOW TO AGRICULTURE SECTOR IN INDIA (1998-1999 TO 2014-2015)

(RS. IN CRORE)

AGENCY	COOPERATIVE BANKS	REGIONAL RURAL BANKS	COMMERCIAL BANKS*	OTHER AGENCIES	TOTAL
1998-99	15957	2460	18443	-	36860
1999-00	18260	3172	24733	103	46268
2000-01	20718	4220	27807	82	52827
2001-02	23524	4854	33587	80	62045
2002-03	23636	6070	39774	80	69560
2003-04	26875	7581	52441	84	86981
2004-05	31231	12404	81481	193	125309
2005-06	39403	15223	125477	382	180485
2006-07	42480	20435	166485	-	229400
2007-08	48258	25312	181088	-	254658
2008-09	45966	26765	228951	226	301908
2009-10	63497	35217	285800	-	384514
2010-11	78121	44293	345877	-	468291
2011-12	87963	54450	368616	-	511029
2012-13	111203	63681	432491	-	607375
2013-14	119964	82652	509005	-	711621
2014-15	138469	102483	599691	-	840643

TABLE NO 1

Note : * : Commercial Banks includes public Sector and Private Sector Banks.
P : Provisional.
Source : The Fertiliser Association of India. (15215) & (16851)

Moreover, among the various agencies disbursing agricultural credit, the amount of loan advanced by co-operatives has increased from Rs 15,957 crore in 1998-99 to Rs 63,497 crore in 2009-10 and then to Rs 1,38,469 crore in 2014-15.The share of Regional Rural Banks has increased from 2460 crores in 1998-99 to 1,02,483 crores in 2014-15. Again the share of commercial banks to the total agricultural credit has again increased from Rs 18443 crore in 1998-99 to Rs 2,85,800 crore in 2009-10 and then to Rs 3,59,9691 crore in 2014-15 . In 2007-08, total disbursement of agricultural credit increased to Rs 2.54 lakh crore and then same figure further increased to Rs 4.46 lakh crore in 2010-11 as against the target of Rs 3.75 lakh crore by exceeding the target by around 19 per cent. The flow agricultural credit since 2011-12 has consistently exceeded the target. The target of agricultural credit flow for the year 2014-15 was fixed at Rs 8,00,000 crore, against which achievement was Rs 8,45,000 crore exceeding the target by 5.6 per cent.

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INSTITUTIONAL CREDIT TO AGRICULTURE: RELATIVE SHARE OF DIFFERENT INSTITUTIONS

(Percentage)

YEAR	COOPERATIVE BANKS	REGIONAL RURAL BANKS	COMMERCIAL BANKS*	OTHER AGENCIES	TOTAL CREDIT GROWTH RATE
1998-99	43.29	6.67	50.04	-	-
1999-00	39.47	6.86	53.46	0.22	25.52
2000-01	39.22	7.99	52.64	0.16	14.18
2001-02	37.91	7.82	54.13	0.13	17.45
2002-03	33.98	8.73	57.18	0.12	12.11
2003-04	30.90	8.72	60.29	0.10	25.04
2004-05	24.92	9.90	65.02	0.15	44.06
2005-06	21.83	8.43	69.52	0.21	44.03
2006-07	18.52	8.91	72.57	-	27.10
2007-08	18.95	9.94	71.11	-	11.01
2008-09	15.23	8.87	75.83	0.07	18.55
2009-10	16.51	9.16	74.33	-	27.36
2010-11	16.68	9.46	73.86	-	21.79
2011-12	17.21	10.65	72.13	-	9.13
2012-13	18.31	10.48	71.21	-	18.85
2013-14	16.86	11.61	71.53	-	17.16
2014-15 (P)	16.47	12.19	71.34	-	18.13
					AAPV=21.97

TABLE NO 2

Note : * : Commercial Banks includes public Sector and Private Sector Banks. P : Provisional.
Source : The Fertiliser Association of India. (15215) & (16851)

INSTITUTIONAL CREDIT FLOW

The analysis of institutional credit flow indicates that the cooperative banks were the major source of agriculture credit in 1998-99 constituting around 43.3 percent of the total ground level credit flow followed by commercial banks at 50 percent and regional rural banks at 6.7 percent . Though cooperative banks had dominated agriculture credit supply till the early reform period, commercial banks and RRBs recorded impressive growth rates. As a result, in 2013-14, the share of cooperative banks in the total institutional credit flow reduced to 16.5 per cent and that of commercial banks and Regional Rural Banks advanced to 71.3 and 12.2 per cent respectively. Table 2 reveals that the annual average percentage variation of total institutional credit are found to be 22 per cent during the overall study period.

Although the share of cooperative credit is now much lower than that of commercial banks, the reach of cooperative credit societies is much wider. Cooperative credit societies have more than twice the number of rural outlets and four times more accounts than those of scheduled commercial banks and RRBs put together. Low recovery rates and mounting overdues have clogged the process of recycling of credit by cooperatives, impaired their ability to avail of refinance facilities from

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(NABARD), increased transaction costs and more importantly, have deprived potential borrowers of the opportunity to avail of credit facilities from the cooperatives. As a result, cooperatives have been losing their capacity to meet the growing credit needs of agriculture.

YEAR-WISE TARGETS AND ACHIEVEMENTS OF INSTITUTIONAL AGRICULTURAL CREDIT

Over the decades, the agricultural credit system has improved through cooperative credit societies at various levels, expansion of rural branches of commercial banks, and setting up of regional rural banks. Between 2004-05 and 2014- 15, institutional credit to agriculture increased from Rs.1,25,309 crores to Rs. 8,45,328 crores, registering a compounded annual growth rate of 24 per cent. It is noteworthy that the flow of agricultural credit has not just increased over the years but has consistently exceeded the target. During 2015-16, against a target of Rs. 8,50,000 crores, more than 70 per cent of the credit has been disbursed by December, 2015 (Table 3).

YEAR-WISE TARGETS AND ACHIEVEMENTS OF INSTITUTIONAL AGRICULTURAL CREDIT (RS.LAKH.CRORE)

YEAR	TARGETS	ACHIVEMENTS
2011-12	4.75	5.11
2012-13	5.75	6.07
2013-14	7.00	7.12
2014-15	8.00	8.45
2015-16*	8.50	6.30

TABLE NO 3

***Achivement upto December 2015.
Source: Department of Agriculture cooperation and Farmers Welfare

As per Situation Assessment Survey of Agricultural Households, 2013, the proportion of credit accessed from the institutional sources has increased to 60 per cent as compared to 58 per cent reported in 2003 Survey. Although the results of the two surveys are not strictly comparable, due to definitional issues, but it reflects that concerted efforts are needed to expand the institutional coverage of agricultural credit. One of the major reasons for slow expansion is the shrinking farm holding size in the country. In view of this, the thrust of policy has been shifted towards improving small and marginal farmers' access to agricultural credit through progressive institutionalization. In view of this, several steps have been initiated to galvanize the institutional credit system with special focus on small and marginal farmers. Schemes like Kisan Credit Card; interest subvention for short-term crop loans; enhancement of collateral free farm loan; revival package of Short-term Rural Cooperative Credit Structure; promotion of Joint Liability Groups (JLGs) to bring small, marginal, tenant farmers, oral lessees into the fold of institutional credit, etc., are being undertaken to ensure that all eligible farmers are provided with hassle-free and timely credit for their agricultural operations. More recently, in October 2015 government constituted a committee under the Chairmanship of Shri U.C. Sarangi, former Chairman, NABARD, to suggest feasible measures for improving targeted lending to small and marginal farmers and ensuring maximum utilization of limited budgetary resources under the Interest Subvention Schemes.

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TRENDS IN INSTITUTIONAL AND NON-INSTITUTIONAL AGRICULTURAL CREDIT

Expansion of institutional credit Since the most important objective of government in agricultural credit after independence has been to strive for a greater share of institutional credit, we begin our analysis by looking at the evolution of institutional and non-institutional shares in agricultural credit since 1951. With a number of policy measures taken by the government to step up the supply of agricultural credit in the decade of the 2000s, which we shall review later, it was expected that there would be an increase in the share of institutional credit. Recent trends in institutional and non-institutional agricultural credit in India is given Table 4.

INSTITUTIONAL AND NON-INSTITUTIONAL AGRICULTURAL CREDIT (PERCENT)

SOURCES OF CREDIT	1951	1961	1971	1981	1991	2002	2013
Institutional	**10.2**	**20.9**	**32**	**56.2**	**66.3**	**61.1**	**64**
Government	-	6.2	-	4	5.7	1.7	1.3
Co-operative Societies/Banks, etc	6.2	12.5	-	27.6	23.6	30.2	28.9
Commercial Banks	4	2.2	-	23.8	35.2	26.3	30.7
Insurance, Provident Fund	-	-	-	0.8	0.7	0.5	0.1
Other Agencies	-	-	-	-	1.1	2.4	3
Non-Institutional	**89.8**	**79.1**	**68**	**43.8**	**33.7**	**38.9**	**36**
Moneylenders	39.8	25.3	-	17.2	17.5	26.8	29.6
Relatives, Friends, etc.	-	-	-	11.5	4.6	6.2	4.3
Traders & Commission Agents	-	-	-	5.8	2.2	2.6	-
Landlords	21.4	15	-	3.6	3.7	0.9	0.4
Others	28.6	38.8	-	5.7	5.7	2.4	1.7
Total	100	100	100	100	100	100	100

Source: All India Debt & Investment Surveys, Various Issues, NSSO.

TABLE NO 4

Non-institutional sources were dominant in 1951, accounting for 90 per cent of the outstanding debt of cultivator households, but their share declined rapidly to 79 per cent in 1961 and further to 68 per cent in 1971 and 43.8 per cent in 1981. After 1981, the rate of decline slowed down and the share of non-institutional sources was 33.7 per cent in 1991. There was, however, a reversal of this pattern thereafter and the share of non-institutional debt actually climbed up to 39 per cent in 2002 and dropped to 36 per cent in 2013. During this period, the share of moneylenders in providing credit rose from 17.5 per cent in 1991, to 26.8 per cent in 2002 and 29.6 per cent in 2013. The formal sources are inadequate to meet their credit needs and farmers need to approach informal sources for additional credit facilities. Growth in institutional credit came mainly from commercial banks and, by 1991, they had become the dominant agency, leaving co-operative banks well behind. In subsequent years, however, co-operative banks gained some lost ground and, by 2013, there is more or less parity in the standing of these two agencies as far as outstanding loans in the agricultural sector are concerned.

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3. CONCLUSION

The institutional and non-institutional credit has been conceived to play a pivotal role in the agricultural development of India. A large number of institutional non institutional agencies are involved in the disbursement of credit to agriculture. However, the persistence of money lenders in the rural credit market is still a major concern. The formal sources are inadequate to meet their credit needs and farmers need to approach informal sources for additional credit facilities. In this backdrop, the present study has examined the performance of agricultural credit flow and has identified the determinants of increased use of institutional credit at the farm household level in India. The study revealed that the institutional credit to agriculture in real terms has increased tremendously during the past four decades. The structure of credit outlets has witnessed a significant change and commercial banks have emerged as the major source of institutional credit in recent years. But, the declining share of investment credit in the total credit may constrain the sustainable agricultural growth. Policy initiatives revolving around replacing the informal sources of lending to farmers by formal sources and to support enhancement of production and incomes, have been made.

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