A Study on Agricultural Credit in India During 2009 to 2019

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Abstract

Prerequisite for agriculture growth is one of the important part of agriculture credit. There is a need to review agricultural policies on timely basis for providing adequate finance availability. Most of the Indian rural families and their savings are inadequate for formation of other economic activities lead to importance for rural credit system. These activities are coupled with substitution between realization of income and expenditure and insufficient investments towards agricultural capital. Liberalized economic environment and agricultural development is highly influenced by the institutional credit system. In India agricultural rural development banks, regional rural banks, scheduled commercial banks and cooperative banks comprises multi-agency approach for allowing credit to the agriculture sector. Apart from other points of interaction between the organized and unorganized sectors of the rural money market in India, overdue of institutional credit forge the link between them. It has serious implication in regard to flow of funds, liquidity, risks that confront the lenders and borrowers in the segments of the Indian money market which needs to be continuously explored.

Keywords: *Rural Credit, Institutional Credit, Non-Institutional Credit, Co-operative Societies.*

INTRODUCTION:

One of the key instrument of market oriented developing countries economic policy was agricultural credit. Development of nation particularly in agriculture as well as general is done speedy by using credit but unfortunately, traditional agricultural credit programmes have rarely measured up to expectations. The way of rural financial markets work was effect and ignored by overestimation of evaluations. Buyers and sellers of the financial assets are the active users in the rural economics, who are involved in a rural financial market. The relationships between two different types of active users are based on the transactions including borrowing, transfer of ownership assets and lending of assets. Debt claims and ownership claims are included in the financial assets. The promises to pay are the debt claims like deposits in banks, signed stamp papers, verbal promises and formal evidence of indebtedness by individuals. Rural Financial Markets include formal institutions and private borrowing, lending not involving intermediaries and informal sector intermediaries. By scarcity of factor markets, by abundance of small markets and fragmented markets are the characteristics of developing countries rural areas. The methods of readiness to innovate, production adapted by the farmer and the distribution of income, allocation of resources within agriculture are effect by the market structure. Markets imperfections in rural areas are the high degree of market are having many explanations. The high degrees of market imperfection in rural areas are many explanations. Resources are static i.e. scattering accurate information and poor communication are the two important explanations. Government policies are monopoly power possessed by the wealthy and prosperous members of the farming community and systematically biased in favour of specific groups. These two situations lead to strengthen each other.

The bourgeoisie has subjected rural areas to the rule of cities. Further, the limited nature of inter temporal markets will lead to allocation inefficiency. Some more able individuals with small inherited endowments will be working with less capital than some less able ones with large inherited

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endowments. In many of the low-income countries, the major policy is expansion of formal agricultural credit. The income could range in between $300000 millions and $400000 millions in a year and requires subsidies and concessional interest rates by the low-income countries. The required improvement in farm incomes, output and income distribution has not produced by growing concern of this credit. State Credit Policy and governments provides various resources to provide effective lending, which aids to solve the purpose of obtaining funds. $24,000 million for agricultural credit projects are lent out by the World Bank by mid of the year 2012, increased to $46,500 million by mid of the year 2016, which proves the magnitude of the credit was doubled.

As regards asset distribution among rural households, land is the principal asset of rural households. Livestock, farm equipment, house constitutes other ingredients. Financial assets are somewhat unimportant due to the low level of living and nature and character of farm production and marketing. The percentage increased in the value of assets per rural household between 2009 and 2019, and the details are shown in Table 1.

TABLE 1: **Value of Assets per Rural Household Between 2009 and 2019 increased details, All India** *(Current prices)*

Sl. No.	Assets	All rural Households	Rural house Cultivators	Rural non-cultivators
1.	Land and Building	213	198	233
2.	Livestock and Poultry	145	133	182
3.	Agriculture machinery	366	347	283
4.	Non-farm business equipment	336	386	251
5.	Transport equipment	275	254	365
6.	Durable household assets	391	381	371
7.	Shares	95	92	100
8.	Other financial assets	300	318	276
9.	Dues receivable	-21	-10.6	-77
Total		219	204	243

Source: Derived from R.B.I. Bulletin, June 2019, Table4, p. 443.

The Table 1.1 reveals that non-land assets are changing. We should know towards which activities the economy is moving. The percentage of average value in the total assets per household is increased by 219 per cent from Rs. 11,311 in 2009 to the Rs. 36,090 in 2019 and 204% was increased in the cultivator household assets and 243% in non-cultivator household assets value. The only phenomenon worth noting is that the shares of durable household assets are increased. The share of land came down during this period from 66.3 to 62.1 per cent and that of building has increased from 17.9 to 20.7 per cent. However, the incidence of poverty did not decline significantly. The foreseeable explanation for the keen increase in the share of durable household assets in the midst of pervasive poverty would be increase in inequality of income distribution. The land distribution, which is a key asset, is shown in Table 1.2.

TABLE 2: **Land Distribution** *(Percentage to total in Parentheses)*

Sl. No.	Size group (Hec)	No. of operational holdings (Million)	Area operated (Million Hec)	Average size of holding (Hec)
1.	Less than 2	66.62 (74.5)	42.9 (26.3)	0.64
2.	2 – 10	20.59 (23.1)	82.84 (50.9)	4.0
3.	10 and above	2.15 (2.4)	37.17 (22.8)	17.3
Total		89.36 (100.0)	162.91 (100.0)	1.82

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Source: Indian Agriculture in Brief 2019.

The preceding table reiterates that small and marginal farmers who constitute over 70% of the landholders operate 26% of land. The agricultural productivity improvement is brought about by irrigation and the new seed fertilizer technology improves directly the earning power of large farmer and agricultural labourer implicitly. Hence, the problem of poverty may not solved by agricultural growth and ensure an equitable distribution of income.

Finance is essential passive, which is implied by the demand following approach. The creation of modern financial institutions, their assets and liabilities and related institutions in response to the demand for the investor services and real economy savers are referred by the term "demand follows".

GROWING CREDIT NEEDS:

The National Commission on Agriculture assessed the credit requirements of agricultural sector, which are stated in the table 3.

TABLE 3: **Credit Requirements for 2019** *(Rs. in crores)*

Category	Short term	Medium term	Total
Marginal and Small farmers	2,193	2,497	4,600
Medium and Large farmers	5,691	5,768	11,459
Total	7,884	8,265	16,149 +400 16,549

Source: Government of India Publication of "National Commission on Agriculture 2019", (Abridged), p. 574.

The Table 3 shows the credit requirements for 2019 as Rs. 16,549 crores including Rs. 400 crores for farm machinery and implements. The share of credit to small and marginal farmers (29%) appears to be smaller compared to medium and large farmers (71%) for the improvement of their living standards. The production cost of crops during 2005-06 (excluding consumption of fixed capital) in current prices has been estimated at Rs. 17,609 crores. The disbursement of agricultural credit from institutional agencies expected to increase from Rs. 5,556 crores in 2017-17 to Rs. 7,043 crores in 2017-18. For the year 2018-19, a target of Rs. 8,835 crores has been projected.

COMPOSITION OF LABOUR FORCE:

Bottom assessment of the quality of rural community structure by reference the composition of workforce will involve an element of subjective judgment. There is a general consensus among scholars that between the three types of employment-self employment, regular wage/salary work and casual work, the last should be considered inferior to the other two. Apart from the anxiety associated with uncertainty, it has been shown that the incidence of unemployment is the highest for casual workers (Visaris 2007, Vaidyanathan 2009, Minhas and Majumdar 2010). The Table 4 gives the distribution of rural work force at three points of time: 1995-96 (51^{st} NSS round), 2000-01 (56^{th} round) and 2006 (61^{st} round).

TABLE 4: **Distribution of Rural Workforce** *(in percentage)*

Category of employment	2009		2014		2019	
	M	F	M	F	M	F

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Self-employment	65.9	64.5	62.8	62.1	60.4	62.2
Regular salary/Wage work	12.1	4.1	10.6	2.8	10.8	3.1
Casual Wage labour	22.0	31.4	26.7	35.1	28.8	34.7

Source: Sarvekshna, Vol. IX No. 4, April, 2019.

Table 4 brings out many important features, but the most significant is that there is a progressive increase in the casual wage labour percentage specifically for men workers and almost correspondingly decline in self-employment. The increase in the incidence of wage labour and actualization of wage labour was occurred in greater commercialization is also observed.

The percentage of total cash debt for expenditure is accounted in case of artisans is 64% and 70% in case of farmers. According to analysis of survey report from the all India debt and investment, the total outstanding dept percentage of the poor cultivating households, who takes at high rate of interest, which is greater than 18% is in between 50% to 60%. In contrast to this scenario, number of analysts are proposed that outstanding debts are less whenever the interest rates are less than 12.5%.

SUPPLY OF CREDIT:

The rural credit market of India is characterized by dichotomy unorganized segments and organized and segments. They interact only to a limited extent. The unorganized market accounts are not audited and operate as per the provisions of Indian Banking Commission Act. The accounts of organized markets are inspected regularly, audited and operates as per the provisions of Indian Banking Commission Act. Major differences are given hereunder (a) merging of money lending with various types of economic activities (b) close contact of borrowers, (c) informality in dealings of borrowers, (d) maintaining accounts in easy manner, (e) flexibility in issuing of loans, (f) secrecy in maintenance of cash transactions, (g) interest rates differ from person to person and place to place.

The Table 5 presents details regarding the rural credit structure in India over three decades.

TABLE 5: **Rural Credit Structure** *(in percentage)*

Credit agency	**1989**	**1999**	**2009**	**2019**
Institutional credit	7.3	18.4	31.3	62.6
Non-institutional credit	92.7	81.6	68.3	37.4

Source: *Indian Journal of Agricultural Economics*, Volume. 42, No. 1, Jan-March 2019, p. 29.

The Table 5 point out the fact that the share of institutional credit was phenomenally in increase from 7.3 per cent in 1989, 18.4 per cent in 1999, 31.7 per cent in 2009 and further to 62.6 per cent in 2019, registering an increase of more than eight times. This increase is largely contributed by the rapid growth of co-operative credit and this is made possible by the implementation of integrated scheme of rural credit which was recommended by the AIRCs committee. The increase in the share of other institutional agencies is only marginal. The relative decrease in the share of non-institutional agencies is mostly due to decline in the share of moneylenders. It looks as though the three decades of planning and development have loosened the grip of the rural trinity - the landlord, moneylender and trader on the rural economic scene. The decades of 2009s and 2019s have induced certain institutional and organizational reforms in the economy in general and banking in particular. Due to all these measures there is a perceptible growth in institutional finance.

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To comprehend the developments of the PACS in between early seventies and eighties, the following indicators are given in Table 6.

TABLE 6: **All India indicators in Averages**

Sl. No.	Category	2008-09	20018-19	Variation in percentage
1.	Membership per society	193	673	249.0
2.	Working capital per society (Rs.)	72,000	4,82,307	570.0
3.	Share capital per society (Rs.)	13,000	67,092	416.0
4.	Share capital per member (Rs.)	61	100	64.0
5.	Deposits per society (Rs.)	4,000	33,703	743.0
6.	Deposits per member (Rs.)	15	50	233.0
7.	Loans advanced per active society	36,000	2,52,767	602.0
8.	Loans advanced per borrowing members (Rs.)	514	1.084	111.0

Source: 1. RBI: CRAFICARD, 2018, p. 480.
2. NABARD: Statistical Statements relating to the Cooperative Movement in India, 2019, p. 265.

The Table 6 brings out that due to spurt of green revolution in countryside the advances per society were increased phenomenally and at the same time the working capital and share capital also followed. The other significant achievement was acceleration of deposit mobilization. Despite the best efforts made by the societies, they have not reached the real viable point of five lakhs.

Furthermore, to ascertain the percolation effects of Societies and default, the Table 7 provides a bird's eye view of societies.

TABLE 7: **Percentage to the Total Membership**

Sl. No.	Category	March 31, 2019 Member ('000)	Percentage
1.	No. of farmers borrowing	2,05,20	33.0
2.	Scheduled caste	87,89	14.0
3.	Scheduled tribe	46,12	7.0
4.	Members indebted	2,78,30	44.0
5.	Members in default	1,53,83	24.0

Source: NABARD: *ibid.*, p. 266.

The Table 7 shows that 21% of the total membership belongs to Scheduled Tribes and Scheduled Castes. The increase in the total membership as well as in borrowing membership of the borrowers has declined from 36% to 33% during 4 years of period. Among the borrowers at the end of in the year 2015 it was 44% and in the year of 2019 it was 24% are defaulted and indebted.

The concept of universal membership and open democracy, which was adopted by societies are not achieved completely by the major parts of the country. The weaker sections of rural community like craftsmen, farmers and rural artisans are till outside the co-operative fold.

TABLE 8: **PACS-Coverage of Membership**

Category	March 31,2019 Membership ('000)	Percentage
Upto 1 (Hectare)	1,63,75	26.0
1 – 2	1,35,57	21.5

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2 – 4	99,26	16.0
4 and above	1,09,86	17.4
Agricultural labourers	61,14	9.6
Rural artisans	14,29	2.2
*Others	46,00	7.0
Not available	1,81	0.3
Total	6,31,71	100.0

Source: NABARD: *ibid*., p. 265.

The Table 8 reveals PACSs are increased from 31 million to 63 millions in a period of 5 years, registering an increase of 103 percent, 51 million cultivators, 6 million migrant workers and 1.4 million were skilled labour. The membership of weaker sections comprising small farmers, agricultural labourers and rural artisans aggregate membership in the year of 2019 is 67%.

The PACS are tested in order to find out the operational efficiency, the managerial capability, and how far the overdues are minimized in expanding the units. The holdings and their corresponding overdues are given in Table 9.

TABLE 9: **Operation Holdings of PACS-Overduces** *(Rs. in crores)*

Size of operational holdings (Hec)	No. of borrowers ('000)	Amount	Recovered	Percentage of overdue to demand	Amount outstanding	Overdue	Percentage of overdue outstanding
Upto 1	4,910 (27.0)	3,440 (16.0)	3,340	3.0	5,050 (18.0)	1,970	39.0
1-2	4,837 (27.0)	4,380 (21.0)	3,400	22.0	6,100 (21.0)	2,660	44.0
2-4	4,037 (22.5)	5,460 (26.0)	4,250	22.0	7,000 (25.0)	3,080	44.0
4-8	2,957 (16.5)	4,470 (21.0)	3,670	18.0	5,940 (21.0)	2,670	45.0
Above 8	1,230 (7.0)	3,250 (16.0)	3,010	7.0	4,260 (15.0	1,540	36.0
Total	17,971 (100)	21,000 (100)	17,670 (100)	16.0	28,350 (100)	11,920	42.0

Source: NABARD: *ibid*., pp. 289-291.

It is observed from Table 9 that 27 per cent of marginal farmers account 16 per cent and repaid almost all dues in time, whereas 27 per cent small farmers account 21 per cent with 22 per cent of overdues, 46 per cent of semi-medium, medium and large farmers shared 63 per cent of amount, due to their commanding heights. It is obvious that overdues to outstanding are higher than the overdues to demand at all levels of holdings in percentage terms.

Overdues are stumbling blocks for the smooth growth of co-operative movement. The internal structure of overdues is given in Table 10.

TABLE 10: **Classifications of Overdues March 31, 2019** *(Rs. in crores)*

Year	No. of defaulters ('000)	Amount defaulted
Upto 1 year	44,82 (31.0)	4,400 (35.0)
1-2	3,751 (26.0)	3,330 (27.0)
2-3	2,552 (18.0)	1,940 (15.5)
Over 3 years	3,602 (25.0)	2,810 (22.5)
Total	14,387 (100.0)	12,480 (100.0)

Source: NABARD: *ibid*., p. 304

The Table 10 proves that below three years 75 per cent of defaulters have defaulted 78 per cent of amount. 25 per cent chronic defaulters have defaulted 22 per cent of borrowed amount. However, they tend to affect the functioning of societies, if there is no proper rehabilitation and relief. With a concern regarding the dwindling structure of the co-operatives, the Prime Minister stressed the need to reduce overdues in co-operatives in a meeting of all the Chief Ministers.

CONCLUSION:

The Indian Rural Money Market, like most of its counterparts in the developing economies, is characterized by its duality with its organized and unorganized sectors, with different business practices and rates of interest. The organized sector which consists of the NABARD, Commercial banks, RRBs, Co-operative banks is under the direction of the RBI and the Government. Government Agencies also form part of this sector and the links between government agencies and institutional agencies are getting integrated owing to the need for co-ordination of their activities under the regime of development planning. The unorganized sector comprises moneylenders, indigenous banker, landlords, traders, commission agents, friends and relatives.

Specialization has developed between the two sectors and funds flow between them. Whenever the links between one another seems to be week, then the persistency between two markets are assumed to be different. Due to several institutional developments, the organized sector dominates the rural credit scene as it accounts for nearly 63 per cent of rural credit. The new technology brings changes in the agricultural credit borrowing methods. The requirement of borrowing getting from petty farmers, labour household workers and rural artisans are different from the requirements of borrowing from larger farmers for investment. If the size of cultivator groups and regions of the country are different then the distribution of institutional credit is also having uneven distribution among them. The interest rates charged by different credit agencies are varied based on their type. Owing to this phenomenon, institutional credit not only tends to concentrate but also results in a high degree of default. Apart from other points of interaction between the organized and unorganized sectors of the rural money market in India, overdues of institutional credit forge the link between them. It has serious implication in regard to flow of funds, liquidity, risks that confront the lenders and borrowers in the segments of the Indian money market which needs to be continuously explored. In 2018s, the institutional reforms should bring perestroika in the rural credit management and distribution of credit may bring equity and justice even to the marginal farmers and labour households.

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