

## The Emerging Trends in Agriculture Credit in India

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### Abstract:

*The agriculture's share in GDP is less than 15 per cent but it still remains the direct domain of over half of the population whose economic prospects are linked to the performance of agriculture. The study shows that the financial institutions play a major role in lending to agriculture. For increasing agriculture production providing the credit is not enough, but also supervision extension service. Financial institutions are needed to concentrate on not only crop loans and also encourage the farmers for utilize term loans, which are important for long time sustainability and increase production. The officials should maintain personal relation with the borrowers and also motivate them to enhance their earnings and repayment of loans.*

**Keywords:** Agriculture credit; Financial institutions; Short-term loans; Medium-term loans; Long-term loans.

### Introduction:

Agriculture in India though a vocation, is taken as a culture due to which innovations, application of technology, marketing management and other business practices are absolutely absent. However, in recent times a

little improvement is observed in terms of proactive agricultural policies of the government and marketing reforms. Commercial and professional propositions in agriculture sector are now a day's noticed in the form of extension services from the Universities and Agricultural Research Institutes all over the country.

Agriculture contributes about 16 per cent of total GDP and account for 10 per cent of exports in recent years. Over 60 per cent of India's land area is arable making it the second largest country in the world in terms of total arable land. Agriculture plays a significant role in Indian economy for it supplies substantial food and fodder as a major source of livelihood for workers, manufacturers, farmers and traders. Agriculture provides employment directly to rural population and indirectly to non-agriculturists like artisans, traders, and service providers, it is also provides raw-materials to industries and to Micro, Small, Medium enterprises. In spite of all these advantages, agriculture in India is yet to transform into an engine of prosperity and economic growth.

### Need for Credit in Agriculture Sector:

Agriculture in India suffers from many setbacks. A few of them are: (i) cultivation of large variety of crops leading to poor professionalization and specialization, (ii) uncertain water supply and poor irrigation facilities, (iii) uneconomical size of landholdings and predominance of tiny farmers, (iv) absence of commercial motivation of the farmers, (v) existence of surplus labor resulting in underemployment and unemployment (vi) low level of technology application and (vii) inadequate and unreliable land records throwing the agriculturists in a state of confusion and uncertainty. Thus the importance of agriculture in India is undermined by the setbacks in the system. As such, it can be said that agricultural economy in India is craving for support from various agencies in general and financial institutions in particular.

Shortage of agricultural inputs is one of the reasons for the erratic trends in crop production in the country. Provision of adequate credit at right time and at reasonable rate of interest is a critical aspect of agricultural development in India. All through the age's agriculture starved for credit because of the traditional disapproval of business character to agriculture operations. As stated earlier, agriculture was never treated as a business

proposal but it was taken as a bequeathed profession. Further, the intermittent failure of monsoons and other customary vicissitudes of farming, rural indebtedness became a serious evil affecting the development of agriculture. It is often said that agriculturists are born in debt, live in debt and die in debt because of several reasons. A few of them are (i) agricultural operations had inherited the farmers with deficits and archaic methods of production. (ii) the absence of scientific marketing operations of agricultural produce resulted in uneconomical disposal of crops leading to huge losses, (iii) exorbitant interest rates on the unavoidable borrowings from the indigenous money lenders are the other serious set-back, (iv) uneconomical size of land holdings resulting in below optimum agricultural operations, (v) the gestation gap between investment and return in agriculture is longer than certain easy professions like retailers, and small scale industrial units, and (vi) disequilibrium between short-term medium-term and long-term loans causing the farmer to run to local money lenders to meet the shortage in a particular period-loans. The prices of agriculture inputs are also fluctuating violently and the general trend is that prices of inputs are always going on increasing. In view of unexpected drop in revenues, the farmers are not able to meet the increased burden of costs of inputs. Consequently they go for higher borrowings. At times the deficit is so

heavy that they fail not only to meet the consumption expenditure but also unexpected about of family ceremonies. In such case agriculturists resort to heavy borrowings at an existent rate of interest. At the times they dispose their surplus crops at whatever the price that is quoted in the markets to fetch funds for their unforeseen expenses. For the increase of agricultural output in good time, provision of credit must be ensured to meet the short-term as well as long-term needs.

Thus, the need for agriculture credit arises on account of several reasons – directly attributable to farming operations and also to the reasons unrelated to farming activities. At times, particularly during pre-election period farmers become prey to the impractical promises of loan waivers tempting them to avoid the clearance of the outstanding loans. In the succeeding period the farmers are not cared by the Government in power resulting in heavy debt. Consequently, the farmers are deprived of the eligibility of re-borrowing from the formal financial institutions.

As such they depend upon the local money lenders unmindful of the interest rates. As such it can be stated that the formal financial agencies should consider the farming and non-farming costs otherwise the funds provided will get diverted to the purposes other than that for which they are provided. Again the

farmers are stuck up in debt trap on account of failure of the government to waive the accumulated loan balances. Consequently, agriculturalist always needs credit to carry out agricultural operations throughout the years.

### **Objectives of the Study:**

The study mainly focused on the pattern of agricultural credit by commercial banks. However, the following are notified as the other objectives of the study.

1. To analyze the role of financial institutions in agriculture credit.
2. To examine the growth pattern of loans to agriculture sector and production of food grains.
3. To the study the term-wise aggregate of agricultural advances.

### **Role of Financial Institutions in Agriculture Credit:**

Farming activity has been a 'hands to mouth' economy in India for centuries because of which there was poor savings and investment in this sector. No doubt crop production has been showing gradual improvement year after year but with erratic growth. However, the farm operations are not able to produce considerable surplus to cover the rising cost of production resulting a little or no savings. As such investment in farming activity is not

encouraging. The farmers are not able to finance the agricultural operations by themselves because of which they look for outside assistance. On one hand the cost of inputs are uncertain to be lucrative. The problem of investment in agricultural operations is not a new and it has been persisting for several decades in India. Further, in recent times, the cost of living in rural areas is increasing and the life style of the people is ever changing. It is

significantly reflected by the use and possession of expensive gadgets inside and outside the work place. Hence, dependence on credit is invariably unavoidable for all the farmers irrespective of the scale of operations. After the instance of government of India the RBI, NABARD and almost all types of financial institutions are advance the loans to agriculture sector. The data related to the financial institutions agriculture credit is presented in Table – I.

**Table – I: Role of Financial Institutions in Agriculture Credit**

(Rs. Crores)

Year	Commercial Banks (Rs)	Regional Rural Banks (Rs)	Co-operative Banks (Rs.)	Total (Rs.)
2007-08	1,56,850 (69.60)	24,814 (11.01)	43,684 (19.39)	2,25,348 (100)
2008-09	2,23,663 (77.89)	26,724 (9.31)	36,762 (12.80)	2,87,149 (100)
2009-10	2,74,963 (74.93)	57,500 (15.67)	34,456 (9.40)	3,66,919 (100)
2010-11	3,32,706 (74)	70,105 (10)	43,968 (16)	4,46,779 (100)
2011-12	3,68,616 (72.41)	54,239 (10.66)	86,185 (16.93)	5,09,040 (100)
2012-13	4,32,491 (71.20)	63,681 (10.48)	1,11,203 (18.32)	6,07,375 (100)
2013-14	5,09,005 (71.53)	82,652 (11.62)	1,16,964 (16.86)	7,11,621 (100)
2014-15	6,04,375 (71.50)	1,02,482 (12.12)	1,38,469 (16.38)	8,45,328 (100)
2015-16	6,04,668 (69.1)	1,19,261 (13.5)	1,53,295 (17.4)	8,77,224 (100)

Source: NABARD Annual Reports

Note : Figures in brackets indicate the percentage share of each financing institution.

The data of the Table – I explains that the involvement of Commercial Banks in agricultural credit is increasing year after year. Among the three important sources of credit to

agricultural sector rural banks share is minimum and the share of commercial banks ranged between 70 per cent (2007-08) and 78 per cent (2008-09). The role of Cooperatives is moderate

varying between 9 per cent in 2009-10 and 18 per cent in 2012-13. This analysis clearly indicates that the agricultural loans disbursed by all the banks individually and collectively increased significantly. Of course the growth percentages of loans by different banks increased but at different rates.

### Growth Pattern of Loans to Agricultural Sector and Production in India:

The primary objective of farm credit is development of farming so as to attain self-sufficiency in food grains and to ensure continuous increase in production. Provision of timely and adequate credit is critical input as it

enables the farmers to buy seeds, fertilizers, irrigation, and power and pay wages. Thus it is a pre-requisite for the achievement of socio-economic development of India. The adequate and timely credit is an important measure for the development of agriculture in the country. Therefore it is hypothesized that there is a positive correlation between crop production and adequate and timely credit. In other words, increased production might be the result of the provision of adequate and timely credit by the financial agencies. The data related to the loans to agriculture sector and the production of food grains is shown in the Table – II.

**Table – II: Loans to Agricultural Sector Vs Production of Food Grains (India)**

Year	Total Loans Disbursement (Crores)	Production of Food grains (Million Tones)	% of Growth	
			Loans	Production
2007-08	2,25,348	230.78	---	--
2008-09	2,87,149	234.43	27.42	1.59
2009-10	3,66,919	218.11	27.78	-6.97
2010-11	4,46,779	244.49	21.76	12.15
2011-12	5,09,040	259.29	13.93	6.05
2012-13	6,07,375	265..04	19.31	2.21
2013-14	7,11,621	252.02	17.16	-4.9
2014-15	8.45,328	252.22	18.13	-0.08

Source: 1) NABARD Annual Report 2015-16, Pg.NO: 12  
2) Agriculture Statistics at a Glance 2015, Pg.No: 107

The data in the Table - II gives the time series data relating to aggregate credit ('x' – an independent variable) dispensed by the Commercial Banks, Regional Rural Banks and

Cooperative Banks over a period of 8 years (2007-2015). Further it gives the data relating to production of major food grains ('y' – a dependent variable) over the same period. Both



the data are presented just opposite to each other to study the correlation between these two inter-related variables. The Karl Pearson coefficient of correlation ('r') of these two variables is worked out to 0.68 and the 'r<sup>2</sup>' is 0.47. These ratios clearly indicate that there is a positive correlation between farm credit deployed and production of major crops. It means that higher credit would lead to greater production. Since r<sup>2</sup> is 0.47 it can be said that the degree of influence of independent variable on dependent variable is 47 per cent which is not insignificant. The conclusion from the coefficient of correlation is to be accepted subject to the following conditions.

Though there is a positive correlation, one has to be aware that increased production of food grains is not only the outcome of adequate credit but also many other factors like timely and adequate monsoon, quality of power, timely application of labor, reasonable timely use of fertilizers, pesticides and weedicides, and the quality of soil and seeds. Hence, it is to be noted that credit alone does not guarantee better production but there are multifarious factors that are responsible for higher production.

### **Analysis of Term-wise Agricultural**

#### **Advances:**

Advances by banks, irrespective of their purpose can be viewed in two ways. Loans outstanding and Loans disbursed during the year. Almost all banks except Cooperatives have their financial year as April to March. Cooperatives normally adopt July to June as their accounting year. This elaboration is relevant in the context of comparison of the performance of the banks. 'Outstanding loans' mean the advances remain unpaid at the end of the financial year and 'advances during the year' means the amount of loans disbursed during the year to all the eligible borrowers. As a matter of fact, farmers' eligibility for obtaining loans from banks depends upon their status with reference to outstanding loans to the banks. If the loans outstanding remain unpaid over and above the due dates are called as 'overdue loans' or 'non-performing assets' and the borrower who fall under this category is known as 'defaulter'. In other words, an eligible borrower means that he is not a defaulter. This norm is applicable to all types of loans viz., short-term (ST), Medium-term (MT) and Long-term (LT) loans. As a matter of fact, MT and LT loans together are also known as term loans which are normally used for the purpose of acquiring fixed assets. The term-wise aggregate of agriculture advances data is presented in the Table – III.

**Table – III: Term Wise Analysis of Aggregate of Agricultural Advances**

(Crores)

Year	Commercial Banks			Co-operatives			Regional Rural Banks			Total		
	ST	MT/LT	Total	ST	MT/LT	Total	ST	MT/LT	Total	ST	MT/LT	Total
2006-07	83202 (49.97)	83283 (50.03)	166485 (100)	38622 (90.91)	3858 (9.09)	42480 (100)	16631 (81.39)	3804 (18.61)	20435 (100)	138455 (60.35)	90945 (39.65)	229400 (100)
2007-08	116966 (64.59)	64122 (35.41)	181088 (100)	43294 (89.71)	4964 (10.29)	48258 (100)	21133 (83.49)	4179 (16.51)	25312 (100)	181393 (71.23)	73265 (28.77)	254658 (100)
2008-09	147818 (64.56)	81133 (35.44)	228951 (100)	40164 (87.37)	5802 (12.63)	45966 (100)	22413 (83.73)	4352 (16.27)	26765 (100)	210461 (69.71)	91447 (30.29)	301908 (100)
2009-10	189908 (66.44)	95892 (33.56)	285800 (100)	56946 (89.68)	6551 (10.32)	63497 (100)	29802 (84.62)	5415 (15.38)	35217 (100)	276656 (71.94)	107858 (28.06)	384514 (100)
2010-11	216773 (65.15)	115933 (34.85)	332706 (100)	64527 (92.04)	5578 (7.96)	70105 (100)	37808 (85.98)	6160 (14.02)	43968 (100)	319108 (71.42)	127671 (28.58)	446779 (100)
2011-12	266928 (72.41)	101688 (27.59)	368616 (100)	81829 (93.02)	6134 (6.98)	87963 (100)	47401 (87.05)	7049 (12.95)	54450 (100)	396158 (77.52)	114871 (22.48)	511029 (100)
2012-13	314951 (72.82)	117540 (27.18)	432491 (100)	102592 (92.25)	8611 (7.75)	111203 (100)	55957 (87.87)	7724 (12.13)	63681 (100)	473500 (77.95)	133875 (22.05)	607375 (100)
2013-14	388730 (76.37)	120275 (23.63)	509005 (100)	113574 (94.67)	6389 (5.33)	119963 (100)	70697 (85.53)	11956 (14.47)	82653 (100)	573001 (80.52)	138620 (19.48)	711621 (100)

Source: Agricultural Statistics At A Glance 2015, Page No.392

The data of the Table – III reflect the amount of loans disbursed during the year. Aggregate loans disbursed by all types of banks (Commercial banks, Cooperative Banks and Regional Rural Banks) in India increased from Rs. 229400 Crores. in 2006-07 to Rs.711621 Crores. in 2013-14 registering a rise by 3 times. Term wise analysis explains that the aggregate short-term loans increased from Rs.138455 Crores. in 2006-07 to Rs.573001 Crores in 2013-14 (rose by 4.14 times) whereas the term loans registered a rise by 1.52 times. Thus it is

clear that the increase of term loans is far lesser than the rise in short-term loans. The reasons for such a huge difference in the growth between short-term and long-term loans might be of two factors. First, a few farmers might have not preferred to borrow term loans to avoid the burden of heavy debt and the second may be the existence of large number of landless farmers. The latter category of farmers does not find any reason to acquire equipment for the lands are not their own. Growth of loans given by the Commercial Banks is better than the increase in



the loans given by other banks like Cooperative Banks and Regional Rural Banks. The total disbursement of short-term loans by Commercial Banks increased by 4.67 times in 2013-14 over 2006-07 whereas it is hardly 3 times in case of Cooperative Banks and 4.25 times in Regional Rural Banks. With regard to the disbursement of long term loans, the performance of Regional Rural Banks is far better than the Cooperatives and Commercial Banks. As a matter of fact the Commercial Banks are far behind the other two types of banks. The reasons for this poor performance with regard to short-term and long-term loans by the Commercial Banks could be on account of two factors. First reason is that the Commercial Banks have weak field staff to verify the extent of use and the continuation of ownership by the borrowers. The Second reason might be the felt-irrationality of financing the traders and businessmen dealing in the farm machinery on one hand and advancing loans to farmers to buy them from the traders whom they finance on the other hand. Logically it looks that the Commercial Banks could be alleged to have involved in the promotion of sale of capital equipment for agricultural purposes.

A close analysis of the disbursement of loans by purpose indicates that all types of banks have focused better on advancing of short-term loans rather than the term loans. The share of short-term loans in the total varied between 60 and 80 per cent. It can be observed that the

share of short-term loans disbursed by the Commercial Bank varied between 50 and 76 per cent as against the 90 and 94 per cent by the Cooperatives and 81 and 86 per cent by the Regional Rural Banks to their respective total loans. All these analysis reveal that the Commercial Banks are balancing well their investment portfolio in agricultural credit.

### **Conclusions:**

The study is clearly indicates that the agricultural loans disbursed by all the banks individually and collectively increased significantly. The growth percentages of loans by different banks increased but at different rates. Though there is a positive correlation, one has to be aware that increased production of food grains is not only the outcome of adequate credit but also many other factors like timely and adequate monsoon, quality of power, timely application of labor, reasonable timely use of fertilizers, pesticides and weedicides, and the quality of soil and seeds. It is observed that the disbursement of loans by purpose indicates that all types of banks have focused better on advancing of short-term loans rather than the term loans. Hence, all the financial institutions should come forward to extend the term loans to the agriculture sector rapidly. However, it can be concluded that the Commercial Banks are balancing well their investment portfolio in agricultural credit.





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