Chapter -1

Introduction

1.1 Key Role of Agriculture
1.2 Meaning of Agricultural Credit
1.3 Significance of Credit to Agriculture
1.4 Classification of Agricultural Credit
1.5 Sources of Agricultural Credit
1.6 Need and Importance of Institutional Agricultural Credit
1.7 An Overview of Institutional Agricultural Credit

Summary
Introduction-

After the adoption of economic reforms agriculture still is now the key economic sector of the Indian economy. The overall progress still depends upon the progress of the agriculture sector. Even at present, a large portion of the population depends on agriculture for obtaining food, employment and income. Adequate institutional credit on the right time at affordable rate of interest to agriculture is essential for improving the productivity, commercialization of agriculture, optimum use of limited water and crop diversification. India has created a comprehensive structure of financial system for agricultural credit consisting of the R.B.I., NABARD, Co-operative Banks, Commercial Banks and the RRBs. This financial structure has progressively contributed to the farm credit.

1.1 Key Role of Agriculture:

Agriculture sector is performing an important task in the development of the economy of India. It is described as the backbone of our economy. The share of agriculture in GDP of India is around 13.9 percent. Despite concerted industrialization, about 60 percent of the total employment is generated by the agricultural sector in India.

<table>
<thead>
<tr>
<th>Year</th>
<th>Farmers</th>
<th>Agricultural Labors</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>99.6 (76.0%)</td>
<td>31.5 (24.0%)</td>
<td>131.1 (100.0%)</td>
</tr>
<tr>
<td>1981</td>
<td>92.5 (62.5%)</td>
<td>55.5 (37.5%)</td>
<td>148.0 (100.0%)</td>
</tr>
<tr>
<td>1991</td>
<td>110.7 (59.7%)</td>
<td>74.6 (40.3%)</td>
<td>185.3 (100.0%)</td>
</tr>
<tr>
<td>2001</td>
<td>127.3 (54.4%)</td>
<td>106.8 (45.6%)</td>
<td>234.1 (100.0%)</td>
</tr>
<tr>
<td>2011*</td>
<td>118.7 (45.1%)</td>
<td>144.3 (54.9%)</td>
<td>263.0 (100.0%)</td>
</tr>
</tbody>
</table>

*-Provisional  Source-Agricultural Statistics at a Glance-2013
Although, agriculture is still connected with human needs. Initially man invented this art to satisfy his essential need of food. Along with the physical inputs agriculture depends upon finances also. Continuously growing population in India has further increased the importance of agriculture. An improvement in agriculture leads to an economic development and economic development necessarily results in further improvements in agriculture. Generally, the overall advancement of a developed country depends upon the progress of an industrial sector but in developing countries like India, agriculture sector plays a predominant role in the overall development. Till the date agriculture has remained the main occupation of the majority population. Agriculture and industry are interdependent as agriculture provides raw material to industry and industry encourages agricultural growth. It is clear that overall development cannot be achieved without agricultural growth.

At the beginning development of every country is generally dependent on agriculture. Many developing countries have to develop agriculture first before they can be industrially developed. In the countries with mass poverty development of agriculture is considered as the means of an equal distribution of output. The industrially progressive countries have also to face shortages of agricultural output. Still, the prime objective of our economic plan is to increase the agricultural productivity by raising the farm productivity.
The traditional methods of farming in India consist of cultivating mostly with labour, animals and simple implements. The adoption of the “Green Revolution” in India during mid-sixties brought a change in above methods. This was initiated as and all agriculture has undergone a drastic face-lift. Since then, various inputs such as chemical fertilizers, pesticides high yielding varieties as well as use of modern techniques have contributed to the overall agricultural development. It also brought change in agriculture from extensive agriculture to intensive agriculture. However, after persistent efforts, there are problems like continuously increasing over dues, inadequate credit, high credit costs and regional imbalance which need immediate and careful attention

Table-1.2

Percentage Share in GDP at 2004-05 Prices

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>16.0</td>
<td>15.5</td>
<td>14.7</td>
<td>14.3</td>
<td>13.4</td>
<td>12.3</td>
<td>12.0</td>
<td>11.6</td>
</tr>
<tr>
<td>Forestry</td>
<td>2.1</td>
<td>1.9</td>
<td>1.8</td>
<td>1.7</td>
<td>1.6</td>
<td>1.5</td>
<td>1.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Fishery</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Industry</td>
<td>27.9</td>
<td>28.0</td>
<td>28.7</td>
<td>28.7</td>
<td>28.1</td>
<td>28.3</td>
<td>27.5</td>
<td>26.7</td>
</tr>
<tr>
<td>Service</td>
<td>53.0</td>
<td>53.7</td>
<td>54.0</td>
<td>54.4</td>
<td>56.1</td>
<td>57.1</td>
<td>58.4</td>
<td>59.6</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source - https://mahades.maharashtra.gov.in

Table No.1.2 reveals that although the share of farm sector output in the GDP of India has declined from 16% to 11.6%, but it is still much higher than the percentage share of forestry and fishery. But the percentage share of the service sector increased from
53% to 59.6%. Similarly, the share of industry almost remained declined marginally from 27.9% to 26.7%. The share of forestry and fishery is negligible. The share of forestry declined and became less than 2%.

Graph-1.2 Percentage Share in GDP at 2004-05 Prices

Hence, agriculture is still the source of livelihood of the majority of population in Indian economy. Food is not only made available by the agriculture sector but it also helps in generating income and providing employment opportunities to a large number of rural populations. Therefore, the supply of timely, hassle free and adequate credit at affordable interest rate is the necessary condition for achieving the required rate agricultural development.

1.2 Meaning of Agricultural Credit

Agricultural credit is the amount of investible funds made available for farm business and meeting needs of farmer’s family. Initially agricultural credit was confined to a few needy farmers and a few elite lenders. During the drought conditions farmers used to get food grains from rich farmers who have a surplus food grains on the condition that the same would be returned in double quantity after harvesting the next crop. The people engaged in lending activities were village
traders, relatives and feudal lords, who gradually undertook the full-fledged job of money lending and were called as money-lenders. They still hold dominant position in rural area. Precious ornaments and durable copper utensils were kept as the security for the loans of smaller. To borrow the high amount farmers had to lease their land to the lender. The ownership of the whole land was retained by the lender until a borrower refund the borrowed amount. A lender manages to cultivate the leased land, and the whole yield went to the lender or a land area was leased for specific period and after completion of the period, the land was returned to the borrower. In certain unavoidable circumstances farmers used to borrow on the basis of personal credit in the village. Generally, the natural calamities such as failure of rainfall, droughts, famines etc. were the main causes of borrowing. In the past, credit was mainly taken for unproductive purposes like purchasing of food and meeting the expenses of religious ceremonies but today agricultural credit is taken for meeting day to day expenses as well as agricultural operations which causes increase in agricultural output.

1.3 Significance of Credit to Agriculture

Credit to agriculture is an essential input for farm development. Credit is regarded as additional oxygen to agriculture for better health. Initially activities earning surely profit such as trade and commerce were the major attractions of credit. But even being core sector agriculture was neglected in providing credit. Subsistence nature of the agriculture in the old days was the main cause for this negligence. However, this situation has changed since the commencement of the Green Revolution. Before nationalizing the private commercial banks, there were no other institutions except co-operative agencies and the Government that were providing finance to agricultural sector. But to-day about 70 per cent of credit is provided by institutional sources. However, even to-day the share of non-institutional credit agencies is not negligible (30%).

There are five accelerators i.e. training of production process, finance for production, collective action of agriculturists, extension of cultivable land and planning of agricultural development at national level. Thus, agricultural credit is one of the strongest accelerators for the big push in agricultural output. Agricultural credit also helps in making structural changes in the available area of cultivable land. The common goal of credit should be higher production intended not only for higher consumption purpose but for investment also. It will be possible to break the vicious
circle of low productivity. In India credit is immensely required for agriculture for following reasons:

a. Number of poor farmers is still very large.
b. Lack of own financial resources to poor farmers.
c. Increasing need of purchasing of costly agricultural inputs.
d. Sharply increasing prices of agricultural inputs.
e. Low productivity of agriculture due to irregularity of rains
f. Lengthy production period causing higher credit needs.
g. Additional credit is required for repaying old unpaid loans.
h. Today agricultural credit is largely required to improve agricultural productivity.

Hence, R.D. Sharma rightly described the nature and scope of agricultural growth as expanding the agricultural land by bringing waste and unsown land under farming, supplying compost and chemical fertilizers, caring the land, provision of irrigation amenities, availability of large amounts for fixed and working capital, changing pattern of farm association, increasing the share of agricultural output in Gross Domestic Product and improving the labor productivity in agriculture. Ensuring reasonable returns in agriculture is also of the utmost importance. Further, enough and well-timed finance augments the waiting capacity of the cultivators and their bargaining power also. Increase in the holding capacity of the cultivators, helps in avoiding excess stocks of agricultural produce which is responsible for lowering the prices of agricultural produce. Injecting right type of credit into agriculture, results in speedy progress of this sector. Credit transforms subsistence farming into commercial framing which leads to mechanization of agricultural operations. Further, farm credit makes possible the better use of managerial skills that is useful for sustainable growth of this sector. In this way all the process and operations that lead to advancement in agriculture become feasible due to the proper availability of credit. Thus credit lays the base stone of farm revolution.

Agricultural credit thus helps in transforming traditional farming into the commercialized agriculture. Capital formation as well as current expenditure on farm and non-farm activities is met through finance. So, the saying, “credit supports the farmer as the hangman’s rope supports the hanged”, very rightly describes the
dominant role of agricultural credit. If the credit is used in a proper and efficient manner, it can serve as a crane.

In India the number of small and marginal farmers are very large who could not get even a daily bread from their size of land holding. So, credit should be provided for their farm and subsidiary activities for improving their standard of living. The future of our agriculture depends on majority of younger generation so, credit should attract and retain youth in farming and allied rural occupations.

Production credit improves the crop yield and income level of the farmers. This increases the multiplier and acceleration effects of farm investment on consumption, investment, income, saving and employment. Credit encourages farmers to cultivate cash crops for amortizing the borrowed credit. Thus, credit encourages the development of the various sectors, ultimately leading to the overall progress of the economy of India.

1.4 Classification of Agricultural Credit

Most of the farmers in India are poor and they need credit for various purposes hence credit is like the blood for Indian agriculture. Availability of various types of credit for agriculture is as important as the blood for the body. Agricultural credit is categorized as follows:

1. According to the Length:

According to the length of period, the agricultural loans are categorized as the short-term loans, medium-term loans and long-term loans.

i) Short-term Credit (ST)-

Repayment duration of such type of credit is up to 15 months. It is made available for current expenses of agriculture like crop production and purchase of inputs.

ii) Medium-period Credit (MT)-

This type of loans are advanced from 2 years to 5 years duration for land development and minor irrigation as well as purchasing low priced farm machinery, implements, milk animals, other smaller capital value assts etc.

Since their establishment, Primary Agricultural Co-operative Societies supply only short and medium term loans to member farmers. However, Commercial banks started to advance such type of loans to farm sector after their nationalization.
iii) Long-term credit (LT)-

Duration of this credit is between 5 to 25 years. This type of credit is used for long-term capital farm activities like plantation, development of agricultural land, land leveling and digging wells as well as purchasing high priced agro-implements like tractors, harvester machines, pump sets etc. Agencies such as the PCARDBs are established only for giving long-term credit to farmers.

After nationalization the Commercial banks started to issue both ST and MT credit to agriculture. It is found that the proportion of farmers who borrowed short-term loans was higher than those who borrowed medium-term and long-term credit. Likewise, the quantity of medium term loans was higher than of long-term credit. It clearly indicates that our farmers still largely borrow for meeting current expenses.

2. Direct and Indirect Credit

Further, agricultural credit is also classified into direct and indirect credit. Direct credit is directly supplied to the cultivators for farming operations and acquisition of assets. On the other hand, indirect credit is provided to financial institutions which provide credit to farmers. Institutional agencies issue both direct and indirect credits to agriculture.

3. Purpose or Causes-wise Classification

Agricultural credit may be categorized into purpose or causes. Agricultural credit is made available for various purposes like agriculture, sericulture, land development, farm mechanization, milk animals, forest development, piggery, poultry, plantations, bio-gas, gobar gas, market-yard, dairy, service centers, godowns, cold storages, etc. Agricultural finance for agro-business is provided on hypothecation. Production credit is further may be classified into settlement, development and equipment credit to agriculture.

4. Secured and Unsecured Credit

Secured loans are mortgage credit based on land and goods. Conversely, unsecured credit is mainly issued to such borrowers who are members of co-operative societies. Moneylenders, relatives and landlords dare to provide unsecured loans on personal creditworthiness of farmers.

Generally agricultural borrowers are agriculturists, individual owner cultivators, tenants, share croppers, registered and unregistered partnership farms, companies, estates, co-operative societies and public sector corporations etc. The sources advancing agricultural loans are grouped into non-institutional and
institutional sources. The non-institutional sources include moneylenders, relatives and landlords but contrary, the institutional sources consist of Commercial Banks, Cooperative Banks and RRBs. These sources are also called the informal sources of farm credit.

1.5 Different Sources of Agricultural Credit:

The different sources of farm credit are roughly classified as under:

1. Non-institutional Sources –

The non-institutional sources of agricultural finance are relatives, traders, commission agents, landlords and money-lenders. They advance loans to agriculturists especially for consumption purpose against individual security without completing for legal formalities. Day by day Small and marginal farmers are heavily depending on landlords and money-lenders for their financial requirements on a large scale.

2. Institutional Sources -

a) Co-operative institutions providing short-term and medium-term credit.-

- Primary Agricultural Co-operative (Credit) Societies (PACS):

The PACS are called the grass rout credit institutions that lend directly to individual farmer members. These societies work on the basis of the cooperative principles like voluntary participation, democratic management, restricted area of operation, restricted legal responsibility etc. They are operated at the village level and supply short-term and medium-term credit to member farmers. Small farmers and marginal farmers together comprise 70% of the total membership and SC and ST together form 34% membership. But due the lack of political support and education small and marginal farmers as well as SC and ST members do not get due share in agricultural credit. Following table shows the progress of PACS in India. In 1993-94 the number of PACS was 91592 and increased to 92432 in 2011-12. Maharashtra has 21402 which are the maximum and Arunachal Pradesh and Chhattisgarh have lowest to 34 and 16 respectively. It indicates that the distribution of the PACS is uneven clearly shows the regional disparity. This clearly indicates that the agriculture growth in each state is different and there is huge difference in co-operative development among these states. The share of SC and ST members together, in total membership was less than 30% prior to 2001-02 but slightly increased nearly to 40% after 2002-
03. Such pattern of membership does not indicate better financial inclusiveness and participation of backward classes.

- **District Central Cooperative Banks (DCCBs):**

  The DCCBs work as the intermediaries between the PACS and SCB in the concerned state. The DCCBs are also called the federation of PACS which are founded basically for satisfying the credit requirements of PACS. With the lending operation, they also carry out other banking functions such as accepting deposits, collecting bills, issuing cheques and drafts, transferring funds etc. Their area of working is limited to an entire district and they function through their branches spread all over the district. Percentage growth rate clarifies that the growth in numbers of DCCBs is less than one percent but the growth rate in number of offices has generally remained more than two or three percent. Individual membership of the DCCBs is greater than the membership of co-operative societies. The share of co-operative society’s membership in total was 20 % and of individual membership 80%. It is further observed that individual membership has steadily increased after 2005-06.

- **State Cooperative Banks (SCBs):**

  State Cooperative Banks are the apex banks in the short-term cooperative credit structure in each state. They provide short term credit to DCCBs in the concerned state and control their working. The SCBs synchronize the operations of the Central Co-operative Banks in the state and provide them refinance facilities. They also act as a supervisory body for the short-period co-operative farm credit structure. Further, these banks guide the DCCBs for creating an atmosphere for the expansion of the co-operative movement in the respective state.

b) **Co-operative Agencies Supplying Farm Credit for Long Period:**

These co-operative banks include State Land Development Banks (SLDBs). The SLDB is established separately for every state. Hence, SLDB is also called as the Apex Bank in the concerned state. The Primary Land Development Bank is established one for each district and operates through its branches in the said district. Afterwards, these banks were named as the SCARDBs and PCARDBs accordingly. Thus, there is two-tier structure of the co-operative banks providing long-term agricultural credit. The SCARDBs have no uniform pattern. They are of unitary structure in the states like Gujarat, Maharashtra, Bihar and Uttar Pradesh. Other states are having a federal structure consisting of Two-tier institutions like (i) SCARDB at
the State level and (ii) PCARDBs at the district level. Obviously, in a state, there are many primary land development banks as there are a number of districts. These banks are affiliated to the SCARDB of the concerned state. Mixed type of SCARDBs working in Himachal Pradesh and West Bengal combines the features of both the unitary and federal structure. Under the federal structure, the PCARDBs deal with the farmers directly. However, under unitary structure, there is one SCARDB in a state which directly deals with the farmers through their branches spread over the State. The Primary Land Development Banks perform functions in the whole district through their branches at district and taluka level. These banks provide long-term credit directly to cultivators for digging wells, land reclamation, purchasing costly implements etc.

Commercial Banks:

Initially, commercial banks (CBs) were restricted only to metropolitan areas. They gave finances mainly to trade, business and manufacturing. Due to the risky nature of agriculture their participation in agricultural lending was insignificant. After the nationalization of commercial banks in 1969 and 1980, a most important transformation took place in the ownership and policies of these banks. By fixing targets for lending, these banks were forced to perform an active role in lending to farm sector. Today, they are the most important source of formal agricultural credit. As an impact of nationalization, although, the numbers of rural branches are greatest but they have declined after 1996 as a result of the recommendations made by the Narsinham Committee-1991.

Lower population per bank is the indicator for the development of financial system. Because of the spread of banking in rural area more and more rural citizen are linked to banks for their day to day financial transitions. Mobilization of saving and availability of affordable loans became easier. Consequently, it became possible to supply credit to farmers on increasing scale.

- RRBs-

Regional Rural Banks (RRBs) were established in 1975, for developing the rural economy by extending credit to the skilled workers and farm sector especially. The Government of India, the concerned State Government and the commercial bank sponsored the RRBs by contributing to their capital in fifty percent, fifteen percent and thirty five percent respectively.
The area of operation of these banks is restricted to a few districts in a state. These banks gather deposits and supply loans particularly to small and marginal cultivators, agricultural workers, rural skilled workers and other constitutions of priority sector. As a result of merger, the number of RRBs reduced from 196 to 64 but their branches increased up to 17,856. The RRBs covered 635 districts all over the country.

Thus, above three credit institutions are included in the Multi-agency approach of agricultural credit.

1.6 Need and Importance of Institutional Agricultural Finance:

Need of institutional credit arises because of the weaknesses in non-institutional agricultural credit. The need and importance of institutional agricultural credit can be described in the following manner.

1) Weaknesses in non-institutional agricultural credit-

Non-institutional agricultural credit provided especially by moneylenders is exploitative, very expensive and insufficient. It is mainly profit oriented and adversely affected agricultural productivity. It is not available for long-term agricultural development. The rate of interest on such loans is charged about 24% to 36% p.a. Conversely, institutional credit is not exploitative and helps the farmers to raise agricultural productivity. The rate of interest should be rational and lower for farmers in weaker section. It is fixed by the RBI, keeping in mind to achieve the desired targets of agricultural growth.

2) Risks and uncertainties in agriculture-

It is difficult to foresee risks and uncertainties in agriculture. This natural condition may seriously affect the quantity of return in farm. Unexpected calamities like droughts and floods create risks. The frequent changes in weather create fluctuations in output and demand of agricultural products. So, for stability in income institutional credit is essential. In farm production two uncertainties are prevalent which demand agricultural credit. They are-

i) Yield uncertainty-

Farmer is not able to predict the yield of crop which he will receive from using particular quantity of input for the production. Yield uncertainty is a result of disease or infestation from insects and climatic variations. These uncertain situations
compel the farmers to borrow money from non-institutional as well as institutional sources of agricultural credit.

ii) Price uncertainty-

Prices of farm commodities are highly sensitive to changes in demand and supply of a particular product. Most of the farmers could not accurately guess the changes in demand and supply of their agricultural produce. This causes fluctuations in price of these products. Often farmers have less knowledge and less information in fixing the price because of lack of knowledge and awareness of the market. To protect farmers from uncertainties of price fluctuations they should be supplied credit against the produce stored in godowns.

3. Diversion of farm capital-

Fixed capital including land can be turned from one use to another. Sometimes the economic condition may warrant a temporary or even a permanent diversion from one crop to another which causes need of additional inputs and more capital to purchase these inputs. This diversion obviously increases commercial risk and price uncertainties.

4. Thime-lag in agriculture-

There is a long interval between the application of inputs and the marketing of agricultural outputs. Sometimes it takes several months to receive the returns. During this interval farmers needs finance to manage his farm as well as the households.

5. Unbalanced cycle of Farm Output-

The demand for credit arises largely from the irregular cycle of farm production. Because of the seasonal nature of agriculture, the demand for credit increases during busy season and conversely decline during the off-season. Abundent agricultural output produced during favourable season lowers prices vice-versa when prices of agricultural products are high the farmers have no stocks to sell.

6. Demand and Supply Gap in Agricultural Credit:

Demand for farm credit is mace from the individual farmers as well as the agencies engaged in farming. The demand for credit is made for various types of duration. Such demand for credit is for short-term, medium-term and long-term duration. The short-term credit is also called the crop loan. It is demanded for satisfying the expenses of purchasing seeds, chemical fertilizers, pesticides and other expenses related to the crop. Similarly, the medium-term loans are demanded for
purchasing low cost farm equipments. The long-term agricultural loans are also considered as the investment loans that affect the productivity of agriculture in the long-run. The agricultural loans of long duration are demanded for meeting the expenditure of digging wells, purchasing high cost farm implements, leveling of land etc.

Following Table No. 1.3 presents the space between requirement and provision of agricultural credit in India. Agriculture sector requires credit for growth. The Govt. estimates total demand for agriculture credit. The gap between estimated demand for agriculture credit and actual supply of agriculture credit reveals insufficiency in agricultural finance. The following table indicates that the difference between estimated demand and actual supply of agricultural credit has been increasing since 2002-03. This gap increased from 4% to 33.10 %. These trends show that the supply of agriculture credit is less than its estimated demand.

**Table No. 1.3-Demand and Supply Gap in Agricultural Credit**

<table>
<thead>
<tr>
<th>Year</th>
<th>Demand(D) for Agri. Credit</th>
<th>Supply(S) of Agri. Credit</th>
<th>Gap in D/S of Agri. Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2003</td>
<td>2665</td>
<td>2562</td>
<td>4.0</td>
</tr>
<tr>
<td>2003-2004</td>
<td>3260</td>
<td>3001</td>
<td>8.5</td>
</tr>
<tr>
<td>2004-2005</td>
<td>3811</td>
<td>3583</td>
<td>6.4</td>
</tr>
<tr>
<td>2005-2006</td>
<td>4944</td>
<td>4411</td>
<td>12.1</td>
</tr>
<tr>
<td>2006-2007</td>
<td>6745</td>
<td>5361</td>
<td>25.8</td>
</tr>
<tr>
<td>2007-2008</td>
<td>7741</td>
<td>5817</td>
<td>33.1</td>
</tr>
</tbody>
</table>

**Average Geometrical Mean** 14.98

**Source:** http://dbie.rbi.org.in

The graph which is given below shows increasing between estimated demand and supply gap of agricultural credit.
Graph-1.3.-Demand and Supply Gap in Agricultural Credit

Source-Ibid

7. Actual expenditure less than planned expenditure-

The following table reveals that the government spends less on agriculture than what it plans. This further intensifies the need for agricultural credit not only for producing crops but creating infrastructure. Insufficiency of actual expenditure adversely affects the development of infrastructure in agriculture. This infrastructural development includes the development of irrigation facilities, electricity generation, storage facilities, and marketing facilities as well as development of credit institutions.

Table-1.4.-Planned and Actual Expenditure on Agriculture (In Rs Crore)

<table>
<thead>
<tr>
<th>Plan</th>
<th>Planed Expenditure (2)</th>
<th>Actual Expenditure (3)</th>
<th>Percentage of (3) to (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First (1951-56)</td>
<td>1960</td>
<td>600</td>
<td>31</td>
</tr>
<tr>
<td>Second (1956-61)</td>
<td>4670</td>
<td>950</td>
<td>20</td>
</tr>
<tr>
<td>Third (1961-66)</td>
<td>8580</td>
<td>1750</td>
<td>21</td>
</tr>
<tr>
<td>Fourth (1969-74)</td>
<td>15800</td>
<td>3670</td>
<td>24</td>
</tr>
<tr>
<td>Fifth (1974-79)</td>
<td>39430</td>
<td>8740</td>
<td>22</td>
</tr>
</tbody>
</table>
Following graph no. 1.4 shows the gap between planned and actual expenditure on agriculture.

### Table

<table>
<thead>
<tr>
<th>Plan</th>
<th>Planned (1000)</th>
<th>Actual (1000)</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sixth (1980-85)</td>
<td>109300</td>
<td>26100</td>
<td>24</td>
</tr>
<tr>
<td>Seventh (1985-90)</td>
<td>218730</td>
<td>47100</td>
<td>23</td>
</tr>
<tr>
<td>Eighth (1992-97)</td>
<td>475480</td>
<td>101590</td>
<td>21</td>
</tr>
<tr>
<td>Ninth (1997-02)</td>
<td>859200</td>
<td>176217</td>
<td>20.5</td>
</tr>
<tr>
<td>Tenth (2002-07)</td>
<td>1525639</td>
<td>305055</td>
<td>20.0</td>
</tr>
<tr>
<td>Eleventh (2007-12)</td>
<td>3644718</td>
<td>674105</td>
<td>18.5</td>
</tr>
</tbody>
</table>

**Source:** Five Year Plan Documents
8. Low Gross Capital Formation (GCF) in Agriculture:

High capital formation favorably affects the investment in agriculture and results in improving the stock of equipments, tools and productivity of resources employed that enables the farmers to use their resources specifically land and labor for more productively. Thus, creation of capital goods is required for raising agricultural productivity. Therefore, there is close relationship between capital formation and agricultural development. Capital formation in public sector reduces rural poverty through increased agricultural production. Decling capital formation in agriculture adversely affect agricultural growth. So, institutional credit is required.

Table-1.5.-Gross Capital Formation in Agriculture (In Rs. Crore)

<table>
<thead>
<tr>
<th>Year (1)</th>
<th>Total GCF (2)</th>
<th>GCF In Agri. and Allied Activities (3)</th>
<th>% Share of Col.(2)</th>
<th>Col.(3) in</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>1011178</td>
<td>76096</td>
<td>7.5</td>
<td></td>
</tr>
<tr>
<td>2005-06</td>
<td>1224681</td>
<td>89943</td>
<td>7.3</td>
<td></td>
</tr>
<tr>
<td>2006-07</td>
<td>1490875</td>
<td>101102</td>
<td>6.8</td>
<td></td>
</tr>
<tr>
<td>2007-08</td>
<td>1843208</td>
<td>123317</td>
<td>6.7</td>
<td></td>
</tr>
<tr>
<td>2008-09</td>
<td>1927890</td>
<td>163470</td>
<td>8.3</td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td>2234943</td>
<td>184526</td>
<td>8.3</td>
<td></td>
</tr>
<tr>
<td>2010-11</td>
<td>2719577</td>
<td>193586</td>
<td>7.1</td>
<td></td>
</tr>
<tr>
<td>2011-12</td>
<td>2938456</td>
<td>234270</td>
<td>8.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Central Statistical Organization
Graph-1.5. Gross Capital Formation in Agriculture

Source: Central Statistical Organization

Table-1.6. Sector-wise GCF in Agriculture (In Rs. Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Pub. Sector</th>
<th>Pvt. Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>100.0%</td>
</tr>
<tr>
<td>2004-05</td>
<td>16187</td>
<td>59909</td>
<td>76096</td>
</tr>
<tr>
<td></td>
<td>(21.27%)</td>
<td>(78.73%)</td>
<td></td>
</tr>
<tr>
<td>2006-07</td>
<td>25606</td>
<td>75496</td>
<td>101102</td>
</tr>
<tr>
<td></td>
<td>(25.32%)</td>
<td>(74.68%)</td>
<td></td>
</tr>
<tr>
<td>2008-09</td>
<td>26692</td>
<td>133655</td>
<td>163470</td>
</tr>
<tr>
<td></td>
<td>(21.64%)</td>
<td>(78.36%)</td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td>33201</td>
<td>151325</td>
<td>184526</td>
</tr>
<tr>
<td></td>
<td>(17.99%)</td>
<td>(82.01%)</td>
<td></td>
</tr>
</tbody>
</table>
Graph-1.6. Sector-wise GCF in Agriculture (In Rs. Crore)

Following graph presents private sector and public sector GCF in agriculture.

During the first plan, the public investment in agriculture was 31% and declined to 17.8% in the tenth plan recording 40 per cent reduction in 53 years. The total investment in agriculture is also of a worry as it declined from 1.6 per cent to 1.3 per cent. There was also a sharp decline in the public sector investment in agriculture. Consequently, private sector investment in agriculture increased rapidly during the above period.

The reforms in 1991 in India had positive impact on several sectors including agriculture but in some cases it had shown negative trends. Agriculture sector in India has been witnessing slow growth as compared to other countries in pre-reform period.

9. Lower Growth Rate in Agriculture-

Following Table No.1.7a presents comparative data of percentage growth rate in agriculture and GDP of India.
Following causes were responsible for lower growth rate in agriculture as compared to the growth rate in the GDP. The insufficient, improper, untimely and costly credit; inadequate availability of irrigation, prevalence of dry land farming, lack of suitable storage facilities, insufficient marketing facilities, adverse government policies, frequent changes in cropping pattern, decline in public sector investment in agriculture, disguised unemployment in agriculture, widespread poverty in farmers, illiteracy among the most of farmers, concurrent fluctuations in the prices of farm products etc.

### Table-1.7a.-Percentage Growth Rate

<table>
<thead>
<tr>
<th>Period</th>
<th>In Agriculture and Allied Sector</th>
<th>In GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971-81</td>
<td>1.7</td>
<td>3.3</td>
</tr>
<tr>
<td>1981-91</td>
<td>3.9</td>
<td>5.7</td>
</tr>
<tr>
<td>1991-01</td>
<td>2.8</td>
<td>6.7</td>
</tr>
<tr>
<td>2002-07</td>
<td>2.1</td>
<td>7.5</td>
</tr>
<tr>
<td>2005-11</td>
<td>3.1</td>
<td>7.0</td>
</tr>
</tbody>
</table>

**Source:** CSO, National Accounts Statistics and Eleventh Five Year Plan

### Graph-1.7a.-Percentage Growth Rate

![Graph showing percentage growth rate](image)

**Source:** CSO & NAS
Table 1.7b: Growth Rate in Agriculture

<table>
<thead>
<tr>
<th>Country</th>
<th>Growth Rate in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>3.1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3.23</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3.39</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.7</td>
</tr>
<tr>
<td>USA</td>
<td>3.86</td>
</tr>
<tr>
<td>Pakistan</td>
<td>4.0</td>
</tr>
<tr>
<td>China</td>
<td>5.86</td>
</tr>
</tbody>
</table>

Source: CSO.

Table No. 1.7b obviously shows that as compared to Asian countries and USA, the agriculture growth rate in India during 1980-96 was low. The agricultural growth rate in China was almost double than the growth rate of agriculture in India. Agriculture being the core sector in India such low growth rate is a matter of worry.

Graph-1.7b: Growth Rate in Agriculture

Source: CSO.
The above table shows the sector wise growth rates in terms of GDP of India during 1995-2003. In the above period, there was an average increase of 1.9 per cent per annum in agriculture and allied services. During the economic reforms, as compared to the growth rate in industrial and services sectors, the growth in agriculture was very low. During this period, the growth rate in agriculture sector was insignificant. During the above period, the growth rate in agriculture was also uneven and volatile. Inter-crop differences in growth performance and frequent changes in cropping pattern, were the causes for insignificant growth in agriculture. Consequently, slow growth in agricultural production resulted in the failure of reform process.
1.7. An Overview of the Agricultural Credit:

Despite the existence of the more fertile land and river systems, the agriculture in India is more dependent on the monsoon. The rulers of India gave most weightage to meet seasonal needs to satisfy the consumption pattern of farmers. The overdependence on the monsoon and unavailability of institutional credit resulted in higher indebtedness of farmers. Higher risks in traditional farming resulted in exploitation of farmers in terms of higher interest rates charged by moneylenders. To tackle the problem of credit availability, the British colonial government started credit to farmers during draught years.

The farming is still the important profession for the most of the rural population in India. If the agricultural sector performs well, there is always an appreciable increase in the growth of overall GDP. If Indian economy has to achieve 8 to 9 per cent growth in GDP, then the share of agriculture sector must be improved. This requires the shift form subsistence to market oriented production; diversification and commercialisation of agriculture, use of modern methods and use of water saving technology. But, these changes largely require credit.

For over the sixty-six years, institutional credit has been performing the important role in the development of the agricultural sector in India. Credit helped the
farmers to acquire the capital needed for agricultural activities. Short-term credit helps in raising inputs and other services and long-term credit for investment. Technological upgradation and commercialization in agriculture has sharpened the need of credit. Adoption of the Green Revolution intensified the requirement of credit for purchasing high-yielding seeds, chemical fertilizers, pesticides, modern implements for irrigation etc.

The history and origin of institutional credit find its roots in 18th century in British rule when the co-operatives began to extend loans. But much more attention to agricultural credit was given after the establishment of the RBI in 1935.

**Before 1950-**

For the easy availability of rural credit, the Cooperative Societies Act was approved by the government in 1904. Further, a new amended act was passed in 1912 that gave a lawful approval to co-operative credit societies. The Reserve Bank of India, founded in 1935, set up an agriculture credit department to coordinate the credit functions of the government. The Bank found that the moneylenders are the major source of agricultural credit compared to cooperatives. Till 1950, Reserve Bank took initiative to enhance the credit through cooperatives. This step of RBI, resulted in structural changes in agricultural credit in India. Despite of the efforts till 1951, the credit through cooperatives was just 3.3 per cent and that of through commercial banks it was merely 0.9 per cent.

**After 1950-**

The ARCS committee presented its report in 1951 to the Government of India. In this report, it was observed that cooperative institutes were the only option to encourage farm credit and progress of rural area. Further, in a report presented in 1954, by the ARCS committee, it was observed that the agricultural credit failed to fulfil the objectives like quantity, type of credit, credit purpose and credit to right people. Hence, this report gave emphasis on commercial banks for delivering credit. In 1950 due to the inadequacy of credit, the RBI and the Government felt the need of modification in credit delivery structure.

**After 1960-**

To provide the refinance, the Agricultural Refinance Corporation (ARC) was established by the RBI in 1963. But, during its functioning, the ARC failed to achieve its objectives. Further, in 1966, the AIRCR committee was shaped under the chairmanship of B. Venkatappiah to re-examine the supply of rural finance. This
committee first reviewed the need of agricultural credit for different parts in India and then gave its suggestions to improve the supply of farm credit. The committee recommended that the credit need should be fulfilled through the development of cooperative banks. The committee also gave more emphasis on extending the role of commercial banks in supplying credit to agriculturists. In the 1950 and 1960 more attention was given on the attainment of the big industrial push. Consequently, less attention was given to agriculture. But the drought of 1965-1967, drew the government concentration to agriculture. Simultaneously, the adoption the Green Revolution necessitated the cheap and sufficient availability of credit for purchasing chemical fertilizers, high yielding varieties, chemical pesticides, pump sets, expensive farm implements etc. The ARC was renamed as the Agricultural Refinance and Development Corporation (ARDC) by a modification to the Act in 1975.

The government took a brave decision of nationalizing the key private sector banks first in 1969 and then in 1980. This decision gave a boost to the supply of farm credit. Since then agricultural sector had been considered as the priority sector for credit planning and disbursement. Supplying more credit to the priority sector was achieved through the fixing of targets. The Lead Bank Scheme was also introduced for decentralising the planning for credit. Under the LBS, the entire district was allotted the commercial bank which was called the District Lead Bank. But the flow of agricultural credit did not show any substantial improvement. The commercial banks could not accomplish the credit needs of the small farmers and marginal farmers. The co-operatives, due to the lack resources, could not satisfy the credit demands. This gave rise to the view of establishing a separate bank for satisfying the local needs of rural population. Therefore, taking the recommendations of the NWG (1975) into consideration, the RRBs were established in 1977.

Thus, the approach of developing these three separate institutions namely co-operative banks, commercial banks and the RRBs for supplying rural credit are together described as the ‘Multi-agency Approach’ of rural credit.

1990 and Onwards-

Reforms in monetary sector started in the 1991. There was extraordinary growth in the banking system during two decades. But this extraordinary growth brought many serious weaknesses like inadequacy of loans, increasing provision for losses, increasing incompetence etc. As a result, rural financial institutions became
weak. In 1991, the LPG (Liberalisation, Globalisation and Privatisation) policy was adopted by the Indian government which opened up various sectors. Consequently, banking indicators like improvement in the credit/deposit ratio, expansion of branches, better credit delivery, capital sufficiency, financial liberalisation etc got utmost importance. The rural credit delivery system found hard to deal effectively with the environmental and economic changes. Therefore, after 1990 the public sector banks have to face the challenge of modernising their operations to face entirely new competitive and reform oriented environment. As a result of competition, the public sector banks shifted their attention from farm to non-farm activities. Consequently, the inadequacy of agricultural credit remained a live issue. Various measures for the enhancement of agriculture credit were planned in the monetary sector reforms. These reforms were the introduction of the Kisan Credit Card (KCC) Scheme, deregulation of interest rates and development of rural credit agencies, recapitalisation of selected RRBs, additional refinance support from the RBI and capital support to NABARD. The public sector banks were directed not to raise the rate of interest beyond 9 per cent for crop loan up to Rs.50, 000. The rate of interest on loans above Rs. 2 lakh was also deregulated.

NABARD, since its creation performed a crucial role in giving financial assistance, promoting development of co-operatives and encouraging efforts for the expansion of rural finance. The NABARD created the Rural Infrastructure Development Fund (RIDF) in 1995-96. Later on, this fund was contributed by the scheduled commercial banks. The commercial banks were asked to deposit the amount equal to their shortfall in fulfilling the lending targets for the priority sector.

After 1991, many committees were set up to improve the performance of the financial institutions. The HLCAG headed by R.V. Gupta, was formed in 1998. Then, the ECRC committee under the chairmanship of Vyas V.S. was formed in 2001. This committee recommended to reinstate the health of PACs. It also suggested integrating the short term and long term credit structures for improving the delivery of farm credit. Further, in 1999, the TFSFCCS headed by Jagdish Cooper suggested measures for strengthening co-operative credit. He also suggested adopting the Model Cooperative Act for the resettlement and improvement of cooperatives. Afterwards, in 2002, a working group for recommending reforms in the RRB Act-1976 was appointed under the chairmanship of M.V.S. Chalapathi Rao. This working group
recommended for expanding the business of RRBs that would facilitate these banks to assemble the capital required. Further, the committees in their reports took a comprehensive review of the various difficulties regarding bank lending to agriculture. The committee also suggested that the fixing of targets both for the direct and indirect credit were indispensable for attaining 4% growth in farm output. It also found that only five public sector banks and two private banks satisfied the lending target of 18%. The working group appointed on priority sector stated that although the percentage share of agriculture in the Gross Domestic Product of India declined to 1.5% but this sector still generates 67% employment to the rural population. This rural population mainly consists of a large number of small farmers and marginal farmers.

Rural financial system in India still faces major problems like insufficiency of finance, high cost of credit, low recovery rate, low capital base and continuously increasing competition. The borrowers in India criticize for high interest rates but the credit institutions complain about low credit demand and low recovery rate. The credit through self-help group is small and insignificant as compared to total credit supply. On the other hand informal credit is still a significant source in many parts of country. Despite the government’s encouragement to formal credit, the credit institutions actually hesitate to lend to small and marginal farmers.

Initially commercial banks were in privately owned and managed. These banks were nationalised first in 1969 and then in 1980. Since the nationalisation, these banks have become the main source of agricultural finance. The intention of bank nationalisation was to increase the supply of credit to rural areas at affordable rate of interest to minimise the dependence of farmers on the informal sources of credit especially moneylenders and landlords.

Therefore, the nationalised banks adopted a policy of branch expansion in rural area. According to the new branch licensing policy, the nationalised banks were directed to open four branches in rural area for every branch opened in urban or harbour areas. As a result, the rural branches of nationalised banks increased from 1443 in 1969 to 35134 in 1991.

According to priority sector lending policy, commercial banks were asked to provide the certain percentage of their total credit to priority sectors. These sectors
include micro and small enterprises, small farmers and marginal farmers, agriculture, food production, export etc. According to differential interest rates schemes, a concessional rate of interest are charged on loans given to weaker section.

**Summary:**

Thus this chapter deals with the various aspects of farm credit. While describing the key role of agriculture, the researcher has explained the role of agriculture in generating employment, producing crops, supporting to the development of other sectors etc. Meaning of agricultural credit has also been elaborated with illustrating the definitions given by the well-known economists. Necessity of credit for agriculture is like the oxygen for the survival of every creature. The agricultural credit is demanded for short period, medium period and long period. The short term credit is also known as the crop loan. Similarly, long-term agricultural loan is considered as the investment or production loan because this type of loan brings improvement in agricultural productivity for a long period. The sources of agricultural credit are roughly grouped into informal and formal sources. The informal sources include money lenders, relatives, friends, landlords etc. The agricultural credit from these sources is generally exploitative and mostly unproductive. The drawbacks of informal agricultural credit create the necessity of formal or institutional credit for agriculture. The development in agricultural finance during the various phases has been explained while taking an overview of agricultural credit.

In the next Chapter No.2, various dimensions of research methodology will be analyzed in detail. This chapter also contains scope, objectives, significance, methodology, hypothesis formulation and justification as well as limitations of the study undertaken.
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