Chapter 6

Conclusions and Suggestions
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CONCLUSION AND SUGGESTIONS

The economy of India being predominantly agriculture in character, the importance of the institutional credit to the agriculture sector can hardly be underestimated. It has been assigned a vital role in agricultural development of the country. Access to institutional credit to more farmers and appropriate quantity and quality of agricultural credit are crucial for realizing the full potential of agriculture as a profitable activity. Creation of adequate credit facilities has been identified as the principal solution for most of the agricultural problems. This is because about eighty per cent of Indian farmers were small and marginal whose farm savings are inadequate for financing their various agricultural activities and to carry out improvements in productivity of their agricultural operations. The institutional credit to agriculture is required not only for current inputs due to introduction of high yielding varieties, but also for uniform investments in the light of multiple cropping, increased cropping intensity, suitability and accuracy required in agricultural operations in the new strategy and increased irrigation requirements. In this way, the provision of adequate credit facilities not only fulfill the financial needs of the farmers but also enhances and ensures timely utilization of agricultural inputs through the adoption of new technologies for technically efficient achievement.

Since the introduction of economic reforms in 1991, the structure of the institutional credit to agriculture has changed drastically. The Narasimham Committee (Committee on Financial Systems), appointed by the Government of India in 1991, has provided various measures in the area of agricultural credit. These measures were related to the reduction in statutory liquidity ratio (SLR) and cash reserve ratio (CRR), abolition of branch licensing system for opening new bank branches, deregulation of interest rates of co-operatives and regional rural banks, deregulation of lending rates of commercial banks for loans above ₹ 2 lakh, recapitalization of selected regional rural banks, introduction of prudential accounting norms relating to income recognition, assets classification and provisioning requirements for all rural credit agencies, increased refinance support from RBI and capital contribution to NABARD,
setting up of the Rural Infrastructure Development Fund (RIDF) in NABARD for infrastructure projects, introduction of Kisan Credit Card Scheme (KCCS), doubling the flow of agricultural credit by all financial institutions during the period 2004-05 to 2006-07 and introduced a scheme for debt waiver and debt relief for farmers.

To comprehend the different effects of banking sector reforms on agricultural finance the current research is to evaluate the specific objectives to see the role of banking sector in agricultural finance during the post-reform period in India:

(i) To analyse the share (trends and composition) of institutional credit to agriculture sector during the post-reform period in India.

(ii) To examine the inter-regional variation in the disbursement of agriculture credit during the post-reform period in India.

(iii) To measure the credit gap among farmers across the size of land holding during the post-reform period in India.

(iv) To estimate the contributed share of institutional credit to agricultural production during the post-reform period in India.

In view to the importance of institutional credit to agriculture, the present study is related to the period 1975-76 to 2009-10. This period has been divided into two sub-periods viz., pre-reform period (1975-76 to 1990-91) and post-reform period (1991-92 to 2009-10). The analysis is based at all-India level and for six regions of the country.

6.1. Conclusions

The overall conclusions emerging from the analysis of institutional credit to agriculture are briefly provided below:

- The analysis at all India level shows that the trends of institutional outstanding credit to agriculture during the post-reform period were increasing and high as compared to the pre-reform period. A similar situation was also found for both direct and indirect institutional outstanding credit. Although the trends of both direct and indirect institutional outstanding credit during the post-reform period were increasing but the trend of direct institutional credit to agriculture
was higher than the trend of indirect institutional outstanding credit to agriculture.

- The share of direct short-term institutional outstanding credit has continuously fallen during the pre-reform period till the end of the 1980s. But during the post-reform period the share has increased continuously and maintained the share to more than half of the total credit in 2009-10. On the other hand, the share of direct long-term institutional outstanding credit was increasing continuously during the pre-reform period with some fluctuation in late 1970s but after that it increased tremendously up to 1990-91. While during the post-reform period, the share fell continuously to less than 50 per cent in 2009-10.

- The study found that there is a marginal decline in the growth of agricultural institutional outstanding credit (both direct and indirect) during the post-reform period as compared to the pre-reform periods’ growth.

- The growth of both direct short and long-term institutional outstanding credit to agriculture during the post-reform period is lower as compared to the pre-reform periods’ growth. In comparison between short and long-term direct institutional outstanding credit to agriculture during the post-reform period, the growth of short-term is higher as compare to the growth of long-term credit.

- The growth rates of total direct institutional outstanding credit (both in nominal and real terms) to agriculture were lower during the post-reform period as compare to the growth of pre-reform period. The study examines the direct institutional outstanding credit to gross cropped area per ten lakh hectares at 2004-05 prices. Here also, the growth is lower during the post-reform period as compare to the pre-reform period.

- An analysis in the distribution of agricultural institutional outstanding credit by multi-agency approach (comprises scheduled commercial banks, co-operatives and regional rural banks) shows that the share of co-operatives to the total institutional outstanding credit to agriculture during the post-reform period was increasing and contributed more than half at the end of the decade of 1990s but in 2000s it started to fall continuously and contributed less than
one-third of the total institutional outstanding credit to agriculture in 2009-10. On the other hand, the share of scheduled commercial banks to the total institutional outstanding credit to agriculture during the post-reform period was fluctuating till the year 1999-2000 and after that it started to rise and contributed more than half of the total credit to agriculture during the end of the decade 2000s. The share of the regional rural banks to the total institutional outstanding credit to agriculture has increased continuously but contributed less than 10 per cent during the post-reform period. During this period, the scheduled commercial banks outstanding credit to agriculture has higher variability followed by regional rural banks and co-operatives respectively.

- The finding shows that the compound annual growth rate of institutional outstanding credit to agriculture by co-operatives is little better during the post-reform period than the pre-reform period while that of scheduled commercial banks and regional rural banks are better during the pre-reform period than the post-reform period. Nonetheless, the compound annual growth rate of regional rural banks is higher as compared to that of scheduled commercial banks and co-operatives during the post-reform period.

- There is a wide variation in the availability of institutional outstanding credit to agriculture in different regions. The region-wise growth of institutional outstanding credit to agriculture by scheduled commercial banks shows that the growth rate is higher in all the regions during the later post-reform period (2001-10) as compared to the early post-reform period (1992-2000). However, the growth rates were much higher in the case of North-Eastern, Eastern and Central regions during the later post-reform period. But the increase in the growth rate is steep in the case of North-Eastern region during the same period. Thus the growth rate of agricultural institutional outstanding credit was uneven throughout the sub-periods as well as across the regions. During the entire post-reform period (1992-2010) the growth is higher in Northern and Western regions as compared to the growth rate of all India. On the other hand, the growth rate of the North-Eastern region is less impressive as compared to the other regions of the country during the entire post-reform period.
The study found that Northern region has higher variability in the distribution of institutional outstanding credit to agriculture by scheduled commercial banks as compare to the other regions during the post-reform period. Whereas the North-Eastern region has less variability as compare to the other regions of the country during the same period.

The distribution of direct institutional outstanding credit to farmers by scheduled commercial banks by size-class of land holdings at the all India level shows that during the early decade of post-reform era (1990s), the share of credit obtained by marginal and medium/large farmers declined marginally because of the minimal increase in the share of credit obtained by small farmers. But in period of 2000s the opposite was happening. The proportion of credit disbursed to marginal farmers increased substantially which causes the decline in the share of credit obtained by medium/large farmers. During the same period there was marginal increase in the share of the small farmers.

The proportion of credit disbursed to medium/large farmers is still almost half of the credit disbursed to agriculture. However, during the decade of 1990s the growth of all size-classes of farmers is less impressive as compare to the growth of the same during the decade of 2000s.

The analysis found that there is higher variability in the disbursement of credit to medium/large farmers as compared to the variability of marginal and small farmers during the post-reform period.

The finding shows that on the one hand, the growth in the distribution of loan accounts under direct finance held by medium/big farmers are higher as compared to the growth of marginal and small farmers during the post-reform period although there is a negative growth during the decade of 2000s. On the other hand, the loan accounts held by the medium/large farmers has higher variability as compared to the marginal and small farmers during the post-reform period.

The distribution of institutional outstanding credit to agriculture by credit limit of less than ₹ 25,000 shares has fallen continuously and drastically during the post-reform period. This fall was because of the drastic fall in the share of
direct agricultural advances. The share of agricultural advances with credit limit between ₹ 25,000 and ₹ 2 lakh has increased significantly during the post-reform period because of the significant increase in the share of the direct agricultural advances to the same credit limit size (around half of the direct finance to agriculture was accounted by this credit limit size in 2009-10). The share of credit limit size in between ₹ 2 lakh and ₹ 10 lakh has also increased continuously during the post-reform period. Here also, the increase was contributed by substantially increase in the share of direct agricultural advances. The share of the credit limit size in between ₹ 10 lakh and ₹ 1 crore and in between ₹ 1 crore and ₹ 10 crore to the total agricultural advances was increasing marginally and contributed less than 10 per cent each during the entire post-reform period. The credit limit in between ₹ 10 crore to ₹ 25 crore shares to total agricultural advances was fluctuating and contributed 2.80 per cent in 2009-10. However, the share of ₹ 25 and above crore has increased continuously during the post-reform period because it contributed more than half of the share of indirect agricultural advances to total.

- The percentage share of number of loan accounts in case of less than ₹ 25,000 declined drastically from almost 98 per cent in the early post-reform period to less than half of the total number of loan accounts at the end of the 2000s. This decline was because of the consistently and tremendously fall in the share of direct and indirect loan accounts to total loan accounts. The share in total loan accounts with credit limit size between ₹ 25,000 and ₹ 2 lakh has increased considerably during the post-reform period, accounting more than half of the loan accounts for agricultural advances during the year 2009-10, which were contributed by the increased share of both direct and indirect agricultural credit advances. The share of the loan accounts of credit limit size of above ₹ 2 lakh was insignificant during the entire post-reform period.

- The study provides the impact of institutional outstanding credit to agricultural gross domestic product during the period 1975-76 to 2009-10, which is shown in three different models. Except for the first model, the study excludes the explanatory variable of Fertilizer consumption in Model II and from Model III, we excludes Fertilizer consumption and Gross Irrigated Area (explanatory variables) to reject the null hypothesis.
The result in Model II and III concludes that institutional outstanding credit to agriculture has negative impact on agricultural gross domestic product during the entire taken period and remains statistically significant at 2 per cent level. But during the post-reform period it has positive impact on agricultural gross domestic product and remains highly statistically significant in Model II and statistically significant at 2 per cent level in Model III respectively. In both the Model (II and III) we found the phase of Increasing Returns to Scale during the period 1975-76 to 2009-10.

The overall finding of our empirical exercise can be drawn from Model I which represents that institutional outstanding credit to agriculture has negative impact on agricultural gross domestic product during the period 1975-76 to 2009-10 and remains statistically insignificant. But during the post-reform period it has positive impact on agricultural gross domestic product which is statistically significant at 2 per cent level. Thus, Model shows the phase of Increasing Returns to Scale.

6.2. Suggestions

The current study brings out the fact that the supply of institutional credit to the agriculture sector continues to be inadequate. On this ground, several committees/working groups/task forces have been constituted to suggest ways to increase the availability of institutional credit to the agriculture sector. These are the “The High-Level Committee on Agricultural Credit through Commercial Banks” (Chairman: R.V. Gupta, 1998), “Task Force to study the Functions of Co-operative Credit System and to Suggest measures for the Strengthening” (Chairman: Jagdish Capoor, 1999), “Expert Committee on Rural Credit” (Chairman: V.S. Vyas, 2001), and “The Working Group to suggest Amendments in the Regional Rural Banks Act, 1976” (Chairman: M.V.S. Chalapathi Rao, 2002), “Report of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System” (Chairman: V.S. Vyas, 2004), “Draft on Technical Paper by the Internal Working Group on Priority Sector Lending” (Chairman: C.S. Murthy, 2005), “Report of the Expert Group on Agricultural Indebtedness” (Chairman: R. Radhakrishna, 2007), “Report of the Internal Working Group to Examine the Recommendations of the Radhakrishna Expert Group on Agricultural Indebtedness” (Chairman: V.S. Das,
Based on the analysis done and conclusions arrived at from the study, certain suggestions are drawn which are made to improve the agricultural finance and bringing up the differential access to credit by different farmers. The suggestions are as follows:

- It may be suggested that the growth in regard to the total institutional outstanding credit to agriculture must be increased. This is because the majority of farmers in India are still not in position to save from their low incomes for agricultural purposes as well as to protect them from the moneylenders, relatives, traders, etc.

- The variability in the institutional credit to agriculture by co-operatives, scheduled commercial banks and regional rural banks should be reduced. This will help to encourage the confidence of farmers towards formal institutions for their credit requirement.

- For improving the conditions and productivity of farmers, co-operatives, scheduled commercial banks and regional rural banks should make concerted efforts in the disbursement of agricultural credit to keep pace with the rising cost on cultivation. This will provide an incentive to the farmers to adopt the latest technology for attaining higher productivity.

- There is a wide range of inter-regional variation in the accessibility of institutional credit for agriculture. The accessibility was higher in the case of developed agricultural regions whereas it is low in backward agricultural regions like North-Eastern region. Thus, the disbursement of agricultural credit should be distributed equally and should be given more emphasis on the North-Eastern region which has capability to increase agricultural production.

- The growing shift in the share of loans towards small and marginal farmers needs to be maintained. The credit should be disbursed through cooperatives keeping in view the easy access and lower transaction cost in this institution.

- The empirical result denotes that institutional outstanding credit to agriculture has positive impact on agricultural gross domestic product during the post-reform period. The institutional agencies should maintain this positive relationship for improving further agricultural production.
In addition to this, the recent policy changes announced both by the central and state governments with respect to rural credit structure as well as the latest ideas expressed by few scholars regarding the rural credit system are also taken into consideration. Taking this as cue some other suggestions which can be implemented to ensure the farmers towards institutional agencies for their credit requirements are made. These are:

➢ The acquisition of agricultural credit by the farmers did not entirely cover the cost of production. In this context, it may be suggested that credit should be given on the basis of cost of cultivation rather on the basis of credit worthiness of the borrowers.

➢ Income of the farmers from agriculture is seasonal and therefore cash flow is not continuous. The formal institutions should finance consumption loans for unproductive purposes along with the productive loans so as to make the cash flow a continuous process. Further, the consumption finance should be liberal within the repaying capacity of the borrower. This can reduce the farmers' dependency on non-institutional sources for their unproductive credit requirements.

➢ The time consuming process of institutional loans (borrowers have to wait for a month after applying for loan) diverted the farmers towards non-institutional loans (borrowers need not to wait for a longer period of time) for their credit requirements. The institutional agencies should take this fact into consideration. For this reason, the lending procedure of institutional agencies should be made easier and convenient so that the small and marginal farmers are able to meet their credit requirements at the time of need. This would save them from the exploitative traps of private credit agencies such as moneylenders, traders, relatives, etc.

➢ Education and awareness of the farmers should be improved as it will help them in availing loans timely and enable them to develop a sense of responsibility and hence a willingness for repayment of bank loans which will check the wilful defaults.
Awareness amongst the farmers related to the discouragement of loans on non-productivity expenditure (dwelling houses and social ceremonies) should be made through community education programmes.

To ensure repayment of bank loans in time, bank officials should develop mutual relationship with the potential borrowers through visiting during pre and post-lending periods of farm operations. It helps the bankers to understand credit requirements of the farmers during the pre-lending period, and monitoring and supervising the utilisation of loan amount in an effective manner.

There should be minimum proportion of total agricultural credit to be reserved for marginal and small farmers. Otherwise the gap between the big farmers and the small and marginal farmers will be increased further.

The differential rate of interest should be made on the basis of operational holding rather than purpose of borrowing. This will obstruct the flow of credit to undesirable expenses by higher farm size categories and at the same time availability will increase to lower farm size categories.

Not only the sufficient quantity with reasonable rates of interest of the loan disbursement must be made in proper time but also steps should be taken accordingly by the banks for appropriate amendments and improvements in the present situation of agriculture financing.

Crucial consideration of these suggestions might make it possible to utilize the majority share of loans for productive purposes. This might also help and facilitate the improvement in the economic condition of most of the farmers of the country.