CHAPTER TWO

AGRICULTURAL CREDIT SCENE IN INDIA

1. Introduction
2. Agricultural Finance & Policy: A Historical Perspective
3. Sources of Agricultural Finance in India
4. The Present Position of Agricultural Credit
2.1 Finance is the life-blood of an economy. No sector in the economy can develop without the availability of timely and adequate finance. Agriculture, which is the main occupation of our country, is no exception to this. Since our agriculture is exposed to low returns and uncertainties due to its excessive reliance on nature and as most of our farmers/cultivators are poor, it has become imperative for them to borrow. It is difficult for our cultivators to manage agricultural operations without resorting to borrowing. Agrarian history of India reveals that the farmers are compelled to borrow for their capital is locked up in lands and stocks. The United Nations has rightly observed, "Most of the world's farmers have to borrow at some time, many of them heavily. To raise agricultural production, they will have to borrow still more. And more is almost always needed where there is redistribution of rights in land. It is in the interest of agriculture and general progress, that credit be available to farmers in adequate amount and at appropriate costs".¹ Importance of agricultural credit most properly stated by Professor Jhon D. Black, who writes, "If we are all concerned about increasing total agricultural output in the shorter time, we must provide credit first and foremost. This will enable them to buy more labour saving equipments, more seeds and fertilisers".²

2. Contemporary Reading in Agricultural Economics 1955, p.322.
2.2 Agricultural credit is thus a nucleus of the system of farm operation. It provides flow to the system averting ruin which would have occurred due to the lack of monetary capacity of a farmer. "Credit supports the farmer, as the hangman's rope supports the hanged". Therefore, adequate and timely credit is indispensable for the rehabilitation and progress of agriculture.

2.3 The All India Rural Credit Survey Committee, 1951 has classified the credit needs of the farmers into three broad categories Viz (1) short term credit, (2) Medium term credit; and (3) Long term credit. Farmers need short term credit for a period of less than fifteen months for meeting their current/day-today requirements of agricultural operations such as buying seeds, fertilisers, pesticides and paying wages to workers and other such expenses. It is mainly used to meet operational expenses which may be described as 'working capital requirement'. The medium term credit extends over a period of 15 months upto 5 years, which is used for repairs and maintenance of equipments and making temporary improvements on land. Long term credit is for a period exceeding five years and is used for purchase of additional land, new implements, farm machinery, digging of new well, construction of farm structures, soil conservation works and other such developmental activities.

2.4 In the modern context, we may broadly divide the credit for agriculture into four categories: Viz. (1) Production credit; (2) Development credit; (3) Marketing credit, and (4) Consumption credit. The production credit is required for raising the crop. The developmental activities are undertaken with the help of development credit. Marketing credit is needed to support agriculturists in selling their agricultural produce as most of the agriculturists lack staying power. The credit provided to the farmers to maintain their families in times of failure of crops due to adverse natural conditions may be described as consumption credit. This assumes greater significance in the Indian context as our agriculture relies heavily on vagaries of nature.

2.5 India is traditionally an agricultural country. Agriculture, which is the backbone of our economy, still contributes more than one-third of India’s national income. It is a source of livelihood to a vast majority of people. There is a lot of interdependence between agriculture and industry, for agriculture supplies raw-materials and inputs to many industries, wage goods to the industrial sector and industrial sector provides consumption goods to agricultural population and delivers raw-materials of economic and social overheads needed by the agricultural sector. The modernisation of agriculture enables the country to earn valuable foreign exchange. Added to this, the role of
Agriculture is immense in the sphere of export trade of India. Nearly forty-two percent of the total exports are derived from agriculture which include products like rice, groundnuts, tea, coffee, spices, marine and processed food, cotton, jute, cardamom and rubber. Agriculture, which occupies a pivotal position in our economy, needs to be supported and developed by providing adequate and timely credit.

2. AGRICULTURAL FINANCE AND POLICY A HISTORICAL PERSPECTIVE

2.6 Agriculture in India has been exposed to adversities of nature such as famines and droughts. A series of famines during the last quarter of nineteenth century awakened the Government to take some steps to improve agriculture. The Famine Commission 1880, 1898 and 1901, the Irrigation Commission and the Committee on cooperation made a number of suggestions for the improvement of Indian agriculture. These commissions and committees recommended measures like creation of a separate department for agriculture, provision of irrigation facilities, extension of means of communication, provision of loans to the farmers and appointment of special courts to examine the debts of agriculturists. But the Government of India did not take any immediate action. The Royal Commission on Agriculture remarked "the Government of India took no immediate action on the proposal -------------." 4

2.7 Mr. J.A. Voelekar, a consulting chemist to the Royal Agricultural Society, was the first person who thought of improvement of agriculture. He was on deputation to India in 1889 to advise on the best course to be adopted so as to apply agricultural chemistry to Indian agriculture. In his Report, it was stated that Indian Agriculture as a whole was primitive and backward. The differences in agricultural practices were due to inherent differences in people themselves as a class of cultivators, differences in external surroundings and differences as regards scientific knowledge. This resulted in less productivity. He suggested measures like improving the system of land tenure, increased private and public expenditure on agriculture and improving soil conditions. Mr. Voelekar laid greater emphasis on improving soil.

2.8 In 1904, Co-Operative movement for supplying credit to farmers was launched and co-operative societies Act was enacted in 1912. The post First World War period was quite good for agriculture. Some reforms were tried. But very little progress was recorded in the sphere of agricultural borrowing and extension of irrigation facilities.

2.9 The Royal Commission on Agriculture was appointed in 1926 to examine and report on the conditions of agriculture and rural economy of India. It was the first comprehensive
survey of the problems of agriculturists of India. The commission felt that the problem of improving Indian agriculture was really the problem of improving Indian village life and that this must be studied as a whole. It made valuable recommendations for improving agriculture in India. It recommended promotion of agricultural research, improving the size of holdings, irrigation, marketing, rural education and reconstruction in general and widening of the outlook of people.

The most important recommendation of the commission that has relevance to the present study is the setting up of the Agricultural Credit Department in the Reserve Bank of India. This was implemented under section 54 of the Reserve Bank of India Act, 1934. The Agricultural Credit Department was entrusted with the responsibility of making study of the problems concerning agricultural credit and co-ordinating credit activity. In 1982, the NABARD (National Bank for Agriculture and Rural Development) came into being in which Agricultural Credit Department of the R.B.I. has been merged and the present functions of the Agricultural Credit Department are taken over and performed by it (NABARD).

3. SOURCES OF AGRICULTURAL FINANCE IN INDIA

2.10 There are multiple sources of agricultural finance in India, which are broadly classified into two categories.
Institutional sources and (2) Non-Institutional sources. The former category includes such sources of finance as the Government, Co-Operatives, Commercial Banks and the Regional Rural Banks. The activities of these sources of finance are controlled and co-ordinated by the NABARD. The later category consists of private money lenders, traders, commission agents, landlords and the relatives and friends.

2.11 In the past, the rural credit scene was dominated by the Non-institutional sources particularly the money lenders. With increased institutionalization of rural credit in the post-nationalization period, the importance of money-lenders has been declining. The credit delivery system is now dominated by institutional sources which is evident from the following table:

TABLE 2.1

<table>
<thead>
<tr>
<th>SOURCES OF AGRICULTURAL FINANCE</th>
<th>1951-52</th>
<th>61-62</th>
<th>71-72</th>
<th>81-82</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Government</td>
<td>3.1</td>
<td>15.5</td>
<td>7.1</td>
<td>3.6</td>
</tr>
<tr>
<td>(b) Co-operatives</td>
<td>3.3</td>
<td>2.6</td>
<td>22.0</td>
<td>0.0</td>
</tr>
<tr>
<td>(c) Commercial Banks</td>
<td>0.9</td>
<td>0.6</td>
<td>2.6</td>
<td>36.1</td>
</tr>
<tr>
<td>(d) R R Us</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SUB-TOTAL (i)</strong></td>
<td><strong>7.3</strong></td>
<td><strong>18.7</strong></td>
<td><strong>31.7</strong></td>
<td><strong>64.1</strong></td>
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Institutional credit is now considered as an important tool for promoting changes in the farm sector essential for its development. This is particularly true in areas which could not participate in the process of development to the expected level.

Institutional credit has been playing a vital role in the post-nationalisation period in the rural credit delivery system of our country. The branches of commercial banks in rural centres, co-operatives, and regional rural banks have taken keen interest in supplying farm finance. This has brought about a sea change in the rural credit scene.
2.15 The number of deposit accounts has risen by more than seventeen times, i.e., from 16 million in March 1969 to 280 million in December 1989. Commercial bank deposits grew from Rs. 4,385 crores in March 1969 to Rs. 1,40,000 crores in March 1989. As a percentage of national income, the total deposits have gone up from 15% to 49%.

2.16 The total advances made by the commercial banks have also gone up from Rs. 3020 crores in June 1969 to Rs. 36,710 crores in June 1987. The percentage of priority sector advances to total bank credit has increased from 15% to 45% during the same period. Commercial banks have devised different schemes of financing agriculture and other priority sectors. The emphasis now is on 'Production-Oriented Loans' rather than 'Security Oriented Loans' as in the past. There is innovative approach to bank lending particularly in the context of farm sector. Commercial banks have now become active agents of rural development. They are responsible for the present transformation of the rural credit delivery system.

2.17 In 1987, the entire gamut of rural lending sector came under sharp focus which resulted in the formulation of 'Service Area Approach' (S.A.A.) to rural lending. The S.A.A. was the offspring of the deliberations made at the National Seminar on Rural Lending held in Bombay under the aegis of the R.B.I.
In January 1988, the seminar felt that the existing rural credit delivery system needed revamping to improve quality of lending and ensuring that the bank credit is used for increasing production, productivity and income levels of rural people. It emphasised on minimising constraints in rural lending and concentrating on production lending. Dr. P.D. Ojha, Dy. Governor, Reserve Bank of India, commenting upon the S.A.A. has rightly remarked: "We have moved towards a system of micro-level planning and the bank manager would become the focal point of development of his designated service area."  

The salient features of S.A.A., which came to be implemented from 1st April 1989, are:

1. Designated service area comprising 15-25 villages has been allocated to each of the branches in rural and semi-urban areas of both commercial banks and the R.R.B.s.

2. Branch Manager, who has become a focal point, has been entrusted the responsibility of conducting extensive survey of the villages allocated to them and prepare village profiles within four months of the allocation of service area.

3. Branch Managers are required to prepare annual credit plan for deployment of credit in each of the village in service area keeping in view the potential and needs of concerned areas.

(4) Block Level Banker's Committees have been constituted in each district to oversee the effective operation of the scheme by ensuring availability of linkages, reviewing progress periodically and sorting out operational problems.

The S.A.A. is a significant step towards rural development, in that it is a specific approach at the Micro Level. The branches under S.A.A. have already completed survey of their allocated villages in the designated area and prepared credit plans. The scheme, which is in operation for more than a year, has proved to be beneficial from the viewpoint of intensive development. Initially, some operational problems have been confronted by the banks but there are great hopes that the scheme may prove to be highly useful. Since April 1989, more than Six Lakh villages have been allocated to about 42,158 branches of various banks in India.

2.18 The Regional Rural Banks (R.R.B.s) which were started in 1975 particularly to provide finance to the small and marginal farmers and rural artisans have also contributed significantly to rural finance. But, they have suffered a jolt on profitability front. They are facing peculiar problems. At the end of June 1988, there were 196 R.R.B.s with more than 13,000 branches spread over 320 districts in 23 states. They are lending around Rs.600 crores annually. About Ninety percent of loans by R.R.B.s are to the weaker sections of the rural community. The plight
of R.R.B.s is far from satisfactory which is evident in the comments offered by Mr. Srinivas.V.Thakur who states "the poor quality of loaning, absence of pre-sanction scrutiny and inadequate post-sanction supervision have been among the factors which are responsible for poor recovery and mounting-dues with which the R.R.B.s are saddled, resulting in aggravating the problem of overdues".

4. THE PRESENT POSITION OF AGRICULTURAL CREDIT

2.19 The multi-agency approach to agricultural credit in India seems to have justification in the context of vastness of our country. But it is the commercial banks, co-operatives and the R.R.B.s which have revolutionised the rural credit movement. It appears that only after nationalisation of commercial banks in July 1969 the rural credit situation has improved considerably due to dynamic approach to lending and innovative banking. The present position of agricultural credit compared to pre-nationalisation area is quite satisfactory. There has taken place intensive institutionalization of rural credit. A scientific, co-ordinated and integrated approach to rural credit has been evolved which has contributed significantly to the improvement of farm sector.