Topic: Agriculture Credit In India

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AGRICULTURE CREDIT IN INDIA

The word "Credit" is derived from a Latin word "Credo", meaning "I Believe". The Latin verb "credere" means "to repose confidence in". Note that borrowing is a function of ability to command capital or services currently with a promise to repay it in future i.e. obtaining certain amounts of money as loan to be rapid as specified in the Agreement between the concerned parties. This is often based on confidence in the borrowers' future solvency and repayment. Credit means the ability to command other peoples' capital in return for a promise to repay at some specified time in future. It is therefore the combination of the "ability to borrow" and "willingness to borrow". It can also be regarded as an economic good to be produced, managed and marketed. Credit is obtaining control over the use of money at the present time in exchange for a promise to repay it at some future time. Credit is also defined as a device for facilitating the temporary transfer of purchasing power from those who have surpluses of it to those who are in need of it. Thus, credit involves a temporary transfer of wealth. Agricultural Credit is the amount of investment funds made available for agricultural production from resources outside the farm sector.

Agricultural credit is considered as one of the most basic inputs for conducting all agricultural development programmes. In India, there is an immense need for proper agricultural credit as Indian farmers are very poor. From the very beginning, the prime source of agricultural credit in India was moneylenders.

After independence, the Government adopted the institutional credit approach through various agencies like co-operatives, commercial banks, regional rural banks etc. to provide adequate credit to farmers, at a cheaper rate of interest. Moreover, with growing modernisation of agriculture during the post-green revolution period, the requirement of agricultural credit has increased further in recent years.

TYPES OF AGRICULTURAL CREDIT

Considering the period and purpose of the credit requirement of the farmers of the country, agricultural credit in India can be classified into three major types

Short term credit: The Indian farmers require credit to meet their short term needs viz., purchasing seeds, fertilizers, paying wages to hired workers etc. for a period of less than 15 months. Such loans are generally repaid after harvest.

Medium-term credit: This type of credit includes credit requirement of farmers for a medium period ranging between 15 months and 5 years and it is required for purchasing cattle, pumping sets, other agricultural implements etc. Medium-term credits are normally larger in size than short term credit.

Long term credit: Farmers also require finance for a long period of more than 5 years just for the purpose of buying additional land or for making any permanent improvement on land like the sinking of wells, reclamation of land, horticulture etc. Thus, the long term credit requires sufficient time for the repayment of such loan.

SOURCES OF AGRICULTURAL CREDIT

n India, agricultural credit are being advanced by different sources. The short term and medium term loan requirements of Indian farmers are mostly met by moneylenders, co-operative credit societies and Government. But the long-term loan requirements of the Indian farmers are also met by moneylenders, land development banks and the Government.

Nowadays, the long term and short term credit needs of these institutions are also being met by National Bank for Agricultural and Rural Development (NABARD).

Sources of agricultural credit can be broadly classified into institutional and non-institutional sources. Non-Institutional sources include moneylenders, traders and commission agents, relatives and landlords, but institutional sources include co-operatives, commercial banks including the SBI Group, RBI and NABARD.

Institutional Sources

The main motive of institutional credit is to assist the farmers in raising their agricultural productivity and maximising their income.The following are some of the important institutional sources of agricultural credit in India.

(i) Co-operative Credit Societies:The cheapest and the best source of rural credit in India is definitely the co-operative finance. In India the active primary agricultural credit societies (PACS) cover nearly 86 per cent of the Indian villages and account for nearly 36 per cent of the total rural population of the country.

(ii) Government:Another important source of agricultural credit is the Government of our country. These loans are known as taccavi loans and are lend by the Government during emergency or distress like famine, flood etc. The rate of interest charged against such loan is as low as 6 per cent. During 1990-91, the state Governments had advanced nearly Rs 350 crore as a short-term loan to agriculture. But the taccavi loan failed to become very much popular due to official red-tapism and corruption.

(iii) Land Development Banks:Land development banks are advancing long term co-operative credit for 15-20 years to the farmers against the mortgage of their lands for its permanent improvement, purchasing agricultural implements and for repaying old debts. The number of state land development banks (SLDBs) increased from 5 in 1950-51 to 19 as on June 1986 which again consisted of 2447 Primary Land Development Banks (PLDBs) branches.

(iv) Commercial Banks:In the initial period, the commercial banks of our country have played a marginal role in advancing rural credit. In 1950-51, only 1 per cent of the agricultural credit was advanced by the commercial banks. But after the nationalisation of commercial banks in 1969, the commercial banks started to extend financial support both directly and indirectly and also for both short and medium periods.With the help of “village adoption scheme” and service area approach the commercial banks started to meet the credit and other requirements of the farmers. They also sponsored various regional rural banks for extending credit to small and marginal farmers and rural artisans just to save them from the clutches of village moneylenders.Till 1969, direct advances by the commercial banks were restricted to only Rs 44 crore. But as on March 2007 the amount of loan has increased to Rs 1,40,382 crore. During 2006-2007 commercial banks along with Regional Rural Banks extended nearly 79.1 per cent of the total institutional farm credit in our country.

NON INSTITUTIONAL SOURCES

(i) Money Lenders :These moneylenders were supplying a major portion of agricultural credit (69.7 per cent in 1951-52) and indulged into malpractice like manipulation of accounts and charged exorbitant rate of interest on their loan-often 24 per cent and over.

Due to all these factors the share of moneylenders in total farm credit has declined sharply from 69.7 per cent in 1951-52 to 36.1 per cent in 1971 and then to only 16.1 per cent in 1981 and then to 7.0 per cent in 1995-96.

(ii) Traders and Commission agents:Traders and commission agents are also advancing loan to the agriculturist for productive purposes before the maturity of crops and then force the farmers to sell their crops at very low prices and charge heavy commission. This type of loans is mostly advanced for cash crops.The share of these traders in farm credit increased gradually from 5.5 per cent in 1951-52 to 8.8 per cent in 1961- 62 and then sharply declined to 5.0 per cent in 1996. Thus its importance has been declining in recent years.

(iii) Relatives:Cultivators are also normally borrowing fund from their own relatives in times of their crisis both in terms of cash or kind. These loans are a kind of informal loans and carry no interest and are normally returned after harvest.The importance of this source of farm credit is also declining as its share of agricultural credit has already declined from 14.2 per cent in 1951-52 to 8.7 per cent in 1981 and then to 3.0 per cent in 1995-96.

(iv) Landlords:In India, small as well as marginal farmers and tenants are also taking loan from the landlords for meeting their financial requirements. This source has been following all the ill-practices followed by money-lenders, traders etc.Sometimes landless workers are even forced to work as a bonded labour. The share of this source to rural credit has increased from 3.3 per cent in 1951-52 to 14.5 per cent in 1961-62 and then sharply declined to 8.8 per cent in 1981 and then to 10.0 per cent in 1995-96.Thus, the non-institutional sources of farm credit have been facing serious loopholes like exorbitant rate of interest, loan for unproductive purposes, non-repayment of loan etc.

PROBLEMS REGARDING AGRICULTURAL CREDIT IN INDIA

Insufficiency: In spite of the expansion of rural credit structure, the volume of rural credit in the country is still insufficient as compared to its growing requirement arising out of the increase in prices of agricultural inputs.

Inadequate amount of sanction: The amount of loan sanctioned to the farmers by the agencies is also very much inadequate for meeting their different aspects of agricultural operations. Considering the amount of loan sanctioned as inadequate and insignificant, the farmers often divert such loan for unproductive purposes and thereby dilute the very purpose of such loan.

Lesser attention of poor farmers: Rural credit agencies and its schemes have failed to meet the needs of the small and marginal farmers. Thus, lesser attention has been given on the credit needs of the needy farmers whereas the comparatively well-to-do farmers are getting more attention from the credit agencies for their better creditworthiness.

Inadequate institutional coverage: In India, the institutional credit arrangement continues to be inadequate as compared to its growing needs. The development of co-operative credit institutions like Primary agricultural credit societies, land development banks, commercial banks and regional rural banks, have failed to cover the entire rural farmers of the country.

Red tapism: Institutional agricultural-credit is subjected to red-tapism. Credit institutions are still adopting cumbersome rules and formalities for advancing loan to farmers which ultimately force the farmers to depend more on costly non-institutional sources of credit.

Solutions

1. To monitor the taccavi loan offered by the Government in a serious manner.

2. Co-operative credit societies should be organised to make it efficient and purposeful for delivering the best in terms of rural credit. Moreover, these societies may be transformed into a multi-purpose society with sufficient funding capacity.

3. Middlemen existing between credit agencies and borrowers should be eliminated.

4. Reserve Bank of India should arrange sufficient fund so that long term loans can be advanced to the farmers.

5. Power and activities of the Mahajans and moneylenders should be checked so as to declare an end to the exploitation of farmers.

6. The banks should adopt procedural simplification for credit delivery through rationalisation of its working pattern.

7. In order to check the fraud practices adopted by the farmer, for getting loans from different agencies by showing same tangible security, a credit card should be issued against each farmer which will show the details about the loans taken by them from different agencies.

8. Credit should also monitor the actual utilisation of loans by developing an effective supervisory mechanism.

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Thanks & Best of Luck!