Recent Trends in Agricultural Credit

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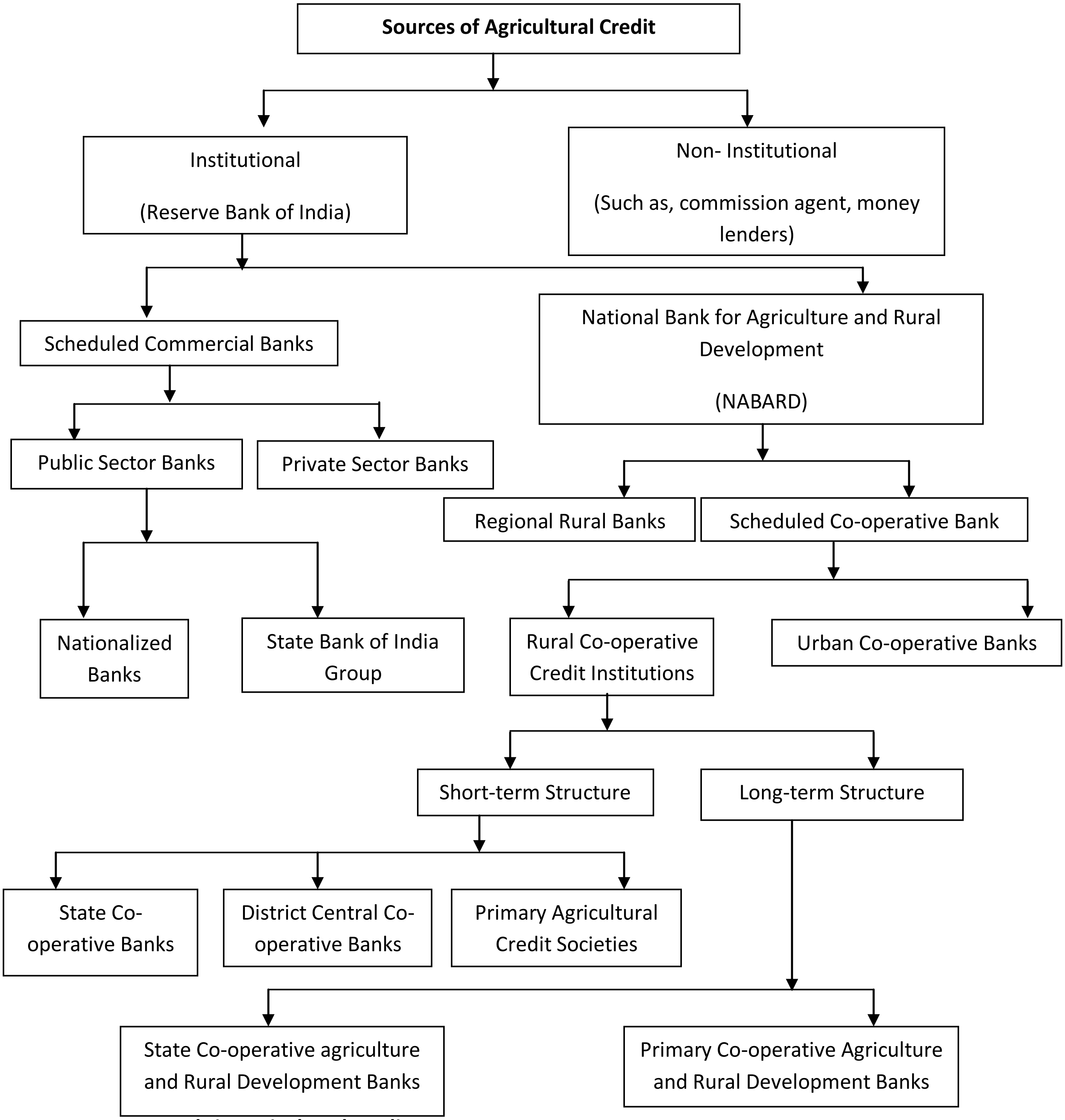
Although agriculture now accounts for only 14 per cent of Gross Domestic Product (GDP), it is still the main source of livelihood for the majority of the rural population. Agriculture is the most important sector in India in terms of the population dependent on it. With more than two third of the population engaged in agriculture related activities. A country with one billion population, and 56 per cent workforce engaged in agriculture means this is the only sector where such a huge force is engaged. Many countries in the world even do not have their total population, which India is having the workforce engaged in agriculture. As such rapid growth of agriculture is critical for development of rural economy. A viable development of rural economy will leads to inclusive growth. Thus, it is imperative to study the constraints faced by Indian farmers. Like other sectors, agriculture also requires capital. Capital implies the credit required for the purchase of inputs and machinery. In a poor agricultural country like India, where savings are negligible among the small farmers, agricultural credit appears to be a critical factor affecting agricultural productivity (Goayal, 2014:22). For many Indian farmers, it is inevitable to incur debt within every stage of the agricultural process. The main obstacles before Indian agriculture are finance. Unlike industry, agriculture is not getting proper credit. As a result, labours are migrating from agriculture to industry in order to earn two squares meal.

Credit supply is an important determinant of investment in agriculture. In India, access to credit remains a significant challenge for low income households. Typically, the poor access credit through the informal sector, where monopolistic practices frequently occur, and interest rate can easily exceed 100 per cent per year (Dooner, 2008:14). Besides, poorer households live in remote regions; have hardly any assets, and are viewed as being “unprofitable” by formal institutions

Existing Mechanism

The agricultural credit system of India consists of institutional sources (or formal sources) and non-institutional sources (or informal sources). The institutional sources comprise commercial banks, cooperative banks, and microfinance institutions. The non-institutional sources of agricultural credit comprise commission agents, relatives, moneylenders, traders, and friends. The chart below provides structure of banking in India. All the NABARD (National Bank for Agriculture and Rural Development) finance is provided to the co-operative sector through SCBs (scheduled commercial banks). The finance is of three types, viz; short term, medium term, and long term. Short-term agricultural finance is given for seasonal agricultural operations, which is interpreted to include mixed farming activities. NABARD provide medium-term agricultural finance to SCBs for period of three to five years. These types of loans are provided to purchase agricultural inputs and machines etc. long-term loans are provided to purchase tractors, levelling field etc.



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Since the nationalisation of commercial banks in 1969, India had strongly pursued a policy of "Social and Development Banking" in the rural areas. As a result, formal institutions of credit provision, mainly commercial banks, emerged as important sources of finance to agriculture displacing usurious moneylenders and landlords. The policy of social and development banking was a supply-led policy; it aimed at augmenting the supply of credit to rural areas, and that too at an affordable interest rate.

Commercial banks fail to achieve their aim. As a result, the decade of the 1990s was a period of the reversal of the achievements of social and development banking. The situation of the 1990s however, changed in the 2000s. Beginning from the early 2000s there was a revival of agricultural credit in India. Between 2002 and 2011, agricultural credit grew by 17.6 per cent per annum, which was significantly higher than the growth rate of 2.6 per cent recorded for the 1990s. From 2004 onwards the flow of agricultural credit has been increasing. There are three distinct features of the growth in agricultural credit. First, a significant portion of the increase in total bank credit to agriculture in the 2000 was accounted for by indirect finance to agriculture. Indirect finance does not go directly to cultivators but to institutions that support agricultural production in rural areas (Ramakumar, 2014:34-35). Of the total increase in credit supply to agriculture between 2000 and 2011, about one third was contributed by indirect finance. The reason for growth in indirect finance to agriculture credit attributes to the new definition in the official agricultural policy, which states that from 1993 onwards, indirect finance should be considered as part of priority sector advances. Secondly, much of the increase in total advances to agricultural credit (direct + indirect finance) in 2000s were on account of a sharp increase in the number of loans with size of Rs. 10 crore and above, and particularly of Rs. 25 crore and above. Thirdly, there was an increased provision of agricultural credit from bank branches in urban areas in the 2000s.

Much of these large-sized advances were made towards financing large agri-business oriented enterprises (Ramakumar, 2014:34-35). There is little evidence to argue that major beneficiaries of the revival in agricultural credit in the 2000s have been the small farmers and marginal farmers

Kisan Credit Card

The Kisan Credit Card Scheme (KCC) was introduced in 1998-99 to provide credit to farmers. The Indian commercial banks have been providing Kisan credit (also called cash credit or revolving fund) to farmers for more than a decade now. The base of fixing Kisan credit limit is land holdings, crops cultivated, and crop duration. The consumption needs of the farming family have also been taken into consideration while computing the limits. The Kisan credit card provides a lumpsum loan released to the farmer to meet his crop needs like purchase of seeds, manure, pesticides, labour, and irrigation etc (Manjunath, 2014:26). The farmer is expected to draw from this account based on his needs on different occasions. He is expected to pay back the entire amount within one year mostly after the proceeds of the crops are realised so that he can apply for fresh Kisan credit limit. No doubt Kisan credit helps farmer most at the time of commencement of the farming operation. However, it is not possible for all farmers to repay the loan amount within one year. In order to repay the loan amount within one year he takes money from lenders and again he borrows to repay money lenders. Consequently, he left with no money to undertake his farming operations. He enters into a debt trap. Moreover, the Kisan credits are given to the farmers against mortgage of the lands on which cultivation is undertaken. In India, more often than not, farmers do not have proper title of the land on which they are cultivating. Thus, Kisan credit is useless for them. Therefore, Kisan credit policy is not as per the requirement of Indian farmers; it failed to entertain agriculture credit to all farmers.

Self Help Groups (SHGs)

A self-help group has been defined as a small and formal association of poor having preferably similar socio-economic background and who have come together to realise some common goals based on the principle of self-help and collective responsibility. The Self Help Group movement in India has gained a momentum in recent years (Shylendra, 2008:25). The promotion of self-help groups in India began more formally in 1992 with the launch of the SHG-Bank Linkage Programme by National Bank for Agriculture and Rural Development. The programme's main aim was to improve rural poor's access to formal credit system in a cost effective and sustainable manner by making use of SHGs.

The invention of Self-Help Group is a boon for the small farmer in general and village women in particular. It has been responsible for bringing in a qualitative change in the lives of thousands of people. Under Self-Help Group, banks are expected to provide credit to the SHGs against group guarantee and members of the group stand as collective guarantors. Banks allow the members of the SHGs to decide on which members of the group shall borrow and how much, and the methodology of repayment. Normally, SHGs loans are term loans wherein the members are expected to repay the loans in regular instalments over a period of time. In India most farmers, especially small farmers and marginal farmers neither have title of the land nor have any collateral security. As a result, they fail to get credit from commercial banks. In this situation, SHGs help them to get credit without any hassles.

South based NGO, Sri Kshetra Dharmasthala Rural Development Project (SKDRDP) has been promoting SHGs of the small farmers for more than two decades and helping them with credit facilities for their farming operations. This movement popularly known as pragathibandhu groups in Karnataka state has helped more than one and half million farmers directly or through their family members who are members of the SKDRDP promoted SHGs. SKDRDP sources bulk loans from commercial banks and lends them to SHGs for undertaking their farming operations. The unique feature of the SKDRDP is that SHGs members have to repay in weekly instalments. This uniqueness encourages farmers to go for subsidiary activities like dairy farming, vegetable cultivation, floriculture, or pure daily wage labour so that they can earn money every week to repay loan. This scheme of repayment has not only help farmer to repay loan easily but also help them thinking innovative.

Realising the potentiality of the SHGs, the National Bank for Agriculture and Rural Development Bank (NABARD) is now actively facilitating promotion of Joint Liability Groups (JLGs) of farmers for providing necessary credit through JLGs. Commercial banks and Non-Government Organisations (NGOs) are given incentives for promoting JLGs and credit linking them with bank.

Department of financial services, ministry of finance, government of India issued a directive in November 2011, wherein advising bank to provide cash credit or revolving fund to SHGs instead of term loans. This will act as a twin edged sword. On the one hand, members of the SHGs will get loan easily and on the other hand it can give freedom to the group to decide on the priorities of the members and lend to them on its own terms without having to take guidance from the banker.

The Gramin Bank Model

The Gramin Bank model, developed originally in Bangladesh, is one of the most popular model of micro finance institutions and has been replicated in various parts of the world. Under this model, non-government organisations (NGOs) form and develop self help groups (SHGs). Gramin Bank has reversed conventional banking practice by obviating the need for collateral. It has created the need for a banking system based on mutual trust, accountability, participation, and creativity. It offers credit for creating self-employment, income generating activities and housing for the poor, as opposed to consumption. In India, three main models of micro credit are being followed and they are different from the Gramin Bank model. Under the first model, bank themselves assumes the role of Self Help Promoting Institutions (SHPIs) by promoting formation of SHGs and extending loans to them. Under the second model, groups are formed and nurtured by NGOs, Government Agencies, or other community based organisations. These agencies act as facilitators. Bank open saving accounts of the SHGs formed and nurtured by the NGOs and provide them credit in due course of time. This is the most popular and wide spread model of micro credit in India. Under third model, the NGOs (SHPIs) promote formation of SHGs. Bank provide bulk assistance to these SHPIs for undertaking financial intermediation. NGOs, here, thus act as both facilitators and micro finance intermediaries (RBI, 2007-08).

Microfinance

The concept of micro finance is understood as providing poor families with very small loans (micro credit) to help them engage in productive activity or grow their tiny business (Mathew, 2008:37). The importance of micro finance lies in the fact that the formal/institutional banking sector has not lived up to its social responsibility of meeting the financial needs of the poor due to various reasons such as: (a) lack of branch network in the rural area, (b) lack of collateral security of farmers and poor people, and (c) lack of education, awareness among the poor.

Micro finance scheme in India has emerged as major avenues for bringing the poor within the purview of the organised financial sector. The access to credit for the poor from conventional banking is often constrained by lack of collaterals, information asymmetry and high transaction cost associated with small borrower accounts. In operational terms micro credit involves small loans, up to Rs. 25000, extended to the poor without any collateral for undertaking self-employment project (RBI, 2007-08).

Realising the importance of credit in the development process, the government and the Reserve Bank of India have taken various steps in this regard and have encouraged banks to make timely and adequate finance available to poor for agricultural credit as well as allied activities making institutional credit to the poor (Anand, Yojana: 63).

Conclusion

Access to finance, especially by small holders, is crucial for improved agricultural performance. Credit flow doubled in the Eleventh Plan but mainly by credit deepening, with little increase in farmer coverage and still leaving 60 per cent of farmers without institutional credit. There are several ways in which credit access can be widened. Primary Agricultural Co-operative Societies (PACS) still have the widest coverage and must be made more member driven and less dependent on higher tiers. Joint Liability Groups (JLGs) are still the most appropriate mechanisms for farmers and livestock owners who have productive assets but cannot access credit because they have no land records, are located too far from banks or have last mile problems (XII Plan:23). The SHGs Bank Linkage programme is still the most appropriate financial mechanism to extend credit to marginal and dry land farmers as this allows better income smoothing since SHGs provide space for diversity in loan purposes and sizes, enabling financing of a variety of activities that such families select as part of livelihood strategies when income from agriculture is low.

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