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ORIGINAL ARTICLE

AN ANALYSIS OF THE INSTITUTIONALISATION OF AGRICULTURAL CREDIT

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ABSTRACT

Agriculture is the first civilization that man has learned how to live and live. The adoption of new technologies has led to a growing need for agricultural financing that is a crucial component in the growth of agriculture and its life blood. The bulk of agricultural loans in developing nations come from the informal sector and is probably not less than five times the amount of institutional credit outstanding. The topic of institutionalising agricultural finance must thus be discussed.

KEYWORDS: Institutional Credit, Agriculture, Credit, Rural Development, Small and Marginal Farmers,Commercial Banks, RRBs, Cooperatives.

INTRODUCTION

Credit is the temporary buying power transfer. It is the foreign investment source. The need for agricultural loans in the developing world is high, but frequently latent. Credit, although frequently required, is simply one tool to promote agricultural growth. This is important.

Generally speaking, the demand for loans relies on the country's degree of economic growth and its agricultural sector structure. The fundamental objective of the country's agriculture credit strategy is to provide enough institutional loans to promote new technologies and to increase agricultural productivity and production. The volume and time of all the production activities rely on the length of the production cycle, requires some degree of credit for their sustainability. In order to keep this in mind, the agricultural credit must be institutionalised.

OBJECTIVES OF THE STUDY

There seems to be a contradiction in the rural lending sector. Often land is a collateral loan and the informal funding sources, whether they loans, landholders, dealers, etc. charge a rate of more than 20 per cent, have a very high recovery rate. However, RFIs charge roughly half of the interest rate, use land as a security for most crop loans, and still experience heavy defaults.

Where and how did financial institutions in rural areas go wrong? According to findings by several committees and rural credit task groups, the RFI has always been lenient in its financial policies with the primary goal of eradicating informal finance via moneylenders. As a result, while informal finances still play a role in rural areas1, the RFIs, in particular cooperatives, are headed for an unsustainable condition of financing.

There are overwhelming overdue or non-performance assets, high transaction costs, poor financial margins and controlled interest rates which are key drivers of the financial unsustainability of the RFI. Consequently, RFIs have not managed to collect sufficient resources and cannot mobilise quick lending in rural regions.

Other issues have also not been dealt with by the RFIs. They relate to inequalities in the distribution and timely supply of credit, onerous procedures and transaction loan requirements among different categories of individuals and areas. These are all important reasons for concern.

It is thus advised to enhance the RFIs in order to speed the flow of credit in order to fulfil the loan requirements of the agriculture sector and to bring about overall rural development. In this regard, different legislative and institutional initiatives adopted so far to ensure that credit is delivered quickly and promptly to the agriculture sector would be useful to be explored. In advance, it will be helpful to study the size of overductions that are likely to be cut off in the agricultural sector. The current study is a step forward.

DATA BASE

As in this study, secondary information is needed for the study's aims to be evaluated. The publishing of State and Central Government reports, annual reports from various commercial banks, and RBI reports and publications such as Currency and financial reports, the Indian trends and progress report, the World Bank report, etc. have been a source of secondary data.

INSTITUTIONALISATION OF AGRICULTURAL CREDIT

Although the loan source for agriculture may be split on many grounds, such as time, purposive, safety-wise, but on the basis of the creditors may be separated into institutional and non-institutional sources of credit.

INSTITUTIONAL ARRANGEMENTS

Agricultural loans are distributed via a multi-agency network of commercial banks (CBs), regional rural Banks (RRBs) and co-operative organisations. There are over 100, 000 Village Primary Agricultural Credite Societies (PACS), 368 District Central Cooperative banks (DCCBs) in Indian countries, 12,858 branches and 30 State Cooperative Banks (SCBs) throughout India.

The long-term cooperative structure is comprised in 19 State Cooperative Agricultural and Rural Development Banks(SCARDBs), 2609 operating units consisting, as of 31 March 2005, 788 branches and 772 PA&RDBs with 1049 branches.

AGRICULTURAL CREDIT DISCERNIBLE TRENDS

In India a multi-agency strategy has been pursued including cooperative banks, scheduled business banks and RRBs for lending to farming. The policy of agriculture credit is led primarily via an extension of the institutional structure, its scope and scope as well as through a guided loan to provide enough and timely credit availability at fair rates.

Spectacular development has, throughout time, been made with regard to the extent and scope of the agricultural finance institutional structure. The following table provides the source wise and creditor wise availability of credit to the agriculture industry over various eras in India.

BORROWING OF CULTIVATORS FORM DIFFERENT CREDIT AGENCIES

Proportional inTotal Borrowings in Per Cent					
CreditAgency	1951-52	1971-72	1995-96	2005-2006	2010-2011
A. INSTITUTIONAL CREDIT(1 TO3)					
	61.1	68.8	7.3	31.7	75
1. Government					
	4.6	1.5	3.1	7.1	5
2. Co-operative Society/Banks					
	30.2	24.9	3.3	22	40
3. CommercialBanks & RuralBanks					
	26.3	25.1	0.9	2.6	30
B. NON-INSTITUTIONAL CREDIT(4 TO7)					
	92.7	68.3	25	38.9	29.7
4. Moneylenders					
	21.9	69.7	36.1	7	26.8
5. Traders					
	5.2	3.6	5.5	8.4	5
6. Relatives and friends					
	1.5	0.4	14.2	13.1	3
7. Landlords and others					
	5.4	3.8	3.3	10.7	10
TOTAL(A+B)			**100**	**100**	**100**
	100	**100**			

Source:

1. All India Credit and Investment Survey,
2. All India Debt and Investment Survey and NSSO.
3. Economic Survey

The agricultural loan structure indicated in the table above indicates the absence of institutional sources in 1951 and in 1971 and the absence of institutions in 1981. The obvious retention of institutional sources may be observed between 1995 and 1996. Although the institutional sources lost their share in 2005-06, they rapidly regained in 2010-11. Co-operative companies are as high as commercial banks and other rural banks among institutional sources. By 2011-2010, the proportion of commercial banks increased to 25.1, with cooperatives being 24.9 per cent, the largest among institutional sources.

A dramatic decrease in the percentage of non-institutional sources. At 92.7 in 1951-52, it was quite high, but dropped dramatically to 36.8%. It increased in 2005-06, but progressively again lost its control over institutional sources. In 2010, it accounts for 29.7%. The percentage of money lenders amongst non-institutional sources is quite high from the start. Alone 73 percent of the moneylenders in 2010 are traders and landowners, although the proportion during the time is virtually the same and steady. A dramatic loss is the percentage of family and friends, which is insignificant by 2010.The following are some of the most significant trends:

• Over time banks in the public sector, in especially following the nationalisation of banks, have made tremendous progress in implementing their broad banking network. In March 2005, there were substantial increases in the number of public sector banking offices from 8,262 in June 1969 to 68,355.

• The scope of institutional credit apparatus and the reduction in the importance of non-institutional sources have been one of the big successes in post-indigenous India, notwithstanding a reversal of the trend seen, especially in the 1990s.

Institutional Credit to Agriculture (Rs. Crores)

Year	Cooperative Banks	Percent	RRBs	Percent	Commercial Banks	Percent	Total	Percent Increase
1991-92	5800	52	596	5	4806	43	11202	27
1992-93	9378	62	831	5	4960	33	15169	35
1993-94	10117	61	997	6	5400	33	16494	9
1994-95	9406	50	1083	6	8255	44	18744	14
1995-96	10479	48	1381	6	10172	46	22032	18
1996-97	11944	45	1684	6	12783	48	26411	20
1997-98	14085	44	2040	6	15831	50	31956	21
1998-99	15916	43	2538	7	18441	50	36897	15
1999-00	18363	40	3172	7	24733	53	46268	25
2000-01	20801	39	4219	8	27807	53	52827	14
2001-02	23604	38	4854	8	33587	54	62045	17
2002-03	23716	34	6070	9	39774	57	69560	12
2003-04	26959	31	7581	9	52441	60	86981	25
2004-05	31424	25	12404	10	81481	65	125309	44
2005-06	39404	22	15223	8	125859	70	180486	44
2006-07	33987	24	15170	10	100999	67	150156	49
2007-08	35875	20	17987	10	128876	70	182738	51
2008-09	36165	19	19325	10	132761	71	188251	53
2009-10	32871	18	23984	13	121879	69	178734	----

Source: Economic Survey and NABARD Various Issues

• At slightly more than 7 percent in 1951, the institutional credit share rose significantly to 68 percent in 2010, with the percentage of non-institutional debt decreasing considerably from about 93 percent to approximately 30 percent during the same period. The current NSSO survey shows however that there is a change in the percentage of non-institutional loans that is a reason for worry.

• Despite its broad networks, cooperative banks have been losing their dominance over commercial banks, especially since the 1990s. In 2005-2006 the proportion (22%) of co-operative banking accounted for less than half that in 1992/1993 (62%), whereas in the same period the percentage of commercial banks (33% to 68%), including RRBs (5% to 10%) virtually doubled.

• In the recent era, the attempts to enhance credit flows to agriculture seems to have had greater results as the total institutional credit to agriculture increased by approximately 23 percent from about 14 percent between 1991-92 and 2008-09 between 1995-96 to 2008-2009. The commercial banks showed a substantial rise in overall farm loans (from about 43% to approximately 69%). In the time mentioned above, cooperative banks experienced a decrease (over 52% to over 18%). The RRBs are significantly increased from 5% to 13%.

In the 1990s3 (12 percent) direct funding for agriculture and associated activities fell compared to the 1980's (14 percent) and 1970's (around 16 per cent). In the 1980s and the 1990s, a comparative study of direct credit to farming and associated businesses exposes the fact that the average long-term credit share of overall direct finance has been not only significantly lower but has also decelerated (from around 38 per cent to approximately 36 percent).

• The disintegrated image according to the size of the lines shows a strong decline from around 24% in the 1980s to just over 13% during the 1990s when direct funding grew to small and marginal farmers.

RECENT POLICY INITIATIVES

Many initiatives for rural infrastructure are under way but remain unfinished because of lack of resources. They constitute a significant loss to the rural population of prospective revenues and jobs." NABARD4 has established the Fund for Rural Infrastructure Development (RIDF). Since then, the Fund has been allocated 11 tranches. Because of the shortcomings in their financing to the priority/agriculture sector, commercial banks contribute to the Fund. The RIDF scope was enlarged to make it possible to use loans made available by Panchayati Raj Institutions (PRIs), Self-Help Groups (SHGs) and NGOs from 1999-2000.

In the Union budget, the Fund has continued to declare increased corpus each year. In the Union Budget 2005-06, RIDF XI was announced with a total Rs. 8,000 crore corpus of 78,300 crore grant. In order to build up the Village Knowledge Center, RIDF XI placed particular attention on contributing Rs.100 crore from Rs.78,300 crore fund.

The key policy advances in the area of disability relating to the distribution elements of credit in recent years have seen the emergence of two innovations, namely micro-finance and the Kisan Kredit Card Scheme (KCCS). As regards speed, hassle-free operations, and credit suitability with minimum transaction costs and documentation, the KCCS has shown to be a most efficient way to provide finance to farmers. By the end of March 2006, around 59.09 million KCCs had been issued. A substantial percentage of co-operative banks (51.5%), followed by commercial banks (36.9%) and RRBs (11.6 per cent).

CONCLUDING OBSERVATIONS

In order to increase the effectiveness of the credit system in rural regions, the cooperative loan structure needs a revision. The Vaidyanathan Committee found, with relation to cooperatives, that recapitalization may be implemented with a view to declogging the currently shocked lending channels for farm finance.The committee has nevertheless made clear that only if the legal and institutional reforms are preceded by state governments aimed at democratic and vibrant cooperatives run by sound business practises, governance standards and regulated by the RBI at the top of the ranks should recapitalisation be taken into account.

The fusion and rehabilitation of primarily tribal/retrograde RRBs is regarded as a possible institutional structure to finance untouched people. The state governments and sponsoring banks need to work together and collaborate in this area. This is now the case. Micro financing experience has shown that the "poor people are bankable," can and can save in a number of methods, and that innovative use of savings is a significant component in success.

Policy makers have a major role in setting the climate and in putting in place suitable rules and actions to allow for quick scaling up of activities in accordance with prudential standards.

In order to guarantee the quality of SHGs, the State Governments should undertake a rigorous evaluation of the staff and skill sets available to train, nurture and maintain groups and hands throughout time. The finest practises in the field need to be studied and a policy developed by learning from them.

The components of Mobile Banking were all utilised to provide low-costen economies and loans to impoverished customers by the rural financial institutions — the commercial banks, cooperatives and regional rural banks. The transaction costs for both lenders and borrowers have decreased significantly.

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