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Dynamics of agricultural credit flow in the pre and post reform period in India

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Abstract
Agriculture is the lifeline of majority of the people in India. It accounts for about 19 percent of GDP and about two thirds of population is dependent on the sector. In view of this importance the Government and Reserve Bank of India (RBI) have played a important role in setting up a broad based institutional framework for catering to the credit requirements of this sector. The policymakers over the past years increased the institutional sources of credit but neglected the qualitative aspect of credit delivery system. Agricultural growth in terms of major crops has witnessed a deceleration despite jump in quantity of credit delivery. The major challenge of the policy makers is to reverse the trend of deceleration in agricultural growth. Such a deceleration is directly associated with the declining of public investment in R&D, fragmentation of holdings, lack of infrastructure, obsolete technology and improper input pricing policies of the government. Hence the crisis of agricultural stagnation needs urgent attention and rigorous treatment on the part of planners and policy makers. Given this macro scenario, the study attempts to analyse the trend and growth of flow of credit to agriculture both in pre and post reform period. The study based on secondary sources of data compile from several sources and these data revealed that structure of credit outlets has witnessed a significant change and commercial banks have emerged as the major source of institutional credit to agriculture sector in the recent past few years. But the declining share of investment credit in total credit may constrain the growth of agriculture in India. This alarming situation calls for serious efforts to augment the flow of credit to agriculture.

Keywords: Institutional credit, Agricultural Productivity, Sustainable Development, Inclusive Growth

1. Introduction
Agriculture is the lifeline of majority of people in India. A huge quantum of population in India is rural agricultural and allied sector based and mainly depends on the agriculture for a livelihood creation. Therefore, an enhanced and stable growth of the agriculture and allied sector is must for the betterment of our country. The share of agriculture in real GDP in India has been declined well below one-fifth, but it continues to be an important sector of the economy as it employs around 52 per cent of the workforce. The growing younger population in India demand large rise in agricultural production but per capita availability of food e. g; cereals and pulses, in recent years has fallen significantly. As a result, slackening growth of agriculture during last decade has been a major policy concern.
Given this present scenario, the importance of farm credit as a critical input is reinforced by the unique and decisive role of Indian agriculture in the macroeconomic framework and poverty alleviation. Recognizing the importance of agriculture sector, the Government and the Reserve Bank of India have played a decisive role in creating a macro institutional framework for catering to the credit requirements of the sector. The Approach Paper to the Eleventh Five Year Plan in India has set a target of 4 per cent for the agricultural sector within the overall GDP growth target of 9 percent. In this context, the need for affordable, sufficient and timely supply of institutional credit to the agriculture has assumed a critical importance.

II. Review of Literature
Abhiman Das. Manjusha Senapati, Joice John (2009) studied the impact of agricultural credit on agricultural production using econometric tools by estimating Arellano-Bond Regression. They use Dynamic Panel Data Analysis for the period 2001-2007. The analysis suggests that the direct agriculture credit amount has a positive and statistically significant impact on agriculture output.
Sarbajit Chaudhury (2001) studied the interaction of formal and informal credit markets in backward agriculture by using mathematical tools. The paper considers two alternatives-one, through an increase in the aggregate volume of formal credit and two, through a decrease in the rate of interest charged on this type credit. The paper shows that if a credit subsidy policy is undertaken via the first path, it is actually able to lower the informal sector interest rate and improve both the agriculture productivity and welfare of farmers.
Rosegrant and Evenson (1995) studied the total factor propuctivity and sources of long-term growth in Indian agriculture. In this study Tornqvist-Theil TFP indices were used for 271 districts. The study examines the sources of productivity growth and estimates the rates of return to public investments in agriculture. The results showed that significant TFP growth in the Indian crops sector was produced by investments in research, extension, markets and irrigation.
Chaudhury and Gupta (1996) [7] presented a theory of interest rate determination in the informal credit market. The market for informal credit is created by the delay in disbursement of formal credit. The delay is controlled by the official of the formal credit agency and he is bribed by the farmer to reduce the delay. The official and the moneylender play a non-cooperative game in choosing the bribing rate and the informal interest rate. According to them the agri-price and credit subsidy policies may raise the interest rate in the informal credit market.

III. Trends and Growth of Institutional credit for agriculture sector in India

In India the major achievements in the post-independent era is widening spread of institutional machinery for credit and decline in the role of non-institutional sources. The share of institutional credit which was 66.3% in 1991, increased to over 69% in 2010. On the other hand, the share of non-institutional credit declined from 30.6% to about 29.7% during the same period.

In the pre-reform period Co-operative banks dominated in the total agricultural credit disbursement. The loan outstanding in the direct agricultural credit was higher for the co-operatives than the scheduled commercial banks. At the end of pre-reform period, the outstanding amount of loan for the co-operatives was Rs.5178 crore whereas it was Rs.4235 crore for the scheduled commercial banks. In 1991-1992, the amount of loan issued by the co-operatives was Rs.3934 crore, whereas the scheduled commercial banks disbursed only Rs.2341 crore. The Co-operatives dominated the agricultural loan disbursement scenario till the year 2004-2005. In the year 2005-2006, the direct loan disbursement from the scheduled commercial banks was higher than the co-operative banks. The direct agricultural loan outstanding amount was higher for the co-operatives banks till the year 2002-2003. In the year 2003-2004, the direct agricultural loan outstanding amount was greater for the scheduled commercial bank. In 2006-2007, the outstanding amount of direct agricultural advances from commercial banks was Rs.76000 crore, whereas it was Rs 37765 crore for the cooperatives. The compound growth rate of direct agricultural advances in India (disbursement) is given in table-1.

Table 1: Compound Growth Rate of Direct Agricultural Advance In India (Disbursement)

Period	Institutional Sources	Compound growth rate (%)
Pre reform Period	Co-operatives	10.0095
	Scheduled Commercial Banks	16.0900
	Regional Rural Banks	10.3290
	Total	11.8173
Post-Reform Period	Co-operatives	18.1900
	Scheduled Commercial Banks	19.5795
	Regional Rural Banks	21.7494
	Total	18.9464

Source: RBI, Report on Currency and Finance (Various Issues)

In the pre-reform period, the commercial banks achieved highest compound growth of direct agricultural credit disbursement. It was followed by the Regional Rural banks. In the post reform period the Regional Rural banks were dominant in the growth of direct agricultural credit (disbursement).

The compound growth of direct agricultural advances in India (outstandings) is shown in table 2:

Table 2: Compound Growth rate of Direct Agricultural Advances in India (out standings)

Period	Institutional source	Compound growth rate
Pre-reform Period	Co-operatives	11.0490
	Scheduled Commercial Banks	14.6944
	Regional Rural Banks	22.1290
	Total	12.6490
Post-reform Period	Co-operatives	14.856
	Scheduled Commercial Banks	15.1195
	Regional Rural Banks	21.1912
	Total	15.4885

Source: RBI, Report on Currency and Finance (Various Issues)

The highest compound growth rate of direct agricultural advances (outstanding) was attained for the Regional Rural banks in both pre and post reform period. The co-operatives had less percentage growth of direct agricultural advances (outstanding) in both pre and post reform period. To analyse the difference in the distribution of agricultural credit between pre and post reform period, t test is applied. The results of the t test is given in table 3.

Table 3: Difference in the Distribution of Agricultural Credit between Pre and Post Reform Period

Variables	T value	Significant level
Total Loan issued	5.213	1%
Loan issued cooperatives	4.674	1%
Loan issued-scheduled Commercial banks	4.067	1%
Loan issued Regional Rural Banks	5.335	1%
Total Loan Outstanding	5.991	1%
Loan Outstanding- Co operatives	4.037	1%
Loan outstanding Scheduled commercial banks	5.064	1%
Loan outstanding Regional Rural banks	6.040	1%

Source

The table-3, shows that all variables are statistically significant at one percent level. There was significant difference in the distribution of agricultural credit between pre and post reform period. The distribution of agricultural credit in the post reform period was significantly higher than in the pre reform period.

IV. Equity in Institutional Credit to Agriculture

The sectoral deployment of gross bank credit reveals that the share of agriculture since the second half of 1990's ranged between 11-12 percent. At the end of March 2010, the share of agriculture sectoral deployment of gross bank credit stood at around 13 percent.

Table 4: Sectoral Deployment of Gross Bank Credit (percentage)

Sectors	1996 -97	1997- 98	1998- 99	1999- 00	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05	2005- 06	2009 -10
Share of Agriculture	12.16	11.7	11.6	11.07	11.08	11.35	10.98	11.84	12.03	11.92	13.09
Share of Industry	39.7	39.09	38.16	36.75	34.71	32.11	35.12	32.34	33.85	31.75	32.57

Source: Report on Trend and Progress of Banking in India (RBI), various issues.

In India a skewed distribution of institutional credit across regions persist. For instance, the level of institutional credit is higher in states like Haryana (34012/ha), Kerala (Rs56890/ha), Punjab (Rs46593/ha), Tamil Nadu (Rs52427/ha), and low in states like Assam, Bihar, Madhya Pradesh, Orissa, Rajasthan etc. However, the study reveals that the regional disparities in the distribution of institutional credit seem to have declined over time in India.

Table 5: Distribution of institutional credit (Rs/ha) and the coefficient of variation

	1990-91	2000-01	2007-08
All India	549	2169	15936
Coefficient of variation	121.88	94.15	80.71

Source: Report of Advisory Committee of Flow of credit to Agriculture and Relayed Activities from Banking System, RBI, Mumbai, 2004

The coefficient of variation in the distribution of institutional credit across states was 122 percent in 1990-91 which declined to 94 in 2000-01 and further to 81 percent in 2007-08.The 81 percent is quite a significant level which reveals that regional disparities in institutional credit flow do exist and acts as a major flaw of agrarian credit system.

The distribution of institutional credit across farm-size categories is found to be skewed in nature. The majority of farmers (82%) in India possess less than two hectres of land, they together account for only 50 per cent of the institutional credit; while 18 per cent of the farmers having more than two hectres of land, account for 49 percent of the institutional credit. It may be mentioned that 18 per cent of these farmers operate about 53 per cent of the total cultivable land in the country.

The Kisan Credit Card (KCC) scheme introduced in 1998-99, has made a rapid progress till the end of last decade. Since its inception the share of co-operative banks and commercial banks in distribution of KCCs was 44 percent and 43 percent respectively; the remaining 14 percent was issued by RRBs. The distribution of KCCs grew at the rate of 44 percent/annum; the highest growth rate of 75% was witnessed by RRBs followed by commercial banks to the tune of 42% during this period. However, the state-wise distribution of KCCs shows a dismal picture throughout the same period (1999-2010). The highest intensity in distribution of KCCs was found in Punjab (2.02) followed by Haryana (1.44), Andhra Pradesh (1.06) and Orissa (1.04). The performance of states like Assam, Bihar, Himachal Pradesh and J&K has been dismal. In Bihar and Himachal Pradesh, only 1/4th of the farming households have received KCCs.

V. Growth Performance of Agriculture

The growth performance of the agriculture sector has been fluctuating across the plan periods. It witnessed agrowth rate of 4.8 percent during the Eighth plan (1992-97).The agrarian situation saw a downturn towards the beginning of the Ninth plan (1997-2002) and the Tenth plan period (2002-2007).The Eleventh Plan had sought to reverse the deceleration of agricultural growth which continued into the Tenth Plan period. It had some success in that food grains production. The increasing divergence between the growth trends of the total economy and that of agriculture sector project an underperformance by agriculture. Unlike the overall economic growth pattern, agricultural performance in India has been quite volatile-the Coefficient of Variation (CV) during 2001-01 to 2010-11 was 1.6 compared to 1.1 during 1992-93 to 1999-2000. The Indian agriculture growth pattern has been highly varied at the state level. During 2001-01 to 2008-09, the growth performance of agriculture in Rajasthan (8.2%), Gujarat (7.7%) and Bihar (7.1%) was much higher than that of Uttar Pradesh (2.3%) and West Bengal (2.4%).

Growth in the production of agricultural crops depends upon acreage and yield. Given the limitations in expansion of acreage, the main source of long-term output growth is improvement in yields. In the case of wheat, the growth in area and yield have been marginal during 2000-01 to 2010-11.All the major coarse cereals display a negative growth in area during the same period. This suggests the need for renewed research to boost production and productivity.

VI. Conclusion and Policy Recommendations

In conclusion it can be said that the provision of extending formal credit to agriculture should be the central concern of policy makers, planners and development economists. It has far reaching ability to impact on poverty alleviation and rural development of the economy in various ways. These include enhancing public sector investment in research, effective transfer of technology along with institutional reforms in the research set up to make it more motivated towards delivery, conservation of land, water and biological resources, development of rain fed agriculture, minor irrigation, timely and adequate availability of inputs, an increase in flow of credit to the small and marginal farmers of the economy.

Major Findings

1. The share of institutional credit (66% in 1991), increased manifold to reach more than 68% in 2010. It in turn showed a remarkable decline in the share of non-institutional credit to about 29.7%.
2. Agriculture sector witnessed a downturn towards the beginning of the Ninth plan and the Tenth plan period. This crippling growth rate of 2.4 percent in agriculture as

against a robust annual average overall growth rate of 7.6 percent for the economy is clearly a cause for concern.

3. A skewed distribution of institutional credit across regions is found to persist. It is argued that the benefits of institutional credit have largely accrued to the relatively prosperous regions and richer sections of the country.
4. The increasing divergence between the growth trends of the total economy and that of agriculture & allied sector suggests an under performance by agriculture. Unlike the overall economic growth pattern, agricultural performance in India has been quite volatile. The Coefficient of Variation (CV) during 2000-01 to 2010-11 was 1.6 compared to 1.1 during 1992-93 to 1999-2000.

Policy Recommendations: In India several committees were set up with many suggestions and policy recommendations to increase the flow of institutional credit in rural areas. The Government has implemented several suggestions made by these committees. Based on the analysis of current status and identification of concerns in the study, some suggestions are tendered as follows:

1. Efforts should be made to devise a complete package to help the borrowers to make the best use of credit, improve their repayment capacity.
2. Necessary arrangements should be made to provide long term working capital to make the investments productive.
3. Loan disbursement procedure should be made simple so that it becomes easier for the less-educated and illiterate households to access institutional finance.
4. The incidence of over dues in rural credit system has been increasing over the years. The government should check over dues and non-performing assests (NPAs) to improve recovery performance of RFIs.
5. Bank officials should motivate the borrower farmers to enhance their earnings and repayment of loans.
6. Credit norms and scales of finance should be increased. Security to be reduced from the present margin of 25% for poor and marginal farmers.
7. Soft interest rate, concessional and subsidized credit supply should be made available with greater ease, so as to enhance the productivity of low and marginal farmers.
8. The coordination among credit supply institutions be established and measures be taken to raise the deposit-credit ratio.

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