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Agricultural Credit Services: Status & Scope in India

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ABSTRACT

Agriculture is the key source of economic development in India. Most of the population of the country totally dependent on agriculture sector for their livelihood. From the last many year agriculture is one of the main sector that plays an important role in improving the GDP. But in spite of being such an important sector agriculture is facing many problems since last many decades. To generate funds for the smoothly functioning of agricultural activities is the major concern of this particular sector. All the ruling governments of India have taken multiple steps for solving this problem. Providing various credit facilities easily is one of the important steps. To improve the status of agriculture Government introduces various credit sources.

There are mainly two types of agricultural credit services viz. organized and unorganized. Some of those sources are Co-operative Credit Societies, Regional Rural Banks, Land Development Banks, Commercial Banks, etc. Under this paper an attempt is made to understand the status of agriculture in India. In this paper it has also been tried to understand what various agriculture credit sources available in Indian economy are.

Keywords: Agriculture Credit, Sources of Agriculture Credit Services, Indian Economy, Commercial Banks.

1. Introduction

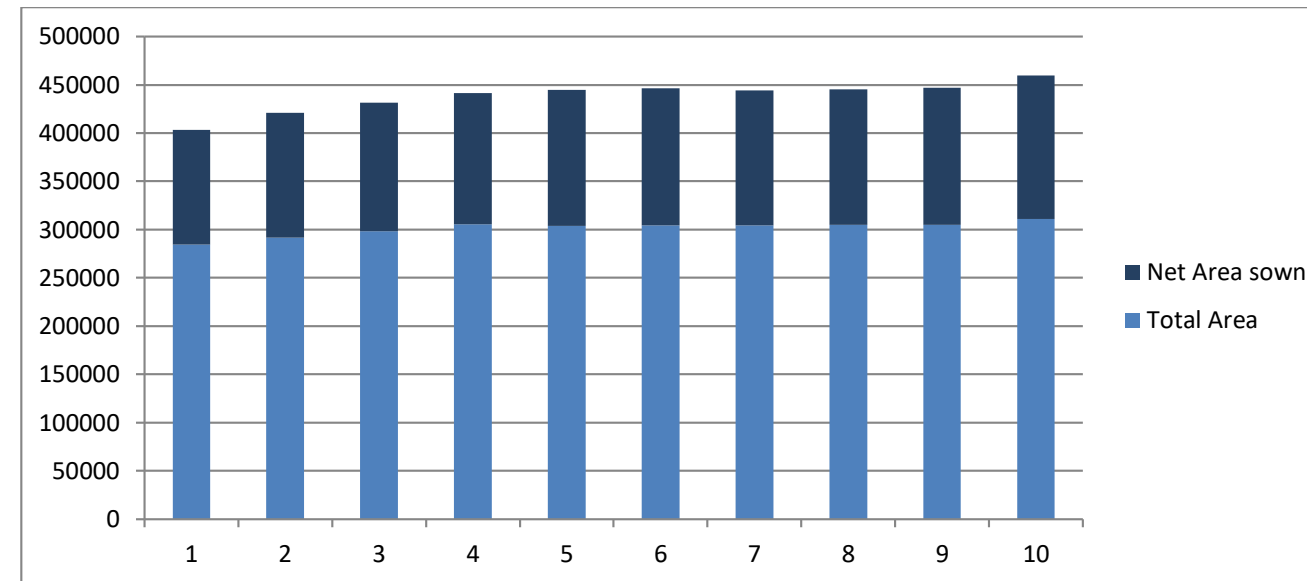
As per sector policy paper of World Bank published in 1975, credit was considered as an important element for modernization of agriculture - a lifeline for prosperity in Indian economy. Our farming schedules are mostly weather dependent and many a times weather incompatibilities clubbed with improper credit facilities force our farmers to face loss in agricultural productivity, financial crunch and ultimately leading to desperation affecting the sustenance and growth of our national Gross Domestic Product (GDP). Therefore a detailed evaluation of agricultural credit services of commercial banks is required.

1.1. Background of Agriculture in India

India being an agriculture based country has taken significant strides and improved its output ranking in global scenario. During post independence era India has made immense progress towards food security with fourfold increase in food-grain production rendering substantial increase in available food-grain per capita even when the Indian population has tripled. With the widening gap between demand and supply, there is an ardent need to review the facts and devise necessary strategies.

Prior to the mid-1960s India had to rely on import of grains and food aid to meet the domestic requirements. However, two years of severe drought in 1965 and 1966 compelled Indian policy makers to reform the agricultural policy so that India did not depend on foreign agencies for its food security. Significant policy reforms targeting the goal of food grain self-sufficiency were adopted. This led to commencement of India's Green Revolution aimed at development of superior yielding, disease resistant wheat varieties in combination with better farming knowledge to improve the productivity. Punjab led India's green revolution and emerged as distinct state of being the country's bread basket comprising of Haryana too. Initial increase in production was achieved through the irrigated areas of the Indian states including western Uttar Pradesh. With, both the farmers and the government officials focusing on farm productivity and knowledge transfer, India's total food grain production improved to 4.7 tones of wheat/ha in 1975 against an average of 0.8 tones/ha in 1948, from the same land. Such growth in farm productivity enabled India to become self-sufficient by the 1970s. It also empowered the small holding farmers to seek further means to increase food staples produced per hectare. By 2000, Indian farms were adopting wheat varieties capable of yielding 6 tons of wheat per hectare.

With agricultural policy success in wheat, India's Green Revolution technology spread to rice. However, with poor irrigation infrastructure, Indian farmers utilized tube-wells to harvest ground water. When gains from the new technology reached their limits in the states of initial adoption, the technology spread in the 1970s and 1980s to the states of eastern India — Bihar, Orissa and West Bengal. The lasting benefits of the improved seeds and new technology extended principally to the irrigated areas which accounted for about one-third of the harvested crop area. In the 1980s, Indian agriculture policy shifted to "evolution of a production pattern in line with the demand pattern" leading to a shift in emphasis to other agricultural commodities like oilseed, fruit and vegetables. Farmers began adopting improved methods and technologies in dairying, fisheries and livestock, and meeting the diversified food needs of India's growing population. As with Rice, the lasting benefits of improved seeds and improved farming technologies now largely depended on whether India developed infrastructure such as irrigation network, flood control systems, reliable electricity production capacity, all season rural and urban highways, cold storage to prevent food spoilage, modern retail, and competitive buyers of produce from the Indian farmer. This is increasingly the focus of Indian agriculture policy. Information on total and net area sown in India (Chopra, 1998) is presented in following figure 1

Figure1. Total area and net area sown in India ('000 ha)

Source: Chopra, 1998

(Periods: 1=>1950-51, 2=>1955-56, 3=>1960-61, 4=>1965-66, 5=>1970-71, 6=>1975-76, 7=>1980-81, 8=>1985-86, 9=>1990-91, 10=>1995-96)

1.2 .Status of Agriculture in Indian Economy

The percentage contribution of agriculture sector to the "Net Domestic Product" (NDP) has been 52.23% in 1960-61 but declined to 29.68% in 1995-96. Nevertheless, the NDP from agriculture has virtually improved from approximately Rs. 7 Billion to Rs. 12.4 Billion during this period, and agriculture sector is still the major contributor to net domestic product, still, it is obligatory on our part to analyze the factors affecting such decline.

As per report of 2011, India having large and diverse agricultural sector, accounting, on average, for about 16% of GDP and 10% of export earnings.. Its gross irrigated crop area of 82.6 million hectares (215.6 million acres) is the largest in the world. India is among the top three global producers of many crops, including wheat, rice, pulses, cotton, peanuts, fruits and vegetables. Worldwide, as of 2011, India having the largest herds of buffalo and cattle, is the largest producer of milk and has one of the largest and fastest growing poultry industry.¹The following data (Table 1) presents some of the important agricultural products, by economic value in India (2009). For comparison, this table indicated the average of the most productive farms in India as well as in the countries It is evident that India has large potential for further accomplishments from increase in agricultural output/income.

Table1. Comparative agricultural production in India and other top producing countries

Product	Average Yield, India (2010)	World's Most Productive Yield (tons per hectare) and Country (2010)
Rice	3.3	10.8(Australia)
Buffalo milk	1.7	1.9(Pakistan)
Cow milk	1.2	10.3 (Israel)
Wheat	2.8	8.9(Netherlands)
Mangoes	6.3	40.6(Cape Verde)
Potatoes	19.9	44.3(USA)

Source: economic value in India (2009)

As per Food and Agriculture Organization (2009), India had grown to become the **world's largest producer** of the following agricultural products:

2. Fresh Fruit, Lemons and limes, Buffalo milk-whole fresh, castor oil seeds, Sunflower seeds, Sorghum, Millet, Spices, Okra, Jute, Beeswax, Bananas, Mangoes, Guavas, Pulses, Indigenous Buffalo Meat, Fruit tropical, Ginger, Chick peas, Areca nuts, Pigeon peas, Papayas, Chilies and peppers, dry, Anise, fennel, Coriander, Goat milk, whole, fresh

and happened to be the world's **second largest producer** of the following agricultural products:

- Wheat, Rice, Fresh vegetables, Sugar cane, Groundnuts with shell, Lentils, Garlic, Cauliflowers and broccoli, Peas green, Sesame seed, Cashew nuts with shell, Silk-worm cocoons, Cow milk, tea, Potatoes, Onions, Cotton lint, Cottonseed, Eggplants, Indigenous Goat Meat, Pumpkins, squash and gourds

2. LITERATURE REVIEW

Author, Year	Country	Findings of the Study
1. Abhiman Das, 2009	India	The study examines the role of direct and indirect agriculture credit in the agriculture production taking care of the regional disparities in agriculture, credit disbursement and agriculture production in an econometric framework using Dynamic Panel Data Analysis with Instrumental Variables using Arellano-Bond Regression. The analysis suggests that the direct agriculture credit amount has a positive and statistically significant impact on agriculture output and its effect is immediate.
2. Ajit Kumar Misra and Upasna Mohapatra, 2017	India	The study examines the history and need of Agriculture Finance in India. It revealed that the Institutional credit flow to the Agriculture has been increasing for the past four decades.
3. Haresh Barot & kundhan Patel, 2015	India	The paper is aimed at highlighting the scope to strengthen Agriculture Finance system for the comprehensive growth of agriculture, food security and rural development. The study reveals that; though the institutional credit in India to agriculture sector is increased in quantum, serious efforts are required to provide it to the right kind of people, at right time, on right places and in right quantity; that boost Indian agriculture sector in a right way.
4. Tajindar Kaur, 2016	India	The study examines the role of NABARD and its functioning in development of rural India. As per the study NABARD is working for the 360 degree development of rural India. Every year the financial assistance received by NABARD and the disbursement made out of it are increasing. In short it can be said that the NABARD is providing rural India all round assistance.
5. Rajiben Solanki, 2016	India	The study reveals that the bank credit in India to Agriculture sector has been increased in its quantum during the study period. The credit provided by the bank has increased its advances. But an effort has to be taken by bank to reduce its NPA, so that the recovered bank credit should be pumped in to Agriculture sector further for its growth.
6. Sharmishtha Matkar & Anil Keshav Jadhao, 2015	India	The study reveals that the credit delivery to the Agriculture sector continues to be inadequate. It appears that the banking system is still hesitant on various grounds to purvey credit to small and marginal farmer.
7. Dharendra Ojha, 2014	India	The study examines the importance of banking sector specially the importance of regional rural banks which play an important role in providing Agriculture credit and to remove them from the clutches of local moneylenders. The study reveals that the financial Institutions providing loans for the purpose of Agriculture turned out to be total failure. Although there is a slight improvement in the condition of workers but the overall position is that the financial Institutions do not serve the purpose of Agriculture.

8. Sunil Singh Yadav, 2017	India	The study analysed the difference between agricultural loan and agricultural credit. It also discussed the institutional framework for agricultural financing.
9. Ratan Lal Godara, Partap Singh & Sanjay Singla, 2014	India	The study examines the various issues raised in agricultural credit in India. The study reveals that the credit delivery to the agriculture sector continues to be insufficient. It appears that the banking system is still hesitant on various grounds to provide credit to small and marginal farmers. Transformation in banking policies and practices and the resultant of and access to total bank credit during the post-bank nationalization period have not satisfactorily addressed equitable and efficient delivery of agriculture and rural credit.
10. Arun Vishnu Kumar, 2005	India	The study suggests that some changes are required to make the market more responsive regarding agricultural credit facilities.
11. Gowhar Bashir Ahangar, Ashaq Hussain Ganie and MohdUmmer Jan Padder, 2013	India	The study tries to find out the quantum of loans issued and outstanding by institutional agencies. It also tries to examine the progress of Scheduled Commercial Banks in supplying agricultural credit in India. The study reveals that the highest increase in loans issued was in the case of Scheduled Commercial Banks while the lowest was in the case of Co-operatives on the other hand the total number of account holders in scheduled commercial banks has increased from 5,841 to 30,538, whereas the amount of finance increased from 14,516 to 2,71,670 in the referred period.
12. Anjani Kumar, Ashok K. Mishra, Sunil Saroj & P.K. Joshi, 2017	India	The study examines the impact of institutional farm credit on farm income and farm household consumption expenditures. It reveals that in India, formal credit is indeed playing a critical role in increasing both the net farm income and per capita monthly household expenditures of Indian farm families.
13. Anjani Kumar, K.M. Singh & Shradhajali Sinha, 2010	India	The study reveals that the amount of institutional credit availed by the farming households is affected by a number of socio-demographic factors which include education, farm size, family size, caste, gender, occupation of household, etc. The study has suggested simplification of the procedure for a better access to agricultural credit of smallholders and less-educated/illiterate farmers
14. Selvraj N. & PalajiKumar P., 2015	India	The study reveals that the marginal farmers had performed well not only in the prudent investment they had made on the financial and Physical assets, but also in the better and more efficient utilization of factors and inputs in the study area. Agricultural credit, particularly commercial bank credit, promoted agricultural inputs to meet their various day-to-day agricultural expenses.
15. Sudha Narayanan, 2015	India	This study analysed the nature of the relationship between formal agricultural credit and agricultural GDP in India, specifically the role of the former in supporting agricultural growth. It revealed that the study suggest that over this period, all the inputs are highly responsive to an increase in institutional credit to agriculture.

3. SIGNIFICANCE OF THE STUDY

Agriculture is the maximum contributor in Indian economy. Therefore improving this sector is very important. For this purpose Agricultural Credit Services playing a very important role. Government is doing many works for enhancing awareness regarding the above but still on the ground bases it has been observed that many farmers prefer not institutional credit services. Therefore for understanding various factors influencing agricultural financing a detailed study is required.

4. Agricultural Credit Services

In India agricultural credit services are available to farmers and other persons working in the farming sector from various sources. There are mainly two types of agricultural credit requirements by farmers i.e. Short and medium term. In India these requirements are usually met by Government, money lenders, and co-operative credit societies. Farmers with long-term loan requirements, such as a long-term agriculture loan or a loan for agriculture land purchase, can avail of loans from land development banks, the Indian government, and money lenders.

4.1. Types of Sources of Agricultural Credit Services

Sources of agricultural credit services in India can be classified into two main categories, i.e., non institutional and institutional sources.

- **Non Organized sources**

Non- Organized sources includes around 40 percent of total agricultural credit generated by farmers in India. The interest rate of the non-institutional agriculture loans is usually very high, although the land or other assets are kept as collateral in the secured loans include entities like relatives, landlords, traders, commission agents, and money lenders.

- **Organized sources**

The important objective of organized credit sources is to enable farmers to increase their agricultural productivity and, as a consequence, their income. Institutional credit doesn't employ exploitative practices. Some of the main institutional sources of agricultural finance in India are listed below.

A. Co-operative credit societies

Co-operative credit societies are the best and cheapest sources of agriculture business loan in India. The active Primary Agricultural Credit Societies (PACS) in India account for almost 86% of all Indian villages and makeup over 36% of the total rural populace in the country

B. Government

The government is another valuable provider of agricultural finance in India. Agricultural finance available from the Government of India is called taccavi loans and these are usually disbursed during times of emergency, such as when floods or famine occur. Interest rates on these loans are also very low.

C. Regional rural banks

Regional rural banks or RRBs have been providing direct loans to agricultural labourers, small and marginal farmers, as well as rural artisans, among others since 1975 for productive purposes.

D. Commercial Banks

Commercial banks have played a marginal role in providing rural finance. After the nationalization of commercial banks in 1969, these banks began to provide both direct and indirect agricultural loans for short and medium term durations.

E. Land development banks

These provide both medium and long-term agricultural business loans against collateral of land that acts as a security. The duration of this agricultural business loan is usually 5–20 years with a high loan quantum.

5. Leading Commercial Banks offering Agricultural Credit Services

- Bank of Baroda, Baroda Uttar Pradesh Gramin Bank.
- Cooperative Banks.
- Regional Rural Banks.

6. Conclusion:

On the bases of above study it can be concluded that agriculture sector is the main sector that every government need to focus as it highly contributed sector in Indian GDP. Agricultural credit proving institutions are the main sources of agricultural financing in India. There are two types of agricultural credit institutions one is organized and the other one is unorganized. Loan from relatives, landlords, traders, commission agents, and money lenders comes under unorganized credit sources of agricultural finance. Whereas corporative credit societies, commercial banks, land development banks, regional rural banks, etc. are the important sources of organized credits of agricultural finance.

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