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# Impact of commercial banks' credit on the agricultural development of India

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**Abstract**: Credit supply is an important determinant of investment in agriculture. The development of Indian agriculture is broadly affected by the credit disbursed by various agencies viz., NABARD, commercial banks, cooperative banks and regional rural banks etc. Since the nationalization of commercial banks in 1969, India had strongly pursued a policy of "social and development banking" in the rural areas. The paper attempts to study the effectiveness of credits allocated by the commercial banks by evaluating their results as the agricultural growth and development. Paper also tries to emphasize the importance of farm mechanization in agriculture. The research will be carried out with the help of secondary data and through time series analysis for the period of 2001-2010.

**Key words:** credit, farm mechanization, KCC

## Introduction

Agricultural credit is considered as one of the most basic input for the agricultural development. It capitalizes farmers to undertake new investments. But, due to acute shortage of capital, India's agriculture is still suffering from various issues viz. lack of irrigation facilities, backward rural infrastructures, inadequate research institutions etc. Apart from this, GOI adopted the institutional credit approach through various agencies like cooperatives, commercial banks and regional rural banks etc, to provide effective credit to the farmers. Among all the financial institutions, commercial-banks are most crucial due to its large share in overall credit disbursement Credit is indeed a catalytic agent to lubricate the process of agricultural & rural development. To improve credit flow to agriculture & rural development sector and achieve inclusive rural growth that can substantially minimize the incidence of inequalities within & among districts in the country policy should address to create enabling environment that can significantly enhance credit absorption capacity of the geographical areas and farmers in each district. Investment in agriculture would facilitate farmers' access to frontier technologies, food processing, farm-to-market linkages, agricultural extension, weather & crop forecasting, large-scale development of bio-diesel, mechanization & commercialization of agriculture. Public, private and foreign investment should remedy the situation of investment shortage in agriculture and help transform a 'negative subsidy regime' into a 'capital-intensive positive Agricultural Marketing Service regime' and stimulate Indian producers to access global markets. Government, Agricultural Universities & Indian Council of Agricultural Research [ICAR] institutes along with industrial, business & commercial houses in close coordination should

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accelerate their efforts to accomplish this task during the ensuing 12th Five Year Plan [2012-17]. Drought, flood and weather codes need to be developed and used to seek short and long-term solution to the recurring problems of floods, drought and cyclones, thereby minimizing damage to rural livelihoods. National Commission on Farmers has made a number of policy recommendations to find long term solution to the problems faced by farmers in rain-fed and drought-prone areas in its report submitted in October 2006.

Many studies have established a strong & positive relationship between rural infrastructure and aggregate agricultural productivity. Positive & significant correlation between road development. Studies in India document positive linkages between various types of infrastructure and agricultural output growth.

Role of credit to agriculture cannot be viewed just as a support to food-producing activity but it should focus "*need to improve the overall income and economic well being of the farmers*" as agriculture has been the basic requisite for *national sovereignty*. The extensive literature analyzing the relationship between agricultural and non-agricultural growth in India confirms that farm & non-farm sector in rural areas are complimentary to each other. Rural credit policy and programs need to focus on farm & rural non-farm sector development to alleviate rural poverty, deprivation and suffering. Rural infrastructure [both physical & institutional] such as irrigation watershed development, rural electrification, roads, markets, credit institutions, rural literacy, agricultural research & extension etc. together play a key role in determining agricultural output in India.

- India has a vast structure of financial institutions involving cooperatives, $RRB_s$ and commercial banks accounted for significant share in total credit disbursed to agricultural sector. Therefore, it is quite worth to analyse the consistently increasing role and importance of commercial banks towards the agricultural sector. The path of credit disbursement included various governmental programs and policies. Some noted governmental schemes are **Kisan Credit Card (1998-99), Rasthriya Krishi Vikas Yojana (2006-07), Swabhiman Yojana (2000)** et cetera. They helped a lot to enhance the accessibility of farmers to credit. On the contrary, there are many loopholes in are credit system which ultimately affect the poor farmers like inadequate provision of credit to small and marginal farmers **(Rakesh Mohan, 2006).** Large number of suicide attempts made by the Farmers is one of the concerning issue in this regard. In India the credit GDP ratio is very low as compared to various low middle income countries of the world. Though the country experiencing continuous increase in agricultural credit since independence. Thus, the study will attempt to analyse the effectiveness of credits allocated by the commercial banks and how far these are helpful in the agricultural development.

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**Literature Review**

**Rakesh (2006),** in his article discussed about the loopholes prevailing in the system like inadequate provision of credit to small and marginal farmers, heavy dependence on agricultural credits etc. He further added the issue of transformation in dietary patterns in rural India, leads to diversification in agricultural production. Finally, he suggested for major review of agricultural policy is required. **Tyagi V. (2012),** in her study found that although the ratio of agricultural credit to agricultural GDP has increased from 5.4 percent in $1970_s$ to 8.7 percent in 2001-02. It must be noted that agricultural credit as a proportion to total credit has declined from 20.5 percent to 10.5 percent during the same period, indicating lower deployment of credit in agriculture. **Pandey G. C. and S. Priyakumar (2013),** supported financing to the contract farming by the banks. According to them it is a boon to farmers who can access institutional credit easily for crop production arranged by the companies. However, **Sukanya N. and Vishwanatha (2014),** in their study found that credit is only a facilitator and it will help in promoting agricultural development only if non credit inputs and facilities are available at economical rates and are adequate and timely. They also point out some issue related to problems of overdue, generating $NPA_s$ of financial institutions and its adverse effect on agricultural credits. The study of **Saini P. and Sindhu J. (2014),** suggests that the government should take some prime steps to increase credit flow in rural areas. **Seena, P.C (2015),** discussed the role of education for capacity building of farmers so that they could be able to cater the problem of access agricultural credit from the financial institutions.

**Objectives of Study**

- To study the effectiveness of credits allocated by the commercial banks.
- To know how commercial banks are helpful in the agricultural development.
- To study the role of commercial banks in providing agricultural credit.

**Data Sources and Analysis**

The research will be carried out with the help of secondary data and through time series analysis for the period of 2001-2010. All the data for study is obtained from various issues of Economic Survey, Annual Reports of RBI, Annual Reports of NABARD, Articles of different Journals and Textbooks.

**Table 1: agency wise credit disbursement since 2001 to 2010 (Rs. Crore)**

| Year | Cooperative bank | Commercial bank | RRBs | Others | Total | % share of commercial banks out of total |
|---|---|---|---|---|---|---|
| **2001-02** | 23524 | 33587 | 4854 | 080 | 62045 | 54.1 |
| **2002-03** | 23636 | 39774 | 6070 | 080 | 69560 | 57.1 |
| **2003-04** | 26875 | 52441 | 7581 | 087 | 86984 | 60.3 |


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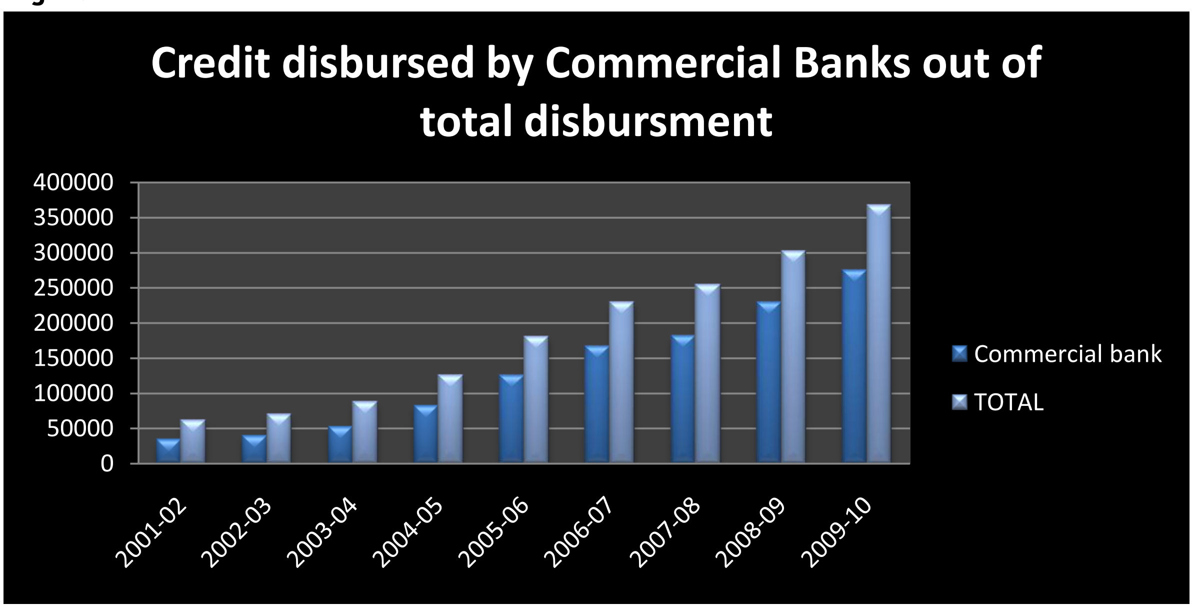
| | | | | | | |
|---|---|---|---|---|---|---|
| **2004-05** | 31231 | 81484 | 12404 | 190 | 125309 | 65.0 |
| **2005-06** | 39404 | 125477 | 15223 | 382 | 180486 | 69.5 |
| **2006-07** | 42480 | 166485 | 20435 | 000 | 229400 | 72.6 |
| **2007-08** | 48258 | 181088 | 25312 | 000 | 254658 | 71.1 |
| **2008-09** | 45966 | 228951 | 26765 | 226 | 301908 | 75.8 |
| **2009-10** | 57500 | 274963 | 34456 | 000 | 366919 | 74.9 |
| **2001-10** | 338874 | 1184250 | 153100 | 1045 | 1677269 | 70.60 |

**Source: RBI**

The above table shows agency wise total agricultural credit disbursed through various agencies. Out of all commercial banks are the most important source for lending as it accounts for 54.1% in 2001-02 which continuously increases throughout the decade and accounts for 74.9% in 2010.

This huge increase in the share of commercial banks in total credit confirms its significant role in the development of agriculture. The agricultural credit has direct relation in promoting agricultural development (**Sukanya and Vishwanatha).** The very same result is depicted in the figure below.

**Figure1**




The next figure 2 depicts the trend in credit disbursed by the three major agencies that is commercial banks, cooperative banks and regional rural banks during 2001-10. Among these three agencies the share of cooperative banks and RRBs remains almost constant throughout the period while share of commercial bank shows steep rise from 2002-03.


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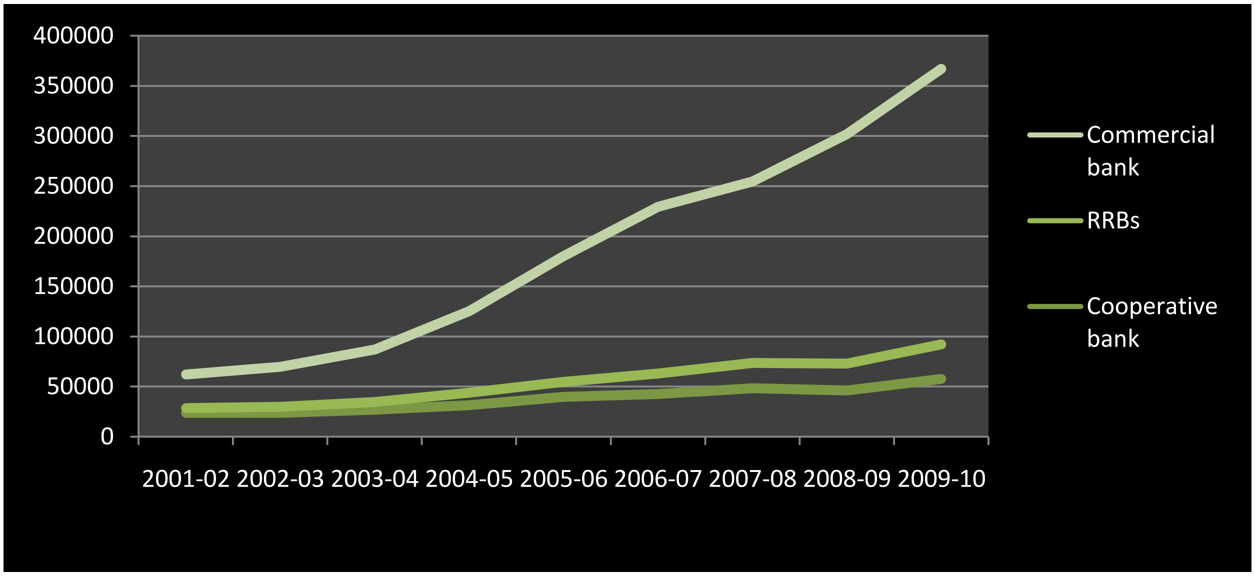
**Figure 2: Credit disbursed by commercial bank, RRBs, and cooperative banks**




Farm mechanization is one of the most important source to increase the agricultural output which could further help in the development of agriculture and farmers' welfare. Credit Flow to Farm Mechanization, therefore, acts as a factor for effective development of agriculture. As per Annual Report (2013-14) of NABARD, the share of long term credit in overall credit flow reduced from 40 per cent in 2006-07 to 22 per cent in 2012-13. The table below indicates less than 3 per cent of credit flow to the farm mechanization when compared to the total credit flow to the agriculture.

**Table 2: Credit Flow to Farm Mechanization (Rs. Crore)**

| | **2007-08** | **2008-09** | **2009-10** | **2010-11** | **Growth rate 2010-11** |
|---|---|---|---|---|---|
| **Total credit to agriculture** | 254658 | 301908 | 384514 | 468291 | 21.79% |
| **Share of Farm mechanisation** | 8303 (3.26) | 8334 (2.76) | 10211 (2.66) | 12799 (2.73) | 25.35% |

**Figures in parentheses indicate % share in total**
**Source: NABARD, Annual Report, 2013-14.**

The figure 3 shows meager share of farm mechanization out of total credit to agriculture. Less than three percentage share wants a recheck and as per the literature it is suggested to increase lending

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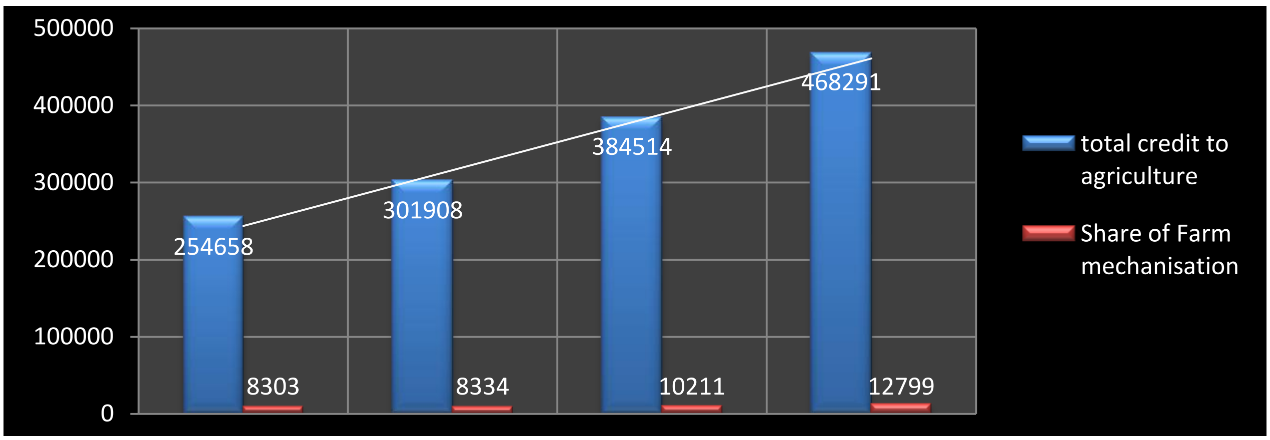
for farm mechanization supported by some new policy initiative in order to achieve higher production using lesser input. The total investment in Farm Mechanization sector through the various Schemes of Government of India is about Rs. 1354 crores during 2014-15 which needs to be enhanced to Rs. 4000 crores per annum by supplementing through State plan or other sources like Rural Infrastructure Development Fund (RIDF) etc., to achieve the target of farm power availability of 2kW/ha by 2017 which is presently about 1.73kW/ha (state agriculture report 2015-16).

**Figure 3: Share of Farm Mechanisation**




**Role of KCC in Agricultural Development**

Government of India initiated several policy measures to improve the accessibility of farmers to the institutional sources of credit. The emphasis of these policies has been on progressive institutionalization for providing timely and adequate credit support to all farmers with particular focus on small and marginal farmers and weaker sections of society to enable them to adopt modern technology and improved agricultural practices for increasing agricultural production and productivity. These policy measures have resulted in significant increase in the share of institutional credit. For the financial year 2014-15, the agriculture credit target was fixed at Rs. 8,00,000 crores and the target has been surpassed with disbursement of agriculture credit of Rs.8,45,328.23 crores. During 2015-16, against a target of Rs. 8,50,000 crores, about 75 per cent of the targeted credit has been disbursed by December, 2015.

The Government is providing short-term crop loans up to Rs.3 lakhs to farmers at the interest rate of 7 per cent per annum. Government of India has introduced an interest subvention scheme in 2006-07 to incentivize prompt repayment. The farmers, who promptly repay their crop loans as per the repayment schedule fixed by the banks, are availing 3 per cent interest subvention. Thus, the

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effective interest rate for crop loan since 2011-12 has been 4 per cent per annum. 3.78 In order to discourage distress sale of crops by farmers, the benefit of interest subvention has been made available to small and marginal farmers having Kisan Credit Card for a further period of up to six months (post-harvest) on the same rate as available to crop loan against negotiable warehouse receipts.

**Table3: Operative KCC Accounts and Outstanding Amount as on 31.10.2015**

| Agency | Total operative KCC Accounts | Amount outstanding (Rs. Crore) | Out of these ATC enabled RuPay KCC-cum-Debt Cards |
|---|---|---|---|
| **Commercial Banks** | 2,25,24,560 | 3,30,384.51 | 76,14,956 |
| **Cooperative Banks** | 3,88,40,776 | 1,13,324.37 | 2,50,086 |
| **Cooperative Banks** | 1,25,26,342 | 84,235.03 | 31,01,504 |
| **Total** | 7,38,91,678 | 5,27,943.91 | 1,09,66,546 |

**Source: State Agricultural Report 2015-16**

In order to ensure that all eligible farmers are provided with hassle-free and timely credit for their agricultural operations, the Government has introduced the Kisan Credit Card Scheme, which enables them to purchase agricultural inputs such as seeds, fertilizers, pesticides, etc., and draw cash to satisfy their consumption needs. The KCC Scheme has since been simplified and converted into ATM enabled debit card with, inter alia, facilities of onetime documentation, built-in cost escalation in the limit, any number of withdrawals within the limit, etc., which eliminates the need for disbursement through camps and mitigates the vulnerability of farmers to middlemen. 3.80 The main objectives of the Scheme are: to meet the short term credit requirements for cultivation of crops, post-harvest expenses, produce marketing loan, consumption requirements of farmer household, working capital for maintenance of farm assets and activities allied to agriculture, like dairy animals, inland fishery, etc. Investment credit requirement for agriculture and allied activities like pumpsets, sprayers, dairy animals, etc. The State Governments were advised to launch an intensive branch or village level campaign to provide Kisan Credit Card to all the eligible and willing farmers in a time bound manner. KCCs have now been converted into Smart Card cum Debit Cards to facilitate its operation through ATMs.


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**Conclusion**

The increase in the supply of credit to agriculture has been claimed to be one of the most significant achievements of the UPA governments after 2004. The growth rate of credit flow to agriculture from commercial banks in the period 2001 to 2010 was about 17.6 per cent per annum, which was significantly higher than the corresponding growth rate in the decade of 1991s. It also concluded that commercial banks emerged as the backbone for agricultural credit disbursement. About one-third of the increase in credit flow to agriculture between 2002 and 2010 was on account of the increase in indirect finance. This growth did not originate from a growth in the traditional components of indirect finance, such as loans for the supply of inputs, power and credit to agriculture. The study also found that farm mechanization needed much attention so that is can bridge the gap of incomes of big farmers to the marginal ones. There was a sharp fall in the share of long-term agricultural loans in total agricultural credit in the 1990s and 2000s. Consequently, only an increasingly smaller portion of agricultural credit was transformed into capital investment in agriculture.

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