Flow of Credit to Agriculture

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Sustainability of agricultural growth in India is crucial as almost half of the country's population still depends on this sector for their livelihood. Flow of credit to agriculture plays a critical role in agricultural production in the country and hence in maintaining the momentum of growth of this sector. Moreover, financial inclusion is necessary for attaining inclusive growth. 'Inclusive Growth' has been the central feature of policy objectives stated by the government over the last decade; and, increasing the amount of credit flow to the agriculture sector is one of the important ways for making the country's economic growth more inclusive.

One would hardly quibble over the fact that there has been a continuous increase in the flow of institutional credit to this sector, and, an increasing trend in this regard is observed particularly since early 2000s. The total institutional credit flow to agriculture sector had increased from Rs. 2,85,146 crore during the Ninth Five Year Plan (1997-2002) to Rs. 6,85,146 crore during the Tenth Five Year Plan (2002-2007). In line with the announcement (by the Union Finance Minister in 2004) of doubling the institutional credit flow to agriculture sector, a target was fixed at Rs. 2,25,000 crore for the year 2007-08, with an inclusion of 50 lakh farmers into the ambit of farm credit. Against the target of disbursing Rs. 2,25,000 crore to this sector, all banks (including cooperatives and regional rural banks) disbursed Rs. 2,54,658 crore, which was 113 percent of the targeted amount fixed for the year 2007-08. Further, in the Eleventh Five Year Plan (2007-2012) also, the target for the flow of credit to agriculture sector was set on the higher side, and, by the end of the financial year 2010-11, the amount disbursed by all banks was recorded at Rs. 4,68,291 crore.

As per the figures shared in the budget speeches of the Union Finance Minister in the recent years, it has been noticed that the credit flow to agriculture sector has always exceeded the targets. For instance, the targets set for the financial year 2012-13 and 2013-14 were at Rs. 5,75,000 crore and Rs. 7,00,000 crore respectively. The actual disbursement of credit to agriculture sector for the year 2013-14 is likely to touch Rs. 7,35,000 crore. This indicates that there has indeed been a continuous increase in the flow of institutional credit to agriculture sector over the last few years.

If one looks at the flow of institutional credit to agriculture sector during the period between 1999-2000 and 2013-14, we find that there has been an increase of almost 15 times. In absolute terms, the total flow of institutional credit (by Cooperative Banks, Regional Rural Banks, Commercial Banks and Other Agencies) to agriculture sector (which constitutes short term, medium term and long term credit) during 1999-2000 was Rs. 46,268 crore, which has increased to Rs. 3,84,514 crore in 2009-10, and further to Rs. 6,07,375 crore and Rs. 7,35,000 crore in 2012-13 and 2013-14 respectively. Of this, however, short term credit (production credit) accounts for a major share, i.e. almost two-third of the total institutional credit flow to agriculture sector. In fact, the share of short term credit ranges between 58 - 78 percent during the period between 1999-2000 and 2012-13.

Given the fact that the flow of institutional credit to agriculture sector has registered a marked growth during the last couple of years, it is important to note who all have been availing of these large amounts of institutional credit (i.e. the share of different farming categories). While looking at the relevant statistics (Input Survey, 2006-07, Government of India), it has been found that only 19.6 percent of the estimated operational holdings belonging to the marginal category of farming (with less than one ha. of land) had taken institutional credit for agricultural purposes. Such percentage shares for small, semi-medium, medium and large operational holders constituted 33 percent, 35 percent, 39 percent and 40 percent respectively. In all, only 25 percent of estimated operational holdings had taken institutional credit for agricultural purposes out of the total number of operational holdings in the country. This signifies that rest 75 percent of the total operational holdings did not avail of institutional credit.

Farm Size (in Ha)	Total number of operational holdings (OHs) (in '000s)	Estimated number of OHs that took institutional credit (in '000s)	Percentage of estimated number of OHs that took institutional credit to total number of OHs (in %)
Marginal (below one)	64316.37	12631.81	19.6
Small (1.0-1.99)	18776.33	6167.85	32.8
Semi-Medium (2.0-3.99)	11217.91	3875.76	34.5
Medium (4.0-9.99)	5335.5	2104.32	39.4
Large (10 and above)	1003.43	402.07	40.1
Total	100649.54	25181.81	25.0

Source: Computed by the author from the data given in *Agriculture Statistics at a Glance*, 2013.

Further, the same survey revealed that out of the total short-term (production) institutional credit disbursed by all banks, 36.3 percent was availed by the marginal farmers, 23.7 percent by the small farmers, 20.8 percent by the semi-medium farmers, 15.2 percent by the medium farmers and 4 percent by the large farmers. Out of this short-term credit, almost 80 percent were disbursed in cash (in all category of farming) and the rest by kind (value of the quantity of fertilizer and other inputs) to the farmers.

There has also been a clear shift noticed in the preferences of lending institutions (particularly the commercial banks) towards indirect finance over direct finance as part of institutional credit flow to agriculture sector. This has been clearly evident from the fact that of the total credit outstanding to agriculture sector (by all banks), the share of indirect finance, which was a meagre 17 percent in 1971-72 increased to 36 percent in 1993-94 and stood at 48 percent in 2007-08. A commonly cited argument is that the increase in the share of indirect financing to agriculture sector could be due to the financing of the value chain (agriculture value added industries) and increasing number of the urban and metropolitan branches catering to the needs of such industries. However, the point worth emphasizing here is that increasing share of indirect finance would not help the small and marginal farmers much as compared to the other farmers. In a largely agrarian economy like ours, where small and marginal farmers constitute more than 85 percent of the total farming community, direct finance would be more beneficial over indirect finance.

Setting up of higher targets of institutional credit flow as well as achieving those targets in every financial year, no doubt, has helped the agriculture sector to come out of the acute stress that it faced in the past. However, low percentage of operational holdings (out of the total holdings in the country) availing of institutional credit still remains a crucial challenge for the government. Further, the preferences for indirect finance over direct finance in the ambit of institutional credit to agriculture sector have not been beneficial for the small and marginal farmers. Hence, there is a need for recognizing and addressing these issues while devising the rural credit policies in the coming years.

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