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## Assessing the role of institutional agricultural credit in India

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### Abstract

According to the World Bank's sector policy paper dated 1975, credit was considered as a vital element for the modernization of agriculture in India. Unfortunately, many of the facilities provided by commercial banks are not suitable for the modern farming schedule.

This paper aims to analyze the various institutions that provide credit facilities to India's agricultural producers. It also aims to study the relationship between agriculture and the Indian economy. It also tries to understand the various types of credit facilities that are available to producers.

**Keywords:** Financing, agriculture, economy, credit, finance, crops, NABARD

### Introduction

India's agriculture sector is the base of its economy. According to the Indian Economic Survey 2018, it contributes around 17% to the Gross Domestic Products of the country. The country is also the biggest producer of various fruits and vegetables.

### Agriculture and Indian Economy

Agriculture plays a vital role in the development of India's economy. It contributes huge amount to developing nations like India. It is widely believed that the weather conditions during the monsoon season are the major factor that influences the production of crops. During the 2018 season, the average rainfall was less than normal.

Major types of crops that are produced in Indian economy are:

\* Food grains \* Commercial crops \* Horticulture crops

### Food Grains

Food grains are the staple crops for a variety of people. Production of these crops includes rice, wheat, and coarse cereals.

**Table 1:** Production of Food Grains in Million Tones

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	CAGR
Wheat	80.7	80.8	86.9	94.9	93.5	95.9	86.5	92.3	98.5	99.9	101.2	2.07
Rice	99.2	89.1	96.0	105.3	105.2	106.7	105.5	104.4	109.7	112.8	115.6	1.40
Pulses	14.6	14.7	18.2	17.1	18.3	19.3	17.2	16.4	23.1	25.4	23.2	4.30
Coarse Cereals	40	33.6	43.4	42	40	43.3	42.9	38.5	43.8	47.0	43.3	0.72
Total	234.5	218.2	244.5	259.3	257.0	265.2	252.1	251.6	275.1	285	283.4	1.70

Source: NABARD Annual Report 2017-18

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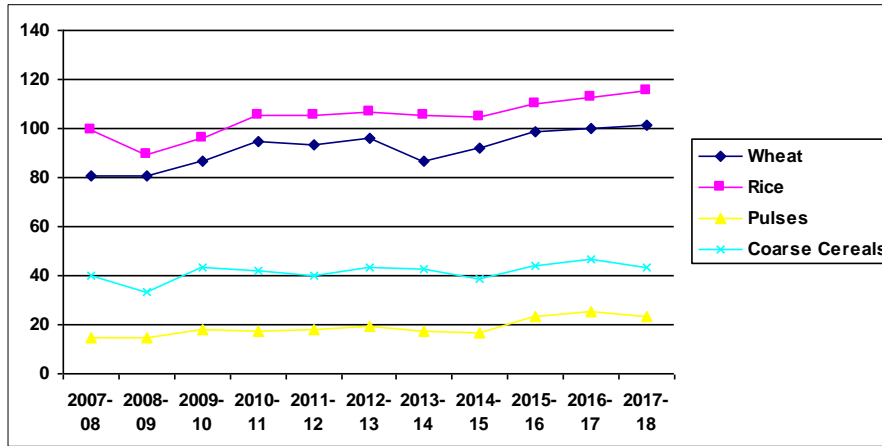


Fig 1: Production of Food Grains in Million Tones

**Commercial Crops**

These are the crops that are produced for profit by selling

them. Some of these include cotton, sugarcane, oilseeds and Jute & Mesta.

**Table 2:** Production of Commercial Crops (Oilseeds & Sugarcane)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Oilseed (Million Tones)	32.7	27.5	25.3	31.3	30.6	31.4
Sugarcane (Million Tones)	352.1	362.3	348.4	306.1	355.1	400.4

Source: NABARD Annual Report 2017-18

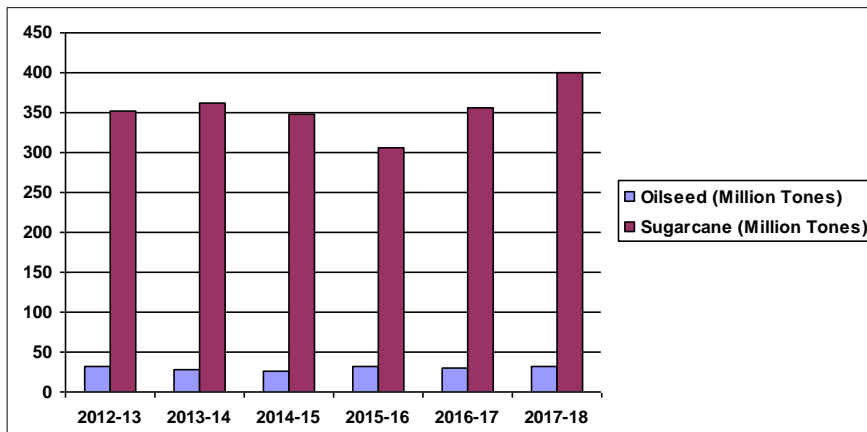


Fig 2: Production of Commercial Crops (Oilseeds & Sugarcane)

**Table 3:** Production of Commercial Crops (Cotton and Jute & Mesta)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Cotton (Million Bales)	35.9	34.8	30	32.6	34.9	27.6
Jute & Mesta (Million Bales)	11.7	11.1	10.5	11	10.6	9.8

Source: NABARD Annual Report 2017-18

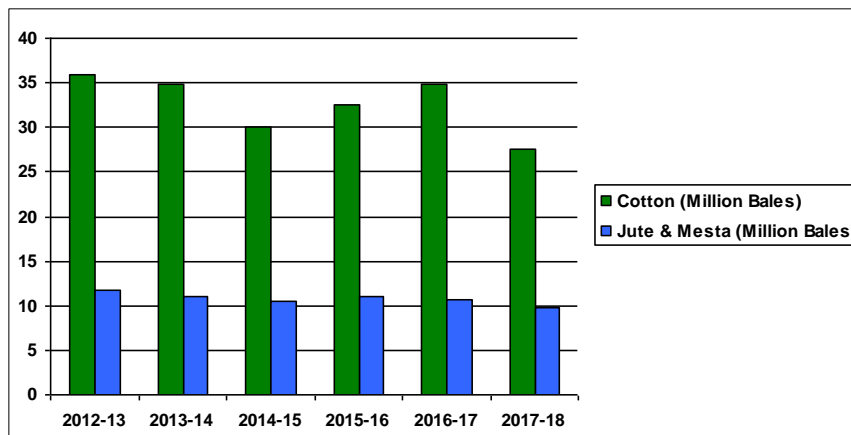


Fig 3: Production of Commercial Crops (Cotton and Jute & Mesta)

**Horticulture Crops**

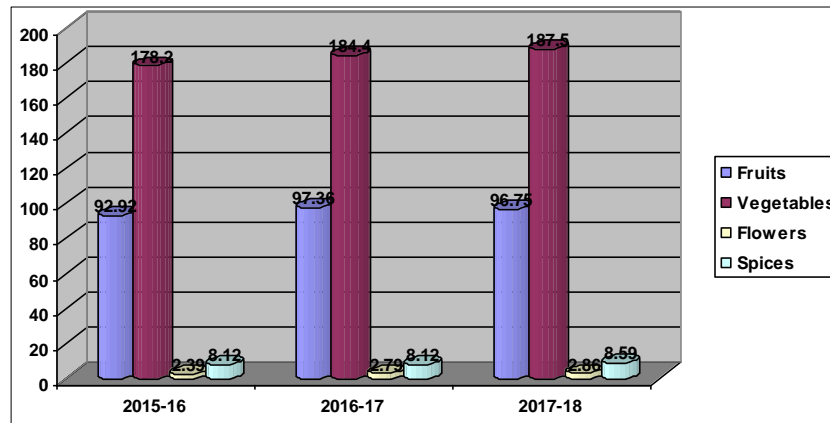
Horticulture is related to agriculture of plants. It mainly

includes plantation of vegetables, flowers, fruits, nuts, etc.

**Table 5:** Production of Commercial Crops (Cotton and Jute & Mesta)

	2015-16	2016-17	2017-18
Fruits	92.92	97.36	96.75
Vegetables	178.2	184.4	187.5
Flowers	2.39	2.79	2.86
Spices	8.12	8.12	8.59

Source: NABARD Annual Report 2017-18



**Fig 5:** Production of Commercial Crops (Cotton and Jute & Mesta)

**Literature Review**

Ajit Kumar Mishra, Upasana Mohapatra (2017) [6] the study mainly focuses on the importance of agriculture credit in India. It shows that aside from banks, credit is also required by the farmers for both their production and consumption.

Arun Vishnu Kumar (2017) the paper proposes various changes in the way agriculture credit is operated. Some of these include the licensing of the informal agents of credit and the disinvestment of State governments from the ownership of these banks. It also suggests that the NABARD should disassociate itself with the supervision and development role of the scheduled commercial banks.

Sunil Singh Yadav (2017) [3], the study explores various aspects of agriculture credit in India. It also studies the various sources of financing for the sector.

Prof. Ratan Lal Godara & Dr. Partap Singh (2014) [5] despite the various regional differences in the country, the study tries to analyze the role of indirect and direct agriculture credit in the production of farm products.

Abhiman Das, Manjusha Senapati (2009) [4] the study aims to find out the various problems faced by the agriculture financing in India. It also suggests that the amount of credit being provided to the sector is not enough to support the growth of the industry.

**Significance of the Study**

Due to the importance of agriculture, the development of this sector has become a top priority for the government. Various institutions and policies are currently working on improving the conditions of farmers and the agricultural credit market.

**Objectives of the Study**

- To analyze the relation between Indian Economy & Agriculture.
- To know the importance of Agricultural Credit.
- To understand various types of agricultural credit.

- To analyze the institutional involvement in providing agricultural finance.
- To analyze the performance of Cooperative banks in providing agricultural finance

**Hypothesis**

1. **H0: 1:** There is no significant relationship between agriculture and development of the economy.
2. **H0: 2:** There is no significant relationship between agriculture production and agriculture credit policies.

**Research Methodology**

This study has been conducted to analyze the effect of institutional credit services on the profitability of various agricultural products.

- Annual Report 2017-18 published by NABARD.
- Report of the Internal Working Group to Review Agricultural Credit, Reserve Bank of India.

**Tool for Analysis**

A variety of statistical tools are used to analyze the data. The annual growth rate of various agricultural products and the profitability of these products are also calculated.

$$\text{Compound Growth Rate} = (V_n/V_0)^{1/n} - 1$$

Where,  $V_n$  = Ending Value,  $V_0$  = Starting Value,  $n$  = Number of Years

**Agriculture Credit**

Agriculture Credit is a type of loan that is usually given to agricultural producers. It can be used for various purposes such as working capital, equipment purchases, and marketing expenses. According to William Murray, agriculture finance is a study conducted on the financing of various activities related to agriculture. It is commonly used to acquire and control of assets.

Warren Lee and other experts refer to agriculture finance as an economic study that focuses on the supply and demand for capital in the agriculture industry.

### Need and Importance of Agriculture Credit

In developing nations, such as India, where the population depends on agriculture for its living needs, agriculture finance is used to support the development of the industry.

### Types of Agriculture Credit

Agriculture credit or financing can be classified under the following heads:

- Short – Term Credit
- Medium – Term Credit
- Long – Term Credit

### Short-Term Credit

A short-term credit facility is usually provided to help farmers finance their working capital requirements, such as the purchase of seeds and fertilizers.

**Table 6:** Progress of Disbursement of Short-Term Credit

Year	StCBs	RRB
2015-16	71401	13573
2016-17	63458	16246
2017-18	73143	16946
CAGR	0.80	7.67

Source: NABARD Annual Report 2017-18

### Medium-Term Credit

Medium-Term Credit is a loan that can be used for a period of 2 to 5 years. It is very important for the purchase of farm equipment and other agricultural products.

### Long-Term Credit

A long term loan is a major source of financing for the development of agriculture sector. It can be utilized for various purposes such as purchase of equipment, sinking wells, and farming techniques.

**Table 7:** Region wise Disbursement of Long-Term Credit (%)

Region	2015-16	2016-17	2017-18	CAGR
Southern	45	42	45	0
Western	17	23	23	10.60
Northern	20	16	16	-7.16
Central	10	10	8	-7.16
Eastern	7	8	7	0
North-Eastern	1	1	1	0

Source: NABARD Annual Report 2017-18

### Sources of agriculture credit and their present contribution in the economy

Non-institutional and institutional Sources of Agricultural Finance in India can be divided into two main categories.

#### 1. Non-institutional sources

Non-institutional agriculture loans are typically high-interest loans that are made to farmers in India. These loans are typically secured by various assets such as land or other assets.

#### 2. Institutional sources

The goal of institutional credit is to help farmers increase their productivity and income. This is done through the use of funds that are not exploitative.

#### NABARD

The National Bank for Agriculture and Rural Development was established in India in 1982. It is focused on developing policies related to the financing of agriculture.

#### Co-operative credit societies & Co-operative Banks

These credit organizations are also known to provide low-cost loans to small and medium-scale farmers in India. As a result, they account for almost 86% of the country's villages.

**Table 8:** Performance of State Cooperative Banks (Amount in Crore)

Particulars	2016-17	2017-18	CAGR
Profit	970	1038	3.45
Loss	18	7	-37.65
Total NPAs	5180	6223	9.61
NPA% of Loan outstanding	4.1	7.72	7.29
Recovery %	93.5	94.16	0.35

Source: NABARD

**Table 9:** Performance of District Cooperative Banks (Amount in crore)

Particulars	2016-17	2017-18	CAGR
Total DCCBs	370	363	-0.95
Profit	1667	1744	2.28
Loss	757	893	8.61
Total NPAs	26414	30894	8.14
NPA% of Loan outstanding	10.5	11.2	3.28
Recovery %	78.9	71.7	-5.07

Source: NABARD

#### Government

The government of India provides various types of agricultural finance to its citizens. These are usually long-term loans and are available for emergencies.

#### Regional rural banks

Since 1975, many regional rural banks have been providing loans to rural laborers and small and marginal farmers for productive purposes.

**Table 10:** Performance of RRBs (Amount in crore)

Particulars	2016-17	2017-18	CAGR
RRB earning profit (no)	49	45	-4.16
Profit	2604	2506	-1.89
RRB incurring losses (no)	7	11	25.35
Losses	386	1005	61.35
Net Profit of RRBs	2218	1501	-17.74
Accumulated Losses (crore)	1147	1866	27.55
Recovery %	78.9	71.7	-5.07

Source: NABARD

#### Commercial Banks

Since commercial banks were nationalized in 1969, they have been gradually providing rural finance.

### Land development banks

These are long-term and medium-term agricultural loan products that are secured by the land. They typically have a duration of 15 to 20 years.

**Table 11:** Credit flow in Agriculture, Agency Wise

Year	Commercial Banks	RRBs	Cooperative Banks
2013-14	604376	102483	138469
2014-15	642954	119260	153295
2015-16	799781	123216	142758
2016-17	871080	141216	150321
2017-18	949622	151258	153882
CAGR	9.46	8.09	2.13

Source: NABARD

### Result and Findings

According to a study conducted by Price water house Coopers, agriculture is the main driver of the Indian economy's development. It contributes about 50% of the country's gross domestic product.

In order to improve the conditions of agriculture, a person needs to have sound credit generation. Most of the farmers in developing countries lack the funds to purchase seeds, equipment, and fertilizer.

### Conclusion

A successful agriculture sector can contribute significantly to the development of any economy. To achieve this, the government must step up its efforts in providing agricultural financing.

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