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RURAL CREDIT AND AGRICULTURAL GROWTH

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ABSTRACT

This study's goal is to investigate India's rural credit landscape and discover a striking consistency in the issues that the impoverished have encountered over time. This study aims to illustrate the function of microfinance in rural credit in India, with results that are both in favor of and against the notion that microfinance can encourage income-generating activities. Given its potential for investigating and bringing the government's attention to India's rural credit, the report suggests this structure. These include the functioning of a highly exploitative network of interconnected, flawed markets and reliance on usurious moneylenders. We present the historical and theoretical justification for nationalizing banks and offer proof of its beneficial effects on rural development and credit. The 1990s saw the introduction of reforms as a result of certain excesses. Bank profitability did rise as a result, albeit at the expense of the underprivileged and underdeveloped areas. The SHG-Bank Linkage strategy can improve the security and empowerment of the underprivileged, whereas the MFI model of microfinance is unsustainable. To solve the issues that have remained throughout the past century, much more is required than microfinance. The study's conclusions imply that an increase in rural credit's history and viewpoints in India.

KEYWORD: Microfinance, Rural Credit, Income, Moneylenders, Profitability

1. INTRODUCTION

The expansion of the agriculture sector affects the performance of the Indian economy. It accounts for 13 percent of India's total exports and close to 16 percent of its GDP. More than 620 million people rely on it for their life stability, and it employs 52% of the nation's workforce. In order to provide the country with food, increase exports, shift labor to non-agricultural industries, contribute to capital formation, and secure markets for industrialization, agriculture is essential to economic development. Since the vast majority of people in India rely on it either directly or indirectly, it is the foundation of any developing economy. Its survival depends on financial support.

Capital formation, income, savings, investments, and agricultural loans are all included in agricultural finance. Agricultural credit is not the sole aspect of it. "As an economic study of financing the farm business" is one definition of it. It is the area of agricultural management that deals with capital acquisition and utilization.

Due to the overwhelming requirement to accelerate agricultural expansion in order to feed a population of one billion or more and produce exportable surplus, agricultural financing has been acknowledged as the lifeblood of all economic activity. In addition, the product mix needed to be shifted toward horticulture, fisheries, and animal husbandry, all of which have enormous potential to generate income for rural residents in addition to significantly increasing the nation's export revenue.

When it was noted that "the majority of the world's farmers have to borrow at some time, many of them heavily," a United Nations publication emphasized the need of credit for farmers. They will need to take out ever-larger loans in order to increase agricultural productivity. When land rights are redistributed, credit is nearly always required. Therefore, it is necessary for agriculture in sufficient quantities and at reasonable prices.

New agricultural strategies in modern agriculture come at a high expense. It depends on a number of interconnected activities, all of which must be used sensibly and in accordance with the extension specialist's recommendations. Thus, the need for different kinds of agricultural inputs has increased at an unprecedented rate due to scientific crop planning. Consequently, there was a high demand for credit.

India's agricultural output is dependent on millions of small farmers. The key to increasing yields per acre is their method's effectiveness and the level of effort they put out. Many farmers are unable to adopt better farming practices, use better seeds and manures, or introduce better methods or techniques due to a lack of timely and affordable loan facilities and insufficient financial resources. Minor irrigation sources, such as growers' wells, are either misused or underutilized due to a lack of funding.

2. STATEMENT OF THE PROBLEM

One significant factor propelling the overall economy is the expansion of the rural economy. The significance of rural demand to support other activities is supported by sectoral demand matrices. The goal of the current study is to get some understanding of the dynamics of rural income, which are mostly influenced by the availability of funding. Since both the cost of funds throughout the study period and their availability might be considered target variables, the discussion of rural credit costs is avoided. Tested simple models show support for the supply-led approach to rural funding. Nonetheless, it may be suggested that the market be allowed to gradually distribute the rural finance, relying on the stable rural production base brought about by widespread activities and rural financing, which was greatly aided by institutional measures.

3. REVIEW OF LITERATURE

Ratheesh, C. et al. (2013) attempted to examine how the structure of institutional credit in India changed before and after the reform, how production and investment credit increased before and after the reform, and how long-term credit and private capital accumulation in Indian agriculture relate to one another. Secondary data gathered from a variety of sources served as the study's foundation. The investigation was conducted between 1970 and 2010. Data analysis techniques included regression, correlation, and average growth rate. According to the study, non-institutional credit was trending downward in post-independence India, while institutional credit was expanding. However, the non-institutional credit gained a little traction in the latter half of the research period.

Shejal, S.S. (2013) looked at the goals, execution, and effects of the district credit plan on industry and agriculture. The study was conducted in Maharashtra's Sangli District. The study was conducted between 2001 and 2010. The majority of the data came from secondary sources. The study discovered that, with the exception of 2002–03–2003–04, more than 90% of the goal was met in terms of agricultural credit provision. Additionally, it was discovered that almost 100% of credit was used for crop loans, storage, and property development. Between 2001 and 2010, the overall credit utilization rate dropped from 91% to 86%. The overall growth rate dropped somewhat from 19.55 to 17.99 over the prior quarter. According to the report, employment generation increased by 1.05% between 2002 and 2010. The study came to the conclusion that in order to manage the financial sector, loan costs should be further decreased and loan waivers should be prohibited.

Varinder Jain and Surjit Singh (2013). The availability and accessibility of finance among Rajasthani farmers has been the main focus of this study. Particularly, it has concentrated on the underprivileged segments of the farming community, including small, marginal, tribal, and Dalit farmers. It has been noted that every financial institution has offered both term and crop loans. While all agencies play a vital role in company loans, commercial banks hold a strong position in term loans since they are able to finance long-term loans.

4. OBJECTIVES OF THE STUDY

The following objectives of this study

1. To study the development of agricultural credit in India
2. To analysis of the five year plans and agricultural development

5. RESEARCH METHODOLOGY

Two sectors make up India's agricultural loan structure: (i) private or non-institutional sources, and (ii) institutional sources. Moneylenders, landlords, commission agents for traders, and the friends and family of farmers are all considered non-institutional. Cooperative societies, scheduled commercial banks, regional rural banks, and state governments that lend money to farmers are examples of institutional sources. Here, we go over each agency's function and position within the rural credit space.

6. RESULTS AND DATA INTERPRETATION

In comparison to other sectors, the agriculture sector's contribution to India's GDP has declined. Given that India is mostly an agricultural nation, it highlights the negative aspects of our economy. The 11th Five Year Plan was created by the Indian government with the goal of accelerating economic growth for the benefit of society. Numerous agricultural programs have been developed and put into action since the first Five Year Plan in an effort to rehabilitate 50,000 villages, eradicate poverty, and boost the nation's agricultural output.

TABLE 6.1

PLAN OUTLAY IN AGRICULTURE AND ALLIED SECTORS

Plan	Year	Total Outlay	Agricultural and Allied Sectors	Percentage
I Plan	(1951-56)	2,378	354	14.9
II Plan	(1956-61)	4,500	501	11.3
III Plan	(1961-66)	8,577	1,089	12.7
IV Plan	(1969-74)	15,779	2,320	14.7
V Plan	(1974-79)	39,426	4,865	12.3
VI Plan	(1980-85)	97,500	5,695	5.8
VII Plan	(1985-90)	1,80,000	10,525	5.9
VIII Plan	(1990-91)	58,369	3,405	5.8
IX Plan	(1997-2002)	8,59,200	37,546	4.9
X Plan	(2002-2007)	15,25,639	58,933	3.9
XI Plan	(2007-2012)	36,44,718	1,36,381	3.7

Source: Planning Commission, Government of India

Table suggests that, with the exception of the Seventh Five Year Plan (1990–91), the proportion of plan expenditures in agriculture and related sectors to total expenditures increased from the First Five Year Plan (1951–56) to the Eleventh Five Year Plan (2007–12). Over the course of all five-year plans, the percentage rise showed a shifting trend. The year 1951–1956 saw the most percentage rise (14.9 percentage points). during the time frame of the First Five Year Plan. Agriculture and related activities now account for 36,44,718 crores of the overall plan expenditure, up from 2,378 crores in 1951–1956. Although the five-year plans had a number of shortcomings, including difficulty in identifying potential beneficiaries, implementation process flow issues, easy access to private funding, and other issues, they were somewhat successful. Once more, low production and productivity resulted from small and marginal farmers' difficulties obtaining high-quality inputs and financing.

TABLE-6.2: INSTITUTIONAL CREDIT TO AGRICULTURE

	Agency	2000-01	2010-11	2011-12	2012-13
1.	Co operative Banks	20801(39.4)	78121(16.66)	87963(17.21)	11211(18.31)
2.	Regional Rural Banks	4219(8.01)	44293(9.46)	54450(10.66)	63653(10.48)
3.	Commercial Banks	27807(52.6)	345877(73.86)	368616(72.13)	432512(71.21)
	Grand Total	52827	468291	511029	607376

REGIONAL RURAL BANKS

Under the Regional Rural Banks Act of 1976, the Indian government established several Regional Rural Banks with the goal of enhancing the flow of credit in the agricultural sector of the economy. These banks were mostly established in areas that have remained economically underdeveloped and in areas where there have been insufficient cooperative or commercial banking facilities. Following a number of RRBs' mergers and restructurings, the number of RRBs dropped from 196 to 88, with over 14,500 branches. In 2013, these banks made a total of Rs. 82,650 crore in direct advances.

COMMERCIAL BANKS

With the nationalization of the nation's largest commercial banks, agricultural financing—which had previously been disregarded by the nation's commercial banking system—has now gained acceptance as a legitimate area of financing activity. The adoption of new agricultural strategies and the accelerating momentum of the "Green Revolution" have made farmers' financial needs even more pressing. Therefore, it is now generally acknowledged that nationalized commercial banks play a critical role in giving farmers access to sufficient credit facilities. Prior to nationalization, direct financing of agriculture was practically outlawed, but in recent years, it has rapidly increased. By the end of 2013, the banks' outstanding lending to the farm sector had grown from a meager Rs. 40 crore in June 1969 to over Rs 5,29,659 crore.

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

The creation of NABARD is a significant development in the fields of agricultural development and rural financing. The apex organization responsible for general development, policy, planning, and financial assistance for agriculture and rural development, the National Bank for Agriculture and Rural Development, was founded in July 1982. Through regional rural banks, commercial banks, cooperative banks, and other financial organizations established to support rural development, NABARD extends credit to the rural sector. The Bank makes ensuring that different entities involved in rural finance operate in coordination.

NEED TO STRENGTHEN INSTITUTIONAL CREDIT

An essential component for raising agricultural output is credit. Farmers who have access to institutional financing can increase their output by investing in equipment, buying seeds, fertilizer, and other inputs, and supplying money until they are paid for their produce—which is sometimes delayed and sporadic. Nonetheless, a sizable amount of the funding that farmers obtain still comes from unofficial or non-institutional sources. The most recent statistics from the National Sample Survey Organization (NSSO) shows that up to 40% of formers' food still comes from unofficial sources. Nearly 26% of all agricultural credit is provided by local moneylenders. Therefore, improving farmers' access to institutional loans is crucial. By 2012–2013, the proportion of agricultural loan to agricultural GDP had risen from 10% in 1999–2000 to approximately 38%. Nonetheless, the percentage of long-term loan (also known as investment credit) in agriculture has increased from 55% in 2006–07 to 39% in 2011–12. For the sake of increased capital formation in the agricultural sector, which serves as the foundation for ongoing productivity gains, this drop must be stopped and reversed. A Long Term Rural Credit Fund (LTRCF) has been established by the Indian government through the National Bank for Agriculture and Rural Development (NABARD). This fund enables the Regional Rural Banks (RRB) and the Cooperative Bank to offer farmers who take out medium- and long-term loans such more financial support. It is also necessary to address the geographical differences in agricultural credit distribution. In the country's eastern and northeastern regions, agricultural credit coverage is quite low. Compared to the expected loan flow of Rs. 845,328 crore in 2014, the credit target for 2013–14 has been set at Rs. 850,000 crore in order to boost agricultural credit flow. Through the Crop Loans program, farmers can obtain short-term financing up to Rs. 3 lakh at an interest rate of 7%. For borrowers that make timely loan repayments, the rate has been reduced to 4 percent in 2013–14. With Kisan Credit Cards, farmers can also receive loan benefits at the same rate as borrowers under the crop loan system. The goal of all these programs is to guarantee farmers timely access to short-term and long-term credit at reasonable interest rates in order to ensure notable increases in agricultural productivity, which is crucial for quick agricultural advancement.

7. CONCLUSION

In India, agricultural production has been greatly aided by agricultural finance. The growing usage of fertilizers, seeds, and other inputs during the green revolution raised the need for loans, which the agricultural financing institution supplied. Even while agricultural loan volumes and outreach have grown over time, a number of flaws have emerged that have impacted these organizations' sustainability and viability. Furthermore, the creation of robust and effective institutions as well as the flow of credit have been impeded by outdated laws and an outdated legal framework. 1951–1956 had the largest percentage gain (14.9 percentage points) among the first five-year programs. Between 1951 and 1956, agriculture and related activities accounted for Rs. 2,378 crores of the total plan expenditure; by 2007–2012, that amount had risen to Rs. 36,44,718 crores. There was a shifting pattern in the agency-wise Kisan credit card flow of cooperative bank credit. From 2004–05 to 2012–13, the other banks, which are commercial banks in comparison, showed an upward trend. The state of agriculture credit highlights the insufficiency of credit provision to the agricultural industry. For a variety of reasons, it seems that the banking industry is still reluctant to extend credit to small and marginal farmers. Through improved use of technology and related procedures, the situation necessitates coordinated efforts to increase the flow of financing to agriculture while also investigating new breakthroughs in product design and delivery systems.

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