Agriculture Credit in India: An Integrated Rural Credit Approach

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Abstract- This paper is aimed at strengthening policy reforms in the area of agriculture credit delivery system for the sustainability of agriculture for food security and rural development. In India strengthening of agriculture is important for elimination of rural poverty, food insecurity, unemployment and sustainability of natural resources. But till today strengthening of agriculture was meant to be increasing productivity by introduction of high yielding seeds, application of chemical fertilizers and pesticides, mechanization and making availability of institutionalized credit for purchasing the preceding inputs, as result the Indian agriculture has become commercialized but not profitable to the producer. This commercialization has attracted more number of middle men making the marketing channels inefficient by delivering the produce at inflated prices to the consumer and negligible margin to the producer making him indebt. This is discouraging the farmer to move towards capital intensive commercialized agriculture practices which only can serve the future food requirements of the country. This has assumed added importance to integrate efficient marketing and rural credit systems. The time has come to redefine agriculture as the integrated activities relating to production, processing, marketing, distribution, utilization and delivered at each level individually. Agricultural credit development strategy till today was addressing institutionalization of credit at farmers' level in marketing, trade, processing and agribusiness. As a result of efforts in the agriculture credit delivery system, the share of private money lenders (non institutional credit) has decreased substantially from 93 percent in early 1950's to 31 per cent by 1991. But showing their presence as an important and most attracted source of credit by increasing there share to 39 percent by 2002. One main reason for this is they have been always integral part of rural supply chain for inputs and marketing channels. The All India Rural Credit Survey (1954) has quoted that agriculture credit in India fell short of the right quantity , was not of the right type, did not serve the right purpose and often failed to go to the right people, even today this spells right rural credit with infrastructural requirements for production (input) , processing, marketing , distribution, utilization , trade with value added service like technology transfer at single point to form the rural credit hubs or virtual integration by utilization of the information technology create new Indian sustainable agriculture for food security.

Index Terms- agriculture credit, rural credit, integrated credit.

I. Introduction

Indian agriculture has been always in need for credit and dependent on traditional credit with high interest rates. This norm of high interest rate for agriculture credit has caused serious exploitation resulting in rural indebtness causing serious concern over a century. This problem of providing cheap and institutionalized credit has called attention of the British government in early 1870s. The government has started providing credit in the form of Takkavi loans during the drought years. The first step for institutionalization has begun with the cooperative societies act in 1904. Based on the report of the Maclagan Committee on Cooperation in 1915 by the end of 1930 a 3-tier cooperative credit structure has been established in all provinces. Even The Royal Commission on Agriculture in 1926-27 emphasized on access to rural credit. The Reserve Bank of India Act, 1934 was passed leading to establishment of the Reserve Bank of India in 1935 like any other central banks it has specific provision for agricultural credit. As a first step towards rural institutionalized credit Reserve Bank of India has conducted different studies in 1936 and 1937 and found that major share of the credit required by the rural community was financed by the non institutional and share of institutional credit was negligible. Until 1950 the Reserve bank has taken several steps to strengthen the cooperative societies to provide institutionalized credit to the rural community, a new structure was evolved to provide two types of time bound credits namely short term and loan term credit. Despite of many measures till 1951 the institutional credit stood at 4.2 per cent of total agriculture credit, out of which 3.3 per cent contributed by cooperatives, and 0.9 per cent by commercial banks. The All India Rural Credit Survey (1954) has observed in its survey that agricultural credit fell short of the right quantity, was not of the right type, did not serve the right purpose and often failed to go to the right people. The nationalization of major commercial banks in 1969 (and in 1980) has encouraged the commercial banking system to involve in extending agricultural credit. To encourage the neglected sectors the concept of priority sector was introduced in 1969 which included agriculture. Even today the RBI is insisting for target of 40 percent net bank credit towards priority sector with a sub sector target for agriculture with 18 percent (out of which 13.5 per cent for direct agriculture and 4.5 per cent for indirect agriculture). To have better planning at the ground level the lead bank scheme was introduced under which each district is a unit and a commercial bank with highest number of branch coverage is appointed as District lead bank to monitor and report the performance in the targeted sectors like agriculture. The green revolution has called for high credit requirement for the purchase

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of high yielding seeds, irrigation systems, fertilizers and chemical pesticides. Along with crop yields the cost of production has raised drastically calling huge credit requirement. This huge credit requirement was not met by the cooperatives or commercial banks for there own limitations.

II. TRANSFORMATION TO MULTI-AGENCY APPROACH

The green revolutions has commercialized the Indian agriculture were the farmers started to depend on the inputs purchased calling for huge credit requirement but the co-operatives lacked resources to meet the expected demand and commercial banks were not ready to lend to small and marginal farmers. This called for a separate banking structure combining the local feel of co-operatives and the professionalism and large resource base of commercial banks. Following the recommendations of the Narasimham Working Group (1975), Regional Rural Banks (RRBs) were set up. Thus, by the end of 1977, there emerged three separate institutions for providing rural credit transforming the Agriculture credit form Institutionalized approach to 'multi-agency approach'. Following the recommendations of the "Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development", the National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 promotion of Agriculture credit. The 1991 reforms, the rural credit delivery system was again found to be in a poor shape (R.V. Gupta Committee, 1998). The Report of the Committee on the Financial The Report of the Committee on the Financial System (Chairman: Shri M. Narasimham, 1991) provided the blue print for carrying out overall financial sector reforms during the 1990s. Furthermore, weaknesses in the performance of rural financial institutions since 1991 resulted in setting up of various committees/working groups/task forces to look into their operations such as: "The High-level Committee on Agricultural Credit through Commercial Banks" (R. V. Gupta, 1998), "Task Force to Study the Functions of Cooperative Credit System and to Suggest Measures for its Strengthening" (Jagdish Capoor, 1999), "Expert Committee on Rural Credit" (V.S. Vyas, 2001), and "The Working Group to Suggest Amendments in the Regional Rural Banks Act, 1976" (M.V.S. Chalapathi Rao, 2002). These committees/working groups/task forces made far reaching recommendations having a bearing on agricultural credit. All the committees/ Task forces/ working groups have made recommendations in institutionalization and restructuring different institutions for effective rural credit delivery systems.

III. WHAT MAKES NON INSTITUTIONAL CREDIT SO ATTRACTIVE?

From the 1870 till today many committees working groups and task forces have made their efforts to provide institutionalized credit at lowest possible interest rates and structural development of source of credit. But the statistics show that the even after these many efforts the share of non institutional credit has decrease from 92.7 % in 1951 to 30.6 % during 1991 but questioning our efforts it has showed a importance of its presence in 2002 by having a significant share of 38.9 %. But its time to question what makes non institution agriculture credit so attractive to the farmer?, So, who are these traditional sources of credit they are none other than the input dealers, village traders, commission agents, and even some times the exports and processors who are always having forward or back ward integration with agriculture marketing channels. But only institutional credit or multi agency approach is not sufficient to withstand against the impressive geographical spread and functional reach of informal sources of credit. The demand for rural/agricultural credit with respect to interest rate is negative but inelastic. The elasticity is positively related to the level of interest rate. However, the demand for credit is highly elastic to input and output prices (Singh and Sagar, 2004). Only the cheap source of credit is not so significant as compared to timely and integrated credit. We have to focus to provide integrated credit than institutional credit because for farmer the agency or interest rates makes no difference the product features makes difference.

Table 1: Relative Share of Borrowing of Cultivator Households from Different Sources

(Per cent)

Sources Credit	1951	1961	1971	1981	1991	2002
1	2	3	4	5	6	7
Non-Institutional	**92.7**	**81.3**	**68.3**	**36.8**	**30.6**	**38.9**
of which						
Money Lenders	69.7	49.2	36.1	16.1	17.5	26.8
Institutional	**7.3**	**18.7**	**31.7**	**63.2**	**66.3**	**61.1**
of which						
Cooperatives Societies / Banks	3.3	2.6	22.0	29.8	23.6	30.2
Commercial Banks	0.9	0.6	2.4	28.8	35.2	26.3
Unspecified	–	–	–	–	**3.1**	–
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source : All India Debt and Investment Survey and NSSO.

There was were little development in agriculture credit products the cooperative banks have divided based on term to short term credit and long term credit. The introduction of Kissan Credit Card (KCC) during the budget of 1998 has played a significant role in delivering the variable credit requirements in a flexible, easy, and timely credit. The warehouse receipt act has made step advancement by making the farmer to avail institutional credit to stored produce. Chart 1 shows comparison of fulfillment of the farmer credit requirements at different levels. It is clear from the chart that the traditional money lenders are providing single point credit for all needs were as if the farmer has to fulfill different credit needs he has to approach the institutions separately for each credit requirement and has to spend lots of time in providing all the requirements to meet the formal procedure of the institutions due to his finance illiteracy.This is because there are different schemes for different requirements in financial institutions, but kissan credit card has tackled the problem up to some extent but there is large gap.

IV. INTEGRATED PROBLEM OF AGRICULTURE CREDIT, MARKETING AND PROFITABILITY

The commercialization of agriculture in India not only increased the productivity and food security but also attracted more and more middle men making the agriculture channels inefficient by delivering the produce at inflated prices to the consumer and negligible margins to the producers as part of their exploitation. The middle men are using the weakness of the producer in search of huge timely credit requirements with simple procedures due to financial illiteracy and are lending at high interest rates. During the harvest the produce is purchase at the farm gate by arranging transportation facility and after

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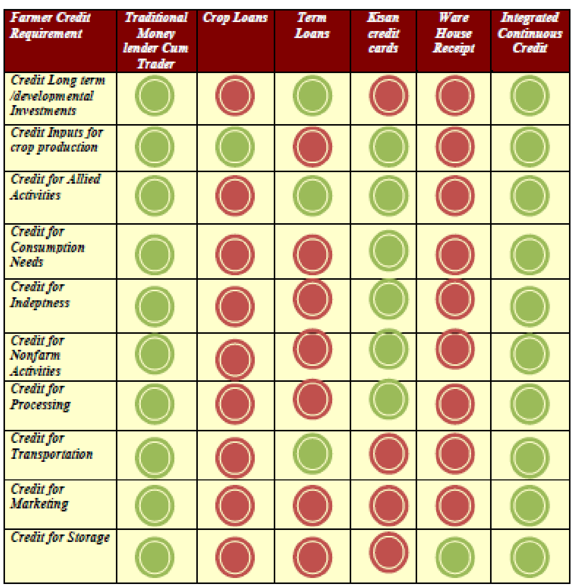
deducting all the charges and interest the left over is given to the farmer. The services provided by the middle men are attracting the farmers as most of his burden search for different sources of credit is reduced, but in the process the middle men are exploiting the farmer by creating a situation of pressure for repayment during the harvest season leading to forced sale. In the process the time, place, and form utility is transferred to the middlemen and there by profits. The main reason is insufficient funds at farmer level. The credit is involved at all the levels that is from production, processing, storage, marketing, trading, but institution or non institutional credit is available or confined to farmers at Production and consumption requirements only but the middle men has access to cheaper credit at processing, storage, marketing and trading. It can be better understood that a trader has more convenient, easy flexible, cheaper credit for storage of same agriculture produce than a farmer who wishes to store the same produce under ware house receipt scheme. Some of the major reason found at ground level is that of the traders having more financial literacy than the farmer. The reason might be small but it is affecting the farmer's profitability and making him more prone to indebtness. Till today all the policy measures have been dealing the problem of institutional credit, inefficient marketing channels and profitability separately but this is an integrated problem discouraging the farmers to continue in agriculture and malnutrition on other side, leading to a large problem so called food security.

Chart 1: showing the comparison of credit fulfillment of non institutional credit to Institutional products



V. INTEGRATED RURAL CREDIT APPROACH FOR FOOD SECURITY AND SUSTAINABILITY IN AGRICULTURE

Agriculture credit in India is integrated with marketing, storage, processing and trading. The reforms in agriculture credit have been confined to institutionalized credit. Similarly, in marketing only in regulate to create efficient and effective marketing channels. Different public sector organizations, cooperatives and other formal/informal bodies have been involved in the process. There have been many Public sector organizations which include Food Corporation of India (FCI); Cotton Corporation of India; Jute Corporation of India; Commodity Boards; APEDA; STC; MPEDA; Commission for Agricultural Costs and Prices; Directorate of Marketing and Inspection; Departments of Food and Civil Supplies; State Agricultural Marketing Boards; Central and State Warehousing Corporations; and Agricultural Produce Market Committees. The role and functions of each of these differ and include policy formulation, implementation, supervision, facilitation and direct entry in the market. In spit of such structural regulated markets the farmers are being exploited in all means. The integrated rural credit approach is focusing on providing credit for all the requirements of the farmer through an institutional credit to all his requirements at all the levels so that time, place, and form utilities are passed to the farmers depending on the produce. But this is not an easy task as operating these many credit limits by financially illiterate farmer. To overcome these problems new avenues in information technology have to be used for the purpose. The major principle in this approach is to provide all the credit requirements of the farmer as per the produce cultivated and level of his credit requirement depending on the extent he want to go for storage or processing or both this will change according to produce and farmers knowledge and Environment. Once these things get decided the farmer has flexible to use the credit requirement as per the environment he is operating from time to time. To smoothen the process the total financial transactions are done through single account.

VI. INFRASTRUCTURAL REQUIREMENTS

In this approach a credit hub is formed by integrating all the requirements of the farmer. The hub consists of consumables & input supplies, a regulated market with processing facility and ware house. Additional service provider like veterinary services and extension services are added advantage to the hub. All these are interlinked and integrated with tie ups with credit provider. The facilities vary form hub to hub depending on the crop produced in the area. But this requires huge credit investments for infrastructure development. This can be achieved by public private partnership. This constitutes to form physically integrated credit hubs. Information Technology also provided avenues to create virtually integrated credit hubs. These require low investments than the physically integrated credit hubs because in these hubs all the service providers are located at different locations and integrated through common software.

VII. OPERATION MODALITIES AT INTEGRATED CREDIT HUB

All the operational knowledge required for the farmer to operate the credit is simplified by providing all the credit required through single account. Once the customer avails the credit then his biometric identifiers are recorded and he operates all the credit transactions through this biometric identifiers. This is as simple as the thumb impression is used for all the transactions at each level. Once the farmer avails the integrated credit he will go to the service provider like input and consumer stores having tie ups and purchase all the daily needs and payment is made through the integrated credit account and the transaction is authenticated by the thumb impression of the farmer. To prevent the exploitation tie ups to be made with many suppliers. The credit limit is fixed as per the scale of finance of the particular crop and an additional 30 percent of the total production is to be lent for consumption needs. On harvest the farmer uses the transportation facilitator having tie up with the hub and payment is made directly to the transporter from the same integrated credit account. The farmer has a choice to sell the produce if he feels the price is good in market at the credit hub but if he feels he would get good price in future he can go for storage at the ware house facility at hub. Where the ware house service provider will check for quality and stores the product and gives feed back to the credit service provider at the hub. The 80 percent value on the produce on the day of storage is credited to the integrated credit account. And farmer can meet his immediate credit requirements and prevent forced sale. Depending on the produce farmer has choice to go for processing at the processing provider at the hub. The owner ship of the produce lies at the farmer and only processing charges are paid to the processor directly from the credit provider with the authentication from the farmer.

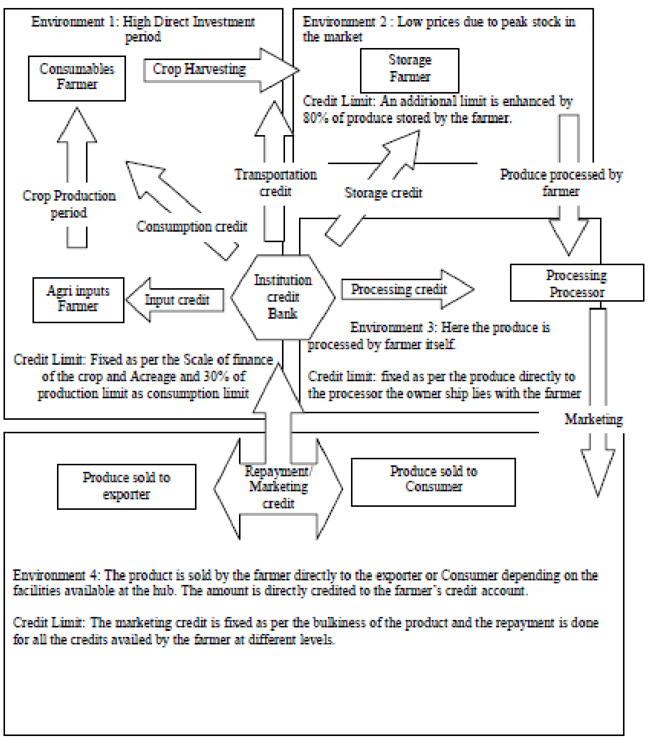


Fig. 1 shows the flow diagram of operations at intergraded credit hub.

To prevent monopoly the many number of service provider should be made available to make choice available at farmer. Once the farmer feels he would get a better price he can go for marketing in the whole sale market/ retail market at the credit hub and the same amount is credit in the integrated credit account. The interest is served to the credit service provider in regular intervals. The credit facility should be a continuous credit. The facilities, modalities change from hub to hub depending on the produce. A retail market is more advantages in perishable products like vegetable and fruits. A packing and forwarding agent is suitable at export oriented products like spices and condiments. The hub facilitates the farmer at each level by providing the knowledge required to the farmer. That is knowledge center is available to provide online prices of the produce in different markets. E-commerce facilities like online trading can also be created at the hub so that far away traders can also bid for better price discovery. The farmer should have choice to store, process and market depending on his environment. All the utilities like time, form and place may not be possible at all the hubs and for all the produces but step by step up gradation is possible. Because many private player like ITC are putting individual efforts to aggregate the produce but once credit hubs get established there is more scope to large private player to involve in infrastructure development along with government organizations. The Figure 1 shows a model how a integrate credit hub is operated.

VIII. CONCLUSION

In India strengthening of agriculture is important for elimination of rural poverty, food insecurity, unemployment and sustainability of natural resources. But till today strengthening of agriculture was meant to be increasing productivity by introduction of high yielding seeds, application of chemical fertilizers and pesticides, mechanization and making availability of institutionalized credit for purchasing the preceding inputs, as result the Indian agriculture has become commercialized but not profitable to the producer. This commercialization has attracted more number of middle men making the marketing channels inefficient by delivering the produce at inflated prices to the consumer and negligible margin to the producer making him indebt. This is discouraging the farmer to move towards capital intensive commercialized agriculture practices which only can serve the future food requirements of the country. This has assumed added importance to integrate efficient marketing and rural credit systems. The time has come to redefine agriculture as the integrated activities relating to production, processing, marketing, distribution, utilization and delivered at each level individually. Agricultural credit development strategy till today was addressing institutionalization of credit at farmers' level in marketing, trade, processing and agribusiness. As a result of efforts in the agriculture credit delivery system, the share of private money lenders (non institutional credit) has decreased substantially from 93 percent in early 1950's to 31 per cent by 1991. But showing their presence as an important and most attracted source of credit by increasing there share to 39 percent by 2002. One main reason for this is they have been always integral part of rural supply chain for inputs and marketing channels. The All India Rural Credit Survey (1954) has quoted that agriculture credit in India fell short of the right quantity , was not of the right type, did not sever the right purpose and often failed to go to the right people, even today this spells right rural credit with infrastructural requirements for production (input) , processing, marketing , distribution, utilization , trade with value added service like technology transfer at single point to form the rural credit hubs or virtual integration by utilization of the information technology create new Indian sustainable agriculture for food security.

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