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Analysis of Role and Issues Relating to Agriculture Credit in India: An Overview

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Abstract— To ensure healthy and orderly growth of any sector in any economy an adequate, reasonably cheap and timely financial support or availability is a pre-requisite. Amongst all the sectors of our economy, Agriculture sector has always been the backbone of the India Economy. In other words, agriculture sector is a need of any economy for growth and development. It is widely recognized that in order to obtain all the benefits of agriculture in our economy, we need to strengthen our agriculture sector. However, in current context our agriculture sector is going through numerous problems relating to irrigation, productivity, technology, credit facility, labour issues, electricity, illiteracy, land holdings, government's inadequate support, labour income, etc. Among all, the problem we come across many times that a farmer has committed suicide due to financial reasons. As we are aware of the fact that agriculture is one of the most important segment of our Economy with reference to supply of food grains, employment opportunities, supply of raw materials, etc., its share has declined in GDP over the period of time, from more than 55 per cent during 1951 to around 16 per cent or little more in current scenario. Although, various governments at different times during plans and policy period tried their best and putted ample efforts for growth and development of agriculture sector in our economy. However, despite many efforts and attempts to eliminate the issues relating to agriculture, the sector still faces lots of issues and challenges. Therefore, like other sectors of an Economy, Agriculture sector also needs a supportive system for its Growth and Development. Especially, this supportive system in the form credit availability to its stakeholders for various reasons can play vital role in enhancing production and productivity and also resolve many issues relating to this sector. In other words, although there are many issues in the agriculture sector but the most important that affects the sector and its stakeholders at large is relating to finance. Thus, in this paper an attempt has been made to understand the status of Agriculture with reference to its importance in our Economy along with an analysis of impact of credit/finance or agricultural output. Also, to find out the government support with reference to outlay and actual disbursement of credit through various sources to the agriculture sector and highlight the problems due to non-availability of regular and timely credit to the farmers.

***Keywords**:* Agriculture, Agricultural Credit, Indian Economy, Growth and Development, Stakeholders

I. INTRODUCTION

"Agriculture is our wisest pursuit, because it will in the end contribute most to real wealth, good morals, and happiness." Thomas Jefferson.

Having look at Indian Economy via its occupational structure one can easily find that amongst all the sectors of our economy, agriculture is one of the sectors with more than 60 per cent of country's population still depending on it for their livelihood. This is because our economy is proved by the fact that even today, around 50-60 per cent or more of the country's workforce is engaged in agriculture and its related sector. Almost after 72 years of independence, agriculture sector had not come out of certain problems and credit facility or finance is one of them despite innovation and technological advancements.

Agriculture has been a way of life and continues to be the single most important livelihood of the masses despite being put after the industrial and tertiary sector in last six decades. It meets the food and nutritional requirements of whopping 1.3 billion Indians. Policies in India on agriculture focus mainly on self-reliance and self-sufficiency in food grains, oilseeds and other major cash crops. Food grain production rose to 264.77 million tonnes in 2013-14 from 52 million tonnes in 1951-52 but declined slightly in 2015-16 to 252.22 million tonnes (Directorate of Economics and Statistics, 2016).

Many facts indicate the importance of Agriculture on National Economy like transport system of India is mainly supported by agriculture only as lot of movement of agricultural goods needs to be done. With the growth of agriculture sector, one of the main problems of our economy i.e. poverty and unemployment, also gets little less severe as major chunk of our nation still resides in the rural areas. About 38% in total exports of the country is contributed by agriculture and its related goods (Pratiyogita Darpan 2018). It contributes significantly to production, employment and demand generation through various backward and forward linkages. Thus, there is a multiplier effect on the whole economy with a small alteration in this particular sector as all other sectors are dependent on it in some or the other ways.

Agriculture occupies a special place in every plans and policies of our country, like in all the five year plans, major focus has always been on this sector only. When the failure of agriculture sector was felt on the hole planning process, since second and third five year plans, during 2002-03, Indian planners have learnt their lesson i.e. for rapid economic growth, rapid agricultural growth is very important.

The sector is, however, currently facing a dilemma. While it has made large strides in achieving the agricultural development goals of food security, availability and accessibility, it is still being challenged by a formidable agrarian crisis. This situation has recently led to fresh thinking on the developmental approach in the agriculture sector. The need for focusing on the welfare and prosperity of farmers has gained prominence. In this fresh approach, priority is to be accorded to making the agriculture and allied sector not only ecologically sustainable in its use of natural resources of soil, water and forests, but also socio-economically sustainable to farmers in terms of prosperity, welfare and social security. Innovating managerial solutions to maximize farmers' welfare— rather than relying solely on modern farming to raise productivity and production—is the clarion call of the day. The pressures emanating from natural resource constraints, increasing fragmentation of holdings, frequent climatic variations, rising input costs and post-harvest losses pose an enormous challenge to sustaining agricultural growth. The agrarian distress in recent years is the result of a complex interplay of these factors. In the past, many of these factors— along with lack of sufficient non-farm and off-farm employment—have perpetuated low productivity and inefficiency in the agricultural sector. Against this backdrop, policies and programmes formulated by the government have focused on increasing farmers' welfare through improved employment opportunities, better farm practices, improving soil heath, increasing investment, creating rural infrastructure, ensuring timely delivery of credit and technology, encouraging market reform and reducing risk in agriculture through the introduction of a new insurance scheme. (State of Indian Agriculture Report 2015-16). This all can be achieved with availability of finance only.

Further, Success and failure of Agriculture depends to a great extent on the availability of adequate, timely and low cost credit from institutional sources. The rural population of India suffers from a great deal of indebtedness and is subject to exploitation in the credit market due to high interest rates than those for housing, transport and purchase of other consumer durables and the lack of convenient access to credit. Rural householders need credit for investing in agriculture and smoothening out seasonal fluctuations in earnings.

Thus, given this backdrop, it has become essential to look into the matter i.e. credit scenario relating to agriculture sector in India and its impact. This is because it has been observed that although India has been consistently making innovative efforts by using science and technology to increase production and productivity, still facing many challenges and finance/credit is one of the most crucial challenges among them. The most important aspect to look at is that the financial or credit problem still prevails despite long journey of five year plan policy by our Government where so many committees were setup to provide necessary support to the agriculture sector.

II. OBJECTIVE

1. To understand the current status of Agriculture in our country.
2. To analyse the impact of Credit/Finance on Agricultural Output (food grains).
3. To offer the constructive suggestion(s) in order to improve the financing or credit issues in Agriculture sector.

III. METHODOLOGY

Given the need and objectives of our study the methodology adopted for the study includes review of literature to gather some insights, secondary data use, observations, etc. We have also attempted a critical understanding of agriculture sector in India and also attempted to understand role and issue of agricultural credit with the analysis of impact of agricultural credit on food grain production. This has been sought to be examined with the help of secondary data which has provided some basis for the study.

Hence, 2005-06 to 2015-16 year data is gathered for the purpose. Data analysis techniques will be employed to find out relative effect of independent variable on dependent variable, the input Agricultural Credit is used and food grain production as output is considered for the current study. The methodology thus adopted involved fitting log-log regression to the time series data.

Relevant details should be given including experimental design and the technique (s) used along with appropriate statistical methods used clearly along with the year of experimentation (field and laboratory).

IV. AGRICULTURAL CREDIT IN INDIA AND OUR ANALYSIS

One of the major factors contributing to the low productivity and low profitability in agriculture is the lack of access to finance. It remains one of the biggest challenges for our policy makers despite various efforts being made to promote accessibility to finance in agriculture. There are broadly two main sources of credit available to famers, first institutional and second private (non-institutional). Institutional sources include cooperative societies, cooperative banks, commercial banks, regional rural banks. Whereas, private sources are moneylenders, landlords and others. During 1951-52, 93 per cent of the credit need was fulfilled by non-institutional sources and only 7 per cent was fulfilled by Government (Datt & Sundharam's Indian Economy, 2016). Since then, credit disbursements through institutional sources have been increasing.

Table 1: Food grain production and Agricultural Credit

Year	Food grain production (in million tonnes)	Agricultural Credit (in Rupees in Crore)
2005-06	208.6	180486
2006-07	217.28	229400
2007-08	230.78	254658
2008-09	234.47	301908
2009-10	218.11	384514
2010-11	244.78	446779
2011-12	259.29	511029
2012-13	257.13	607375
2013-14	265.04	711621
2014-15	252.02	845328
2015-16	252.22	877527

Source: 1. Agricultural Statistics at a Glance 2016, Directorate of Economics and Statistics, GOI.

Further, it has been observed that in past few decades due to development of banking sector in India and especially after banking sector reforms of 1991 and 1998, the lending to agriculture sector through institutional sector has increased substantially and the dependence on non-institutional sources i.e. private sector has reduced if we compare the time of 1950-1970 with current scenario of agriculture lending. As we are aware about the fact that lending through private sources involves exploitation of farmers, hence it is mandatory for the government to increase lending trough institutional sources. However, despite many efforts and development on this front, even today the agricultural sector is facing credit/financial crisis. Further, the disbursement of agricultural credit in past is many times more than the target set in union budgets, the agriculture sector is still facing credit/financial problems. This might be due to various lags at various levels. Thus, we really need to look at this issue very carefully because if the agriculture sector will continue to face financial problem, then it would be really harmful to our economy via low production in agriculture sector given its importance to our economy and role played.

Therefore, on the basis of available data to evaluate the relationship of Agricultural Output with Agricultural Credit, we selected two major variables i.e. Production of Food grains (as dependent variable) and Agricultural Credit (as independent variable).

The Model is:

$$Y_i = \beta_i + \beta_2 X_i + U_i$$

Whereas;

Yi = Food grains production

β_i------β_2 = parameters to be estimated

X_i = Agricultural Credit

Thus on the basis of applying the data in given model for estimation, the result and interpretation of result is as follows:-

Table 2 Result: Agriculture (Food grain) production

	Agricultural Credit
Elasticity	0.12
R^2	0.74
t-test	11.44

To analyse the impact of agricultural credit, hypothesis is constructed i.e. there is significant difference between agricultural food grain production and agricultural credit. Further, the result shows that the value of R^2 (preparation of variance in dependent variable that can be explained by independent variable) is 0.74, which indicates that food grains production explains 74 per cent of the variability of the agricultural credit/finance. In other words, there is strong impact of agricultural credit (or say that increase in agricultural credit with ease and proper time leads to positive and substantial growth in food grains production) on food grains production. Thus, the result is statistically significant at 5 per cent level of significance. Therefore, the hypothesis (there is significant difference between food grains production and agricultural credit) is rejected.

V. CONCLUSION

The study concludes that agriculture has a very specific role in our economy and the production of food grains is absolute terms has

grown in past sometime specially in the context of agricultural productivity, this is because of variability of food grain production by growth in agricultural credit and other important components. But given various problems associated with agriculture sector in India and the most specific is finance/credit (because no availability of credit has negative impact on agricultural growth and also has a cost to its stakeholders), the agriculture sector has not been able to enhance its productivity and utilised its potential to the full extent.
Further, the study also conclude that with the increase in population and agro based industries the demand for agricultural output, especially food grains to fed the population, will also increase. However, given the agro based activities, the sector is not able to utilize its full capacity with reference to food grains production (this is because credit is not only required during pre-agricultural activities but also for post-agricultural activities) and thus resulting into decline of share of agriculture in GDP continuously over past few years or so. Even due to legislative and regulatory mechanism, the existing system of credit availability or disbursement to the needy farmers is not fully efficient in itself. This resulting into shortage of funds and finally to be dependent on non-institutional source of finance where they get cheated and exploited by private lenders and ultimately end up by committing suicides. There are other ill effects to shortage and non-availability of finance to agriculture sector via institutional sources. Thus, shortage of credit is going to add more and more problems to the already overburdened agriculture sector in many ways.

Therefore, in this regard our study is of the opinion that government at various level should come forward and take necessary and constructive steps to make available adequate or required credit in much better way than what is being done so far to make agriculture sector grow in better way especially in rural areas where agriculture is predominance. Further, via strengthening the institution at base level i.e. at village level so the direct credit or finance can be disbursed with keeping in mind that the probability of NPA i.e. non-performing assets can be minimised. Moreover, government along with private institution through proper legislative and regulatory measures set up more lending institutions to lend money to the needy farmers to increase agricultural output and can also solve many of the issues relating to credit and also which have multidimensional effects. Hence, in this regards a detailed study is called for.

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