

THE DNA OF AGRI-FINANCE IN INDIA

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ABSTRACT

As mooted by Indian government, agri-finance instrument would allow farmers to purchase agriculture inputs such as seeds, fertilizers, pesticides and also allow them to withdraw some cash for meeting their other crop production related requirements. (Expert Committee, NABARD, 2010). Since then, the scheme of KCC is under implementation by State Cooperative Banks (SCBs) through DCCBs and PACS as also the Regional Rural Banks (RRBs) and Commercial Banks (CBs) under the agencies of NABARD, as on 31 March 2009, 828.7 lakh farmers were issued KCCs by various banks. Co-operative banks have the largest share (62%), followed by commercial banks (30%) and RRBs (8%). The performance in the implementation of the KCC scheme has been impressive⁶ in the states of Andhra Pradesh, Gujarat, Haryana, Karnataka, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and Uttaranchal. Hence, an attempt was to assess the impact of kisan credit card scheme on short term agricultural credit in India. To conclude, the co-operatives dominated the other institutional agencies in the provision of short term agricultural advances in the pre Kisan Credit Card period till the year 1990-1991, after that, the scheduled commercial banks dominated the other institutional agencies. In the post Kisan Credit Card period (in many of the years) the Scheduled Commercial Banks dominated both co-operatives and Regional Rural Banks in both loan issued and loan outstanding (short-term). In the pre Kisan Credit Card period, the compound growth rate of short-term agricultural credit (disbursement) was higher for Regional Rural Banks compared to other institutional agencies. The exponential growth rate was also higher for Regional Rural Banks (16.45%). In the post Kisan Credit Card period, the compound growth of direct short-term agricultural advances was 33.58% for Regional Rural Banks. It was the

highest percentage compared to the other institutional agencies, followed by scheduled commercial banks (30.43%). The exponential growth rate was also higher for Regional Rural Banks in the post Kisan Credit Card period. The short term loan outstanding also showed higher growth rate for Regional Rural Banks in both pre and post kisan credit card period.

INTRODUCTION

The credit strategy for agricultural development in the country was founded on the philosophy of “growth with equity”. Various measures like administered interest rates, setting targets of lending to the agriculture sector, coupled with availability of refinance to the banks at softer terms had helped in increasing the flow of credit to the agriculture sector. Stipulating targets to the banks ensured access of credit to marginal and small farmers. Loans to this group were made available at softer terms, that is, lower down payment, longer maturity period and lower rates of interest 5.

But all the above policy measures were not able to cater the credit needs of the marginal and small farmers. Hence, to cater the credit needs of the farmers other than agricultural purposes, to meet the consumption needs, to avoid misutilisation of credit, to have equitable distribution of credit and to achieve financial inclusion in the agricultural sector, Kisan Credit Card Scheme was introduced in 1998-1999. This brings integration into the multi-credit product system by offering farm entrepreneurs a single line of credit through a single window for multiple purposes. These include acquisition of farm assets, maintenance there of and meeting families intervening consumption needs.

The Kisan Credit Card Scheme was a step towards facilitating the access to short-term credit for the borrowers from the formal financial institutions. The scheme was conceived as a uniform credit delivery mechanism, which aimed at provision of adequate and timely supply of short-term credit to the farmers to meet their crop production requirements. The KCC instrument would allow farmers to purchase agriculture inputs such as seeds, fertilizers, pesticides and also allow them to withdraw some cash for meeting their other crop production related requirements. (Expert Committee, NABARD, 2010)

In the old crop loan system, loans were granted on crop specific basis against execution of fresh documents each season. In the old crop loan system, the loan was provided only for a particular crop. The farmers can not utilize the loan for meeting the credit needs of all crops. They can not withdraw the loan to meet a particular crop season needs. As a result, the withdrawals were usually bunched at the beginning of crop season and repayments at the end of the season when farmers were able to generate cash after harvesting and marketing their produce (Samantara, 2010).

Since then, the scheme of KCC is under implementation by State Cooperative Banks (SCBs) through DCCBs and PACS as also the Regional Rural Banks (RRBs) and Commercial Banks (CBs) under the agencies of NABARD, as on 31 March 2009, 828.7 lakh farmers were issued KCCs by various banks. Co-operative banks have the largest share (62%), followed by commercial banks (30%) and RRBs (8%). The performance in the implementation of the KCC scheme has been impressive⁶ in the states of Andhra Pradesh, Gujarat, Haryana, Karnataka, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and Uttaranchal. A personal accident insurance scheme has also been introduced from the year 2001-02 for all KCC holders against accidental death/ permanent disability. The scheme has become popular both amongst farmers and bankers. (Expert Committee, NABARD, 2010). The above all credit policy measures increased the institutional sources of credit. In 1991-1992, the amount of loan issued by the co-operatives was Rs.3934 crore, whereas the scheduled commercial banks disbursed only Rs.2341 crore. The dominance of the co-operatives in the agricultural loan disbursement was retained till the year 2004-2005. In 2005-2006, the direct loan disbursement from the scheduled commercial banks was higher than the co-operative banks. The amount of direct agricultural advances from the scheduled commercial banks was Rs.45644 crore whereas it was Rs.35624 crore for cooperatives in 2005- 2006, the regional rural banks provided Rs.12816 crore in the same year. (Hand book of Indian Economy, 2010).

Only very few studies attempted to study the role of Kisan Credit Card scheme in agricultural sector in India. (Padmanabha Rao and Simanchal Sahu (2005), Namboodiri (2006), Yogesh Dubey (2007), Subha Singh Yadav (2008) and Jamuna Rani (2010). Hence, an attempt was to

assess the impact of kisan credit card scheme on short term agricultural credit in India. The following are the specific objectives of the study.

1. To assess the short term agricultural credit in India in the pre and post kisan credit card scheme on short term agricultural credit in India.
2. To assess the growth rate of short term agricultural credit in pre and post reform period.

METHODOLOGY

Data for the study were collected from the secondary sources. The secondary data on direct agricultural credit, amount outstanding, short term agricultural credit and outstanding, progress of Kisan Credit Card Scheme and amount distributed under Kisan Credit Card Scheme were collected from the following sources

1. Handbook of Indian economy, (2009), Reserve Bank of India,
2. NABARD, (2010) Expert Committee Report.

The distribution of agricultural credit and the disparity in the distribution of agricultural credit was classified into pre and post Kisan Credit Card period. The pre Kisan Credit Card period was considered the period between 1980-1981 to 1997-1998. The post Kisan Credit Card period was between 1998-1999 to 2007-2008. The data were available only for the above mentioned period.

The specification of the statistical and econometric tools is as under.

COMPOUND GROWTH RATE

In order to analyze the trends in the distribution of agricultural credit, compound growth rate was employed.

The form of the equation used in the study was,

$$Y = AB(x)^t$$

Y = the variable under study for compound growth rate

A = constant

x = time period

B = co-efficient of time trend

$$\text{Compound growth rate} = \text{Antilog}(B-1) \times 100$$

EXPONENTIAL GROWTH RATE

In order to estimate the growth in the distribution of agricultural credit, exponential growth rate was calculated.

The form of the equation used in the study was,

$$Y = ab^x$$

Y = the variable under study for exponential growth rate

a = constant

x = time period

b = co-efficient of time trend

RESULTS AND DISCUSSION

Impact of Kisan Credit card scheme on TREND AND growth of direct institutional credit (short term) for AGRICULTURAL AND allied activities.

The short term agricultural advances are given for raising the crops. It is given based on the scale of finance fixed by the Technical consultative committee. The scale of finance is fixed for each crop based on the cost of cultivation. The table -1 represents the short term direct institutional credit for agricultural and allied activities in the pre Kisan Credit Card period.

TABLE -1

**DIRECT INSTITUTIONAL CREDIT FOR AGRICULTURE AND ALLIED
ACTIVITIES (SHORT TERM) IN THE PRE KISAN CREDIT CARD PERIOD**

(Rupees in crore)

Year	Loan issued				Loan outstanding			
	Co-operatives	SCBs	RRBs	Total	Co-operatives	SCBs	RRBs	Total
1980-81	1386	517	-	2047	1908	1162	-	3250
1981-82	1796	623	-	2740	2149	1370	-	3792
1982-83	1908	565	98	2759	2225	1351	109	3685
1983-84	2158	872	120	3335	2554	1638	147	4339
1984-85	2323	1035	162	3731	2836	1964	206	5006
1985-86	2747	1252	176	4529	3237	2355	265	5858
1986-87	2620	1482	201	4512	3293	2619	324	6236
1987-88	3120	1672	246	5516	3871	3071	400	7342
1988-89	3594	1765	250	5884	4668	3414	479	8561
1989-90	3974	1898	336	6499	4948	4005	575	9527

1990-91	3448	2048	125	5979	5178	4235	590	10002
1991-92	1863	2341	337	6611	5110	4631	679	10419
1992-93	2059	2432	451	7665	5900	4988	799	11687
1993-94	2445	2860	476	9752	6640	5425	887	12952
1994-95	2879	3842	688	11932	7091	6154	1115	14361
1995-96	3240	4628	849	15273	9312	7173	1308	14361
1996-97	3765	5625	1174	16956	9618	8766	1625	17793
1997-98	4075	6233	1457	18632	10060	9522	1914	20009

Note: SCB- Scheduled Commercial Banks

RRB-Regional Rural Banks

Source: Handbook of Indian Economy, Reserve Bank of India, 2008.

The co-operatives disbursed short term agricultural loan Rs.1386 crore in 1980-1981. It gradually increased to Rs.3448 crore at the end of the pre reform period. But in the immediate reform period of 1991-92, it had suddenly declined to Rs.1863 crore. At the end of the pre Kisan Credit Card period, it had reached Rs.4075 crore. The scheduled commercial banks dominated in the short term agricultural credit disbursement from the year 1991-1992 onwards. In 1997-98, the scheduled commercial banks disbursed loan amounted Rs.6233 crore whereas the Regional Rural Banks provided Rs.1457 crore. The above statistical facts revealed that the co-operatives dominated the other institutional agencies in the provision of short term agricultural advances in the pre Kisan Credit Card period till the year 1990-1991, after that, the scheduled commercial banks dominated the other institutional agencies.

The short term agricultural loan outstanding pertaining to co-operatives was amounted to Rs.1908 crore in 1980-1981. It had increased to Rs.10060 crore in 1997-1998. The short term agricultural loan outstanding associated with schedule commercial banks was Rs.1162 crore in 1980-1981. It had reached Rs.9522 crore in 1997- 1998. The agricultural loan outstanding pertaining to Regional Rural Banks had reached Rs.1914 crore in 1997-1998.

The table -2 shows the direct agricultural advances (short term) in post Kisan Credit Card

Year	Loan issued	Loan outstanding
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period.

TABLE - 2

**DIRECT INSTITUTIONAL CREDIT FOR AGRICULTURAL AND ALLIED
ACTIVITIES (SHORT- TERM) IN THE POST KISAN CREDIT CARD PERIOD**

(Rupees in crore)

	Co-operatives	SCBs	RRBs	Total	Co-operatives	SCBs	RRBs	Total
1998-99	4401	7742	1750	20610	10462	10821	2238	21469
1999-00	8423	9505	2285	29045	16241	12610	2808	23521
2000-01	8739	10704	3095	32355	18168	15442	3692	31659
2001-02	8899	12661	3810	38141	21540	18882	4812	37302
2002-03	10411	16825	4834	45288	24518	23211	6495	45234
2003-04	10723	24134	6133	59593	30808	31982	7664	54224
2004-05	13122	29978	9883	71748	32481	42798	10980	70454
2005-06	12499	45644	12816	94084	34140	59971	13877	86259
2006-07	13223	65245	17031	123072	37764	76006	18707	107988
2007-08	13217	-	23838	-	50891	-	33216	-

Note: SCB- Scheduled Commercial Banks

RRB-Regional Rural Banks

Source: Handbook of Indian Economy, Reserve Bank of India, 2008.

In 1998-99, the Scheduled Commercial Banks issued short term agricultural credit Rs.7742 crore. It had increased to Rs.65245 crore in 2006-2007. The Scheduled Commercial Banks were the dominant financial institution in providing short term direct agricultural credit in

the post Kisan Credit Card period. The Co-operatives disbursed only Rs.13217 crore in 2007-2008 whereas the Regional Rural Banks issued Rs.23838 crore in the same period.

The loan outstanding of co-operatives also showed an increasing trend in the post Kisan Credit Card period. The loan outstanding pertaining to the Scheduled Commercial Banks was Rs.76006 crore in 2006-2007 while, the Regional Rural Banks had Rs.18707 crore as loan outstanding.

Period	Institutional sources	Compound growth rate	Exponential growth rate
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In the post Kisan Credit Card period (in many of the years) the Scheduled Commercial Banks dominated both co-operatives and Regional Rural Banks in both loan issued and loan outstanding (short-term).

The table -3 shows the compound and the exponential growth rates of short term agricultural credit.

TABLE – 3 GROWTH RATE OF DIRECT AGRICULTURAL SHORT TERM ADVANCES (DISBURSEMENT) IN INDIA

(In percentage)

Pre Kisan Credit Card period	Co-operatives	3.86	3.79
	Scheduled Commercial Banks	15.03	14
	Regional Rural Banks	17.88	16.45
	Total	12.26	11.41
Post Kisan Credit Card period	Co-operatives	10.21	9.72
	Scheduled Commercial Banks	30.43	26.56
	Regional Rural Banks	33.58	28.95
	Total	23.60	21.19

In the pre Kisan Credit Card period, the compound growth rate of short term agricultural credit (disbursement) was 3.86% in case of co-operative banks, 15.03% for scheduled commercial banks and 17.88% for Regional Rural Banks. It shows that the compound growth rate of short-term agricultural credit (disbursement) was higher for Regional Rural Banks compared to other institutional agencies. The exponential growth rate was also higher for Regional Rural Banks (16.45%).

In the post Kisan Credit Card period, the compound growth of direct short-term agricultural advances was 33.58% for Regional Rural Banks. It was the highest percentage compared to the other institutional agencies, followed by scheduled commercial banks (30.43%). The exponential growth rate was also higher for Regional Rural Banks in the post Kisan Credit Card period.

It implied that higher compound and exponential growth rates were observed for Regional Rural Banks and scheduled commercial banks. The compound and the exponential growth rates were higher in the post Kisan Credit Card period compared to the pre Kisan Credit Card period in case of all institutional agencies.

The table -4 shows the compound growth rate of direct agricultural advances in India (outstanding)

TABLE -4

GROWTH RATE OF DIRECT AGRICULTURAL SHORT TERM ADVANCES IN INDIA (OUTSTANDING)

(In percentage)

Period	Institutional source	Compound growth rate	Exponential growth rate
Pre Kisan Credit Card period	Co-operatives	10.37	9.86

	Scheduled Commercial Banks	12.98	12.2
	Regional Rural Banks	19.13	17.51
	Total	14.16	10.52
Post Kisan Credit Card period	Co-operatives	16.19	15.01
	Scheduled Commercial Banks	28.49	25.07
	Regional Rural Banks	32.81	28.37
	Total	22.82	20.56

Higher compound (19.13%) and the exponential (17.51%) growth rates (outstanding) were identified in case of Regional Rural Banks in the pre Kisan Credit Card period. Only 10.37% of compound and 9.86% of exponential growth rates were observed for Co-operatives Banks in the same period. It was the least growth compared to other institutional agencies.

In the post Kisan Credit Card period also higher compound (32.81%) and exponential (28.37%) growth rates were observed for Regional Rural Banks followed by the Scheduled Commercial Banks (28.49%) and (25.07%).

CONCLUSION

To conclude, the co-operatives dominated the other institutional agencies in the provision of short term agricultural advances in the pre Kisan Credit Card period till the year 1990-1991, after that, the scheduled commercial banks dominated the other institutional agencies. In the post Kisan Credit Card period (in many of the years) the Scheduled Commercial

Banks dominated both co-operatives and Regional Rural Banks in both loan issued and loan outstanding (short-term). In the pre Kisan Credit Card period, the compound growth rate of short-term agricultural credit (disbursement) was higher for Regional Rural Banks compared to other institutional agencies. The exponential growth rate was also higher for Regional Rural Banks (16.45%). In the post Kisan Credit Card period, the compound growth of direct short-term agricultural advances was 33.58% for Regional Rural Banks. It was the highest percentage compared to the other institutional agencies, followed by scheduled commercial banks (30.43%). The exponential growth rate was also higher for Regional Rural Banks in the post Kisan Credit Card period. The short term loan outstanding also showed higher growth rate for Regional Rural Banks in both pre and post kisan credit card period.

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