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# **Trend and pattern on institutional credit to agriculture in India**

T, Maheswari

Thiagarajar College, Madurai

2023

Online at <https://mpra.ub.uni-muenchen.de/123274/>  
MPRA Paper No. 123274, posted 23 Jan 2025 00:54 UTC

# **TREND AND PATTERN ON INSTITUTIONAL CREDIT TO AGRICULTURE IN INDIA**

## **INTRODUCTION**

Agriculture plays a crucial role in the development of the Indian. It accounts for about 19 percent of GDP and about two-thirds of the population is dependent on the sector. The importance of farm credit as a critical input to agriculture is reinforced by the unique role of Indian agriculture in the macroeconomic framework and its role in poverty alleviation. Recognizing the importance of agriculture sector in India's development, the Government and the Reserve Bank India (RBI) have played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirement of the sector. Agricultural policies in India have been reviewed from time to time to maintain pace with changing requirements of the agriculture sector, which forms an important segment of the priority sector lending of scheduled commercial banks (SCBs) and target of 18 percent of net bank credit has been stipulated for the sector. The Approach Paper to the Eleventh Five Year Plan has set a target 4 percent for the agriculture sector within the overall GDP growth target of 9 percent. In this context, the need for affordable, sufficient and timely supply of Institutional credit to agriculture has assumed importance.

To overcome the defects of unorganized sector in the rural credit, NABARD was established in 1982 and various reforms were also initiated. Though there is a full-fledged structure of rural credit in India, unorganized sector has major share in the rural credit. Due to dominance of unorganized sector in rural credit, Indian farmers faced lot of problems. Farmer's suicide is the burning issue in India. Unorganised rural credit sector is one of the cause for farmer suicide in India. GOI announced the interest subvention scheme in the year 2006 -07 in order to provide incentives to the farmer for their prompt repayment of loan. In this backdrop, this study made an attempt to examine the growth and pattern of institutional credit to agriculture in India from 2006-07 to 2021-22.

## **OBJECTIVES**

The objectives of the study are

- To study the growth in the institutional credit to agriculture in India.
- To analyse the share of various institutions in the total institutional credit to agriculture in India

## **REVIEW OF LITERATURE**

Jugal (1997) inferred that the term loan for agricultural purpose granted by zonal development Banks enable the borrowers to improve from mechanization by purchasing tractor, tillers and IP sets for minor irrigation the term loan also helped in increasing irrigation area by 22.40 per cent of land holding as well as cropping patterns and cropping intensity from one crop to two crops a year.<sup>1</sup>

Veerashakarappa (1997) in his study on Institutional finance for rural development concluded that institutional finance was instrumental in acquiring productive farm assets and development of irrigation facilities this result in changes in the cropping pattern increase in the cropping intensity and adoption of HYVs.<sup>2</sup>

Choudhary (2002) in his study to credit flow of agriculture feels that the recycling of funds is not possible on account of mounting of over dues. The recovery of loans requires a co-operative and collective responsibility of

administrative machinery public and loaners. The repaying capacity of their loaners should be taken into consideration and there should be constant water on end use of the credit by the supervisory staff of different institutions.<sup>3</sup>

Hitesh Viramagami (2003) suggested that the RBI should provide financial support to PACs. To avoid multiple financing, Co-ordination between financial institutions should maintain. Banks should maintain rules and regulations to face the recovery of credit.<sup>4</sup>

Rakesh Mohan (2004) made a study on “Agricultural Credit in India: Status, Issues and Future Agenda”. He emphasized that agricultural credit has played a vital role in supporting agricultural production in India. The Green Revolution characterised by a greater use of inputs like fertilizers, seeds and other inputs, increased credit requirements which were provided by the agricultural financial institutions.<sup>5</sup>

Anjani Kumar, K.M. Singh, and Shradhajali Sinha (2010) made a study on “Institutional Credit to Agriculture Sector in India: Status, Performance and Determinants” The concluded that the agricultural performance engrosses many production factors; agricultural credit is one of them. The performance of institutional credit to agriculture and the determinants of institutional agricultural credit use at households’ level have been analyzed. The study has shown that the institutional credit flow to the agriculture has been increasing for the past four decades. However, different patterns in the growth of agricultural credit have been observed during different sub-periods. The structure of the sources of credit has witnessed a clear shift and commercial banks have emerged as the major source of institutional credit to agriculture in the recent years.<sup>9</sup>

Rajesh Pal (2016) made a study on Recent Trends in Agriculture Credit. He concluded that access to finance, especially by small holders, is crucial for improved agricultural performance. Credit flow doubled in the Eleventh Plan but mainly by credit deepening, with little increase in farmer coverage and still leaving 60 per cent of farmers without institutional credit. The SHGs Bank Linkage programme is still the most appropriate financial mechanism to extend credit to marginal and dry land farmers as this allows better income smoothing since SHGs provide space for diversity in loan purposes and sizes, enabling financing of a variety of activities that such families select as part of livelihood strategies when income from agriculture is low.<sup>10</sup>

## **METHODOLOGY**

For the present study, data have been obtained from Hand Book of Statistics on Indian Economy published by Reserve Bank of India. The variables taken for the study are short-term credit to agriculture, long-term credit to agriculture and total credit to agriculture by various sources. The frame examined is from 2006-07 to 2021-22. To analyse the growth in institutional credit to agriculture in India, semi-log linear model was fitted. To find the percentage growth of the variables, simple percentage analysis was carried out.

## RESULTS AND DISCUSSION

**Table - 1**  
**Regression Results of Short-term Credit to Agriculture in India**

Source	a	b	R <sup>2</sup>	CGR
Co-operative Banks	10.33	0.15	0.87	16.18
SE	0.15	0.015		
t	67.33	9.48		
RRB	9.73	0.15	0.94	16.18
SE	0.095	0.009		
t	102.31	15.89		
Commercial Banks	11.95	0.06	0.52	6.18
SE	0.28	0.029		
t	41.96	2.04		
Total	12.06	0.12	0.88	12.75
SE	0.108	111.2		
t	111.2065	10.35		

All are significant at 5 per cent level

Table 1 shows that regression results for short-term credit to agriculture in India during the study period from 2006-07 to 2021-2022. It is evident that short-term credit to agriculture by the co-operative banks recorded 16.18 per cent. It was also 16.18 per cent for the Regional Rural Banks. Commercial banks short-term credit to agriculture has a growth of 6.18 per cent over the study period. The compound growth of the total institutional short-term credit was 12.75 per cent over the study period. It is seen from the analysis that the growth of the short-term credit provided by the Regional Rural Banks and Co-operative banks were higher than the Commercial bank and it was impressive growth.

**Table - 2**  
**Regression Result of Long-term and Medium-term Credit to Agriculture in India**

Source	a	b	R <sup>2</sup>	CGR
Co-operative Banks	8.549	0.037	0.52	3.77
SE	0.19	0.019		
t	44.15	1.88		
RRB	8.21	0.118		
SE	0.179	0.018	0.74	12.52
t	45.87	6.41		
Commercial Banks	11.438	0.042		4.29
SE	0.467	0.048		
t	24.47	0.87		
Total	11.48	0.054	0.51	5.55
SE	0.410	0.042		
t	27.99	1.27		

All are significant at 5 per cent level

Table 2 shows that regression results for long-term credit to agriculture in India during the study period from 2006-07 to 2021-2022. It is derived that long-term credit to agriculture by the co-operative banks recorded 3.77 per cent. It was 12.52 per cent for the Regional Rural Banks. Commercial banks long-term credit to agriculture has a growth of 4.29 per cent over the study period. The compound growth of the total institutional long-term credit was 5.55 per cent over the study period. It is seen from the analysis that the growth of the long-term credit provided by the Regional Rural Banks was higher than the Commercial banks and Co-operative banks and it was a tremendous growth.

**Table - 3****Regression Results of Total Institutional Credit to Agriculture in India**

<b>Source</b>	<b>a</b>	<b>b</b>	<b>R<sup>2</sup></b>	<b>CGR</b>
Co-operative Banks SE t	10.44 (0.145) (71.98)	0.145 (0.015) (9.67)	0.86	15.60
RRB SE t	9.924 (0.09) 102.47	0.152 (0.01) 15.19	0.97	16.42
Commercial Banks SE t	12.41 (0.329) (37.63)	0.057 (0.034) (1.683)	0.56	5.87
Total SE t	12.43 (0.135) (91.67)	0.109 (0.014) (7.81)	0.81	11.52

All are significant at 5 per cent level

Table 3 shows that regression results for total institutional credit to agriculture in India during the study period from 2006-07 to 2021-2022. It is derived total credit to agriculture by the co-operative banks recorded 15.6 per cent. It was 16.42 per cent for the Regional Rural Banks. Commercial banks total credit to agriculture has a growth of 5.87 per cent over the study period. The compound growth of the total institutional credit was 11.52 per cent over the study period. It is seen from the analysis that the Regional Rural Banks has higher growth in the provision of institutional credit to agriculture in India. Next to Regional Rural Banks, Co-operative banks has also impressive growth in the provision of institutional credit to agriculture in India.

**Table - 4****Share of various sources in Short term credit to agriculture in India**

<b>Year</b>	<b>Co-operative Banks</b>	<b>RRBs</b>	<b>Commercial Bank</b>
2006-07	27.89	12.01	60.09
2007-08	22.08	11.29	66.64
2008-09	19.12	10.65	70.24
2009-10	20.58	10.77	68.64
2010-11	20.57	11.36	68.07
2011-12	20.66	11.97	67.38
2012-13	21.67	11.82	66.52
2013-14	20.71	12.89	66.40
2014-15	20.51	14.06	65.43
2015-16	21.61	15.27	63.12
2016-17	19.13	15.23	65.64
2017-18	18.07	15.90	66.03
2018-19	18.98	16.70	64.32
2019-20	17.97	16.73	65.30
2020-21	62.45	20.06	17.50
2021-22	64.17	18.67	17.16

Source: Computed from secondary data

Table 4 shows that the share of various source in the short-term credit to agriculture in India during the study period from 2006-07 to 2021-2022. The share of co-operative banks in the total short-term credit to agriculture in the year 2006-07 was only 27.89 per cent and it was increased to 64.17 per cent in the year 2021-22. The share of Regional Rural Banks in the total short-term credit to agriculture in the year 2006-07 was only 12.01 per cent and it was increased to 18.67 per cent in the year 2021-22. The share of commercial banks in the total short-term credit to agriculture in the year 2006-07 was 67.09 per cent and it was reduced to 65.30 per cent in the year 2019-20. It is seen from the analysis that in the earlier years of the study period, commercial banks played the vital role in the provision of short-term credit to agriculture and in the later years of the study period, co-operative banks took the important place in the provision of short-term credit to agriculture in India.

**Table - 5****Share of various sources in Long term credit to agriculture in India**

<b>Year</b>	<b>Co-operative Banks</b>	<b>RRBs</b>	<b>Commercial Banks</b>
2006-07	4.24	4.18	91.58
2007-08	4.80	6.20	89.00
2008-09	6.52	4.76	88.72
2009-10	6.07	5.02	88.91
2010-11	7.96	5.41	86.62
2011-12	5.34	6.14	88.52
2012-13	6.43	5.77	87.80
2013-14	3.52	6.58	89.90
2014-15	3.87	6.27	89.86
2015-16	3.79	7.07	89.14
2016-17	2.89	4.84	92.27
2017-18	3.47	5.23	91.29
2018-19	1.90	4.76	93.34
2019-20	1.60	4.80	93.60
2020-21	12.38	22.20	65.42
2021-22	9.83	28.14	62.03

Source: Computed from secondary data

Table 5 shows that the share of various source in the long-term credit to agriculture in India during the study period from 2006-07 to 2021-2022. The share of co-operative banks in the total long-term credit to agriculture in the year 2006-07 was only 4.24 per cent and it was increased to 9.83 per cent in the year 2021-22. The share of Regional Rural Banks in the total long-term credit to agriculture in the year 2006-07 was only 4.18 per cent and it was increased to 28.14 per cent in the year 2021-22. The share of commercial banks in the total long-term credit to agriculture in the year 2006-07 was 91.58 per cent and it was reduced to 62.03 per cent in the year 2021-22. It is seen from the analysis that in the entire study period, commercial banks was the dominant source in the provision of long-term credit to agriculture, yet its share was reduced from 91.58 per cent in the year 2006-07 to 62.03 per cent in the year 2021-22. Next to the commercial banks, the share of Regional Rural Banks in the provision of long-term credit to agriculture was continuously increasing during the study period.



**Table - 6****Share of various sources in Total credit to agriculture in India**

<b>Year</b>	<b>Co-operative Banks</b>	<b>RRBs</b>	<b>Commercial Bank</b>
2006-07	18.52	8.91	72.57
2007-08	17.50	9.94	72.56
2008-09	15.30	8.87	75.83
2009-10	16.51	9.16	74.33
2010-11	17.37	9.85	72.77
2011-12	17.21	10.65	72.13
2012-13	18.31	10.48	71.21
2013-14	16.43	11.32	72.25
2014-15	16.38	12.12	71.50
2015-16	16.74	13.03	70.23
2016-17	13.40	11.56	75.04
2017-18	12.93	12.15	74.92
2018-19	12.12	11.91	75.97
2019-20	11.30	11.87	76.83
2020-21	59.72	20.17	20.10
2021-22	61.02	19.22	19.76

Source: Computed from secondary data

Table 6 shows that the share of various source in the total credit to agriculture in India during the study period from 2006-07 to 2021-2022. The share of co-operative banks in the total credit to agriculture in the year 2006-07 was only 18.52 per cent and it was increased to 61.02 per cent in the year 2021-22. The share of Regional Rural Banks in the total credit to agriculture in the year 2006-07 was only 8.91 per cent and it was increased to 19.22 per cent in the year 2021-22. The share of commercial banks in the total credit to agriculture in the year 2006-07 was 72.57 per cent and it was reduced to 19.76 per cent in the year 2021-22. It is seen from the analysis that, commercial banks was the dominant source in the provision of credit to agriculture till 2019-20 in India. As the front-loaded Special Liquidity Facility (SLF) of Rs. 55,000 crore under SLF-I and SLF-II has been extended by NABARD during COVID-19 pandemic for Regional Rural Banks, Cooperative Banks and Non Banking Financial Company (NBFCs)-Micro Finance Institutions (mFIs), Co-operative banks became the major source for the provision of agricultural credit in the years 2020-21 and 2021-22. Whereas, the share of Regional Rural Banks in the provision of total credit to agriculture was steadily increasing during the study period.

## **SUGGESTIONS**

- Credit structure need to be revamped according to the present need of agriculture sector.
- Procedures have to be simplified for the farmers for easy access and availability of credit at the time of need.
- Interest rate has to be drastically reduced in order to overcome the problems of farmers' suicides.
- Micro finance scheme in India has penetrated in all the sectors in India as well as in agriculture sector also, yet it need to be enhanced in the agri-allied sectors too.
- The access to credit for the poor from conventional banking is often constrained by lack of collaterals, information asymmetry and high transaction cost associated with small borrower accounts. These things has to be taken into consideration and to be reformed.

## **CONCLUSION**

The structure of the sources of credit has shifted and commercial banks have emerged as the major source of institutional credit to agriculture in the recent years for both in short-run as well as long-run credit. Further, the portfolio of institutional credit to agriculture has also changed and the share of investment credit in total credit has declined over time. The declining share of investment credit may constrain the agricultural sector to realize its full potential. All the rural financial institutions – Commercial banks, cooperatives and Regional Rural Banks have used components of mobile banking as an innovative way to provide low-cost savings and lending services to very poor clients. This practice has greatly reduced transaction costs for both the lenders and borrowers.