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AGRICULTURAL CREDIT POLICY - NEED FOR RETHINKING**Dr. MANISHA PATHAK****PROFESSOR****DEPARTMENT OF ECONOMICS****GOVERNMENT POST- GRADUATE GEETANJALI GIRLS COLLEGE****BHOPAL****ABSTRACT**

Agricultural credit is the most important input in development of Indian agriculture. In post-independent India, Policy of supplying agricultural credit through cooperatives was initiated. It was substituted by multi-credit policy. The major flaw of multi credit policy is that it looks to agricultural credit policy only from the supply side. There is a need to create a suitable agricultural credit policy and to look at the problem from demand side as well. There is thus an urgent need to think about changing agricultural credit policy as it is today. An attempt has been made in the paper to do the same.

KEYWORDS

agricultural credit policy, non-viable farmers, farmers indebtedness, corporate farming.

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INTRODUCTION

An Indian aphorism in verse tells a farmer that only that village is fit to live in, where there is a money lender from whom to borrow at need, a Vaid to treat in illness, a Brahmin priest to minister to the soul and a stream that does not dry up in summer.

This ancient wisdom, codified in form of an aphorism, clearly lays down the importance of agricultural credit, in whole gamut of increasing agricultural production and keeping a farmer happy. This ancient Indian wisdom regarding agricultural credit was true, is true and shall remain true for foreseeable future. Agricultural credit is, thus, life blood of whole agriculture sector. A sound economic framework for increasing agricultural production and keeping farmer happy must therefore provide, along with other factors, a sound agricultural credit policy. It is really unfortunate that we are still in search of a sound agricultural credit policy.

OBJECTIVES OF THE STUDY

1. To examine agriculture credit policy in India over the years.
2. To suggest a framework for reforming agriculture credit policy in India.

RESEARCH METHODOLOGY OF THE STUDY

Study involved careful analysis of secondary data with respect to agriculture policy of India over the years. Data available in Economic survey of India and various reports have been used for analyzing the agriculture credit policy and finding out shortcomings so that they can be overcome in the suggested framework.

PRE-INDEPENDENCE ERA

In pre-independent India, there was no agricultural credit policy. It, however, does not mean that nothing was done in field of agricultural credit in pre-independence era. Some efforts were of course, made but they were for administrative convenience rather than as a part of clear thought out policy. In pre-independence period efforts were confined to controlling money lenders. At the same time efforts were made to provide credit to farmers through government machinery under Land Improvement Loans Act, 1883; Agriculturists Loans Act, 1884; (known as Taccavi Loans) and through co-operative movement for which Act was passed in 1904 and then amended by Act of 1912. Also Reserve Bank of India established a separate department to provide short term financial accommodation, at concessional rate, to State Co-operative Banks. Needless to say that pre-independence efforts were miserable failure in solving credit problems of cultivators. Money lender flourished notwithstanding all legislative measures to curb his activities and no dent could be made on problem of rural credit.

FORMULATION OF POLICY

In post-independence India, right from the beginning, efforts were made to evolve a right type of agricultural credit policy. In the year 1951-52, the Reserve Bank of India, did a fine job by appointing a Committee of Direction of the Rural Credit Survey, which recommended for the first time a precise agricultural credit policy. Integrated scheme of rural credit, as the policy was named, was based on principle of state participation in providing agricultural credit through cooperative institutions.

By the year 1969, the All India Rural Credit Review Committee admitted that integrated scheme of 1951-52 substantially failed to materialize because of continued ailments of co-operative sector. The continued ailments of co-operative sector forced on government in later half of sixties, a reorientation of its agricultural credit policy. The emphasis now shifted from co-operative to multi-agency credit. The multi-credit idea is based on the principle that all credit institutions should be brought into the picture so that they may collectively bridge the rapidly widening gap between supply and demand of agricultural credit.

Policy of multi-credit agency in the area of agricultural credit has continued since then. It has been further reinforced by nationalization of commercial banks on 19th July, 1969 and then involving commercial banking sector in task of providing agricultural credit. In addition, supplementary and complementary efforts have been made from time to time to give more impetus to the Policy, like establishing Regional Rural Banks in the year 1975 and National Bank for Agricultural and Rural Development (NABARD) in July 1982, introduction of Kisan Credit Card Scheme in 1998-99, Self Help Group (SHG) Bank linkages Programme for Micro Finance, etc. No doubt multi-credit agency policy has made some dent on problem of agricultural credit in sense that share of institutional credit in total agricultural credit have increased from 7.3 per cent in 1951-52 to 72.0 per cent in the year 2012 as can be seen from Table-1.

TABLE 1: A COMPARISON OF INSTITUTIONAL AND NON-INSTITUTIONAL CREDIT OVER THE YEARS¹

YEAR	INSTITUTIONAL CREDIT	NON-INSTITUTIONAL CREDIT	TOTAL
1951-52	7.3	92.7	100
2002-02	57.1	42.9	100
2011-12	72.0	28.0	100

¹ Table 1 Sources: 1. Economic Survey, 1998-99 and 2010-11, 2. NSS 59th Round

Notwithstanding some increase in percentage of supply of agricultural credit through institutional sources, as mentioned in previous paragraph, problem of agricultural credit still persists. The problem was nicely summarized by All India Rural Credit Committee Report, submitted in 1954, as follows:-

- (a) "Agricultural credit that is supplied falls short of right quantity", that means, demand for credit is more and supply is less,
- (b) "is not of right type", that means, large portion of it comes from non-institutional sources,
- (c) "does not serve right purpose," that means, large portion of it is used for non-agricultural purposes, and,
- (d) "by criteria of need, not overlooking to criteria of creditworthiness often fails to go to right people," that means, those in real need of credit do not get credit.

Note:- Above words within inverted commas are from All India Rural Committee Report.

From what has been said above, it is clear that though more than six decades have passed after attaining independence, we have not been able to solve the problem of agricultural credit in India. This is one of most important reasons for various problems faced by agricultural sector and sufferings of large number of farmers under yoke of poverty. Even today after lapse of decades of independence, there are news almost every month that some or other farmer has committed suicide because of debt burden. This unfortunate situation calls for an urgent rethinking on the existing agricultural credit policy in India. An attempt may now be made in this direction.

RETHINKING

At the very outset it may be said that it is not true that existing agricultural credit policy has altogether failed. Truth is, it has succeeded only partially because in existing policy attempt has been made to solve the problem only from supply side. Thus, supply side of agricultural credit has no doubt improved. Fatal weakness of existing agricultural credit policy is that it has almost totally ignored demand side of the problem of agricultural credit. There is therefore also urgent need to think over problem of agricultural credit from demand side and then amend existing policy on this basis.

Looked from demand side of agricultural credit, farmers who take credit can be divided into two categories. In first category comes those farmers who are financially sound and viable, are in a position to get desired amount of credit on basis of their sound economic position or/and because of their clout in administrative system or/and political system. For this category of farmers, getting over command of credit is no problem. They can get such quantum of credit as they like and use it even for non-agricultural purpose. In other words, this category of farmers have no problem from demand side of credit. The problems that are created in whole gamut of agricultural credit by this category of farmers are: not repaying institutional agricultural credit due to them for repayment; on time and adopting pressure tactics for reduction of rates of interests and/or for writing off the debt they owe to credit agencies. This does not require change in agricultural credit policy but calls for change in administrative methods and political culture prevailing in Indian society.

On demand side of agricultural credit, real problem is for second category of farmers, that is for those farmers who are not financially viable today nor they are potentially viable. This category of farmers urgently need credit not only for continuing the farming but also for bare survival as human beings, but the problem is they are not in a position to repay back principal amount nor are in a position to pay interest. It is this category of farmers who need appropriate changes in agricultural credit policy for survival. At the same time, it has to be clearly understood that these are those who are far below the economic size and thus cannot be rehabilitated in agriculture by any credit or extension service under set up prevailing today in Indian agricultural sector.

In a capitalist country, no one ever think about providing agricultural credit to this non-viable category of farmers. For example, in United States of America, agricultural credit is not provided to this non-viable category of farmers. Of course it is provided to potentially viable farmers through Farmers Home Administration, at concessional rate, for short period, till they become viable and thereafter they have to depend on credit on commercial basis through banking sector. In Indian situation, where a large chunk of population is surviving on non-commercially viable farming, it is not possible to deny totally agricultural credit to this chunk of the population. From this angle, there is thus an urgent need to reshape our agricultural credit policy from its demand side.

From the analysis made as above, it appears necessary that we should reshape our existing agricultural credit policy, from demand side, keeping in view following two objectives:-

- (a) agricultural credit should be made available to each and every non-viable farmers (It is estimated about 62% of all farmers are nonviable having an average of 0.4 hectare of land in 1995-96 - Source- Indiatate.com²) in such a manner that will help him/her to carry out farming at current level and to survive along with his family as human being, and
- (b) Simultaneously a system should be gradually developed so that, in due course, such a farmer and his farming is transferred to a commercial agricultural operation.

Keeping in view the above two objectives, there is an urgent need to reshape our agricultural credit policy somewhat on lines, as follows:-

- (a) for supply of agricultural credit to non-viable farmers a separate institution will be established or one of the existing credit institutions can be assigned this task. This institution will identify non-viable farmers³ and will ensure to supply agricultural credit without any interest to such farmers as and when demanded by them. Quantum of such credit will depend on size of agricultural holding possessed by the farmer,
- (b) beneficiary farmer will be required to repay back only eighty per cent of the credit on the repayment date for purpose of final settlement of debt. Remaining twenty percent of debt burden and whole of interest burden will be borne by the society at large through the government,
- (c) in case the beneficiary farmer fails to repay the agricultural credit supplied to him as mentioned above, wholly or in parts, even after lapse of six harvesting seasons or three years from date of receipt of first installment of agricultural credit, the ownership of farm will be transferred to a company created for this purpose and in lieu of this he will be made shareholder of this company. The value of each such share will be determined by the market price of his holding on date of this transaction. The farmer will be entitled to dividends on shares declared from time to time as per law in this regard,
- (d) company/ companies established for this purpose will be in private sector as per provisions of companies law and shall carry out all agricultural operations, that is, production, processing, storage, transport and marketing so that whole agricultural operation is on large scale and it is able to reap benefits of scale. The company will be owned by shareholders but it will be promoted and managed by professionals, as per company law in force. Non-viable shareholder farmer will get preference, in matter of employment in this company over others provided he/she has necessary competence and capacity to perform the job irrespective of age constraint, if any.

If the agricultural credit policy is suitably amended keeping in view suggestions made to correct it from demand side of agricultural credit, as above, it is likely to solve the problem of agricultural credit to a very large scale. Agriculture sector will be able to reap a number of benefits, some of which are being mentioned below as examples:-

- (i) all non viable farmers will be in a position to get credit through institutional source;
- (ii) repayment of twenty percent of credit and full burden of interest will be borne by society at large through government;
- (iii) even when farmer totally fails to repay loan and interest, he will not be totally alienated from his land. He will continue to hold the same as non-viable farmer shareholder. It is well known that Indian farmers are strongly sentimentally attached to the land they own ;
- (iv) through this scheme, it will be possible to convert gradually subsistence farming in to commercial farming;
- (v) not force farmer to commit suicide just because of credit; and
- (vi) such a policy will also be in conformity with Indian philosophy of development, namely, Sabka saath, Sabka vikas.

There appears, therefore, an urgent need to have a rethinking on the agricultural credit policy as is being implemented today, somewhat on lines mentioned above.

² : <http://www.indiastat.com/india/showdata.asp?secid=1299&ptid=153&level=3>

³ Table 2 Sources: Ministry of Agriculture, Annual Report 1994-95 and Agricultural Statistics at a Glance(2012)

Figures in column 4 have been estimated on the basis of columns 2 and 3.

CONCLUSIONS

Agriculture credit policy in India has not been able to serve its purpose leading to agrarian crisis. There is a urgent need for rethinking. The agriculture credit policy must be redesigned from demand side. If the agricultural credit policy is suitably amended keeping in view suggestions made to correct it from demand side of agricultural credit, it is likely to solve the problem of agricultural credit to a very large scale and agriculture sector will be able to reap a number of benefits.

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