



Financial Empowerment of Farmers through Agricultural Credit by Commercial Banks: A Descriptive Analysis

Balaji Dhanasekaran

HOD and Assistant Professor of Economics,
Shree Chandra Prabhu Jain College, Minjur-601203, India

Abstract

According to the economic survey of India (2020-2021) stated that the total food production in the nation recorded at 296.65 million tonnes in the financial year and it has been increased by 11.44 million tonnes in the financial year 2019. The Indian government has set the goal to procure 42.74 million tonnes from the central pond in the financial year 2021. Similarly, the output of horticulture produce was estimated at 326.6 million tonnes in the financial year 2020. The sugar production has increased to 26.46 metric tonnes from 2019 to 2020. India is one of the prominent exporters of farm products across the world. The institutional loan is considered to play a very crucial role in the farm sector growth and development in India. The admission and delivery of rural credit are slanted in favour of healthier gifted regions and within the similar region posh towards better-off families. Agricultural credit is important to the farm credit system in India due to the capital accessibility of the farmers. It helps them to procure various raw materials such as seeds, fertilizers, land and other capital equipment. The agricultural credit is to be made accessible and available to agricultural and allied activities to promote agricultural output. The developing country like India, need greater support from the farmers for inclusive growth and development. This present study is followed the descriptive and analytical methods of research. Data for the present analysis is purely based on secondary data sources. The secondary information has been collected from various published reports such as NABARD and Reserve Bank of India for various years. During the 2004-2005 period, the target was aimed by the commercial banks was Rs.57000 crores. But the actual disbursement took place with Rs.81481 crores. It is evident from data sources that the disbursement amount was consistently increased from 2004-05 to 2007-08. The agricultural loan has been disbursed with Rs. 125477 crores, it was a huge increase as compared to the previous year disbursement of Rs. 81481 crores. It was reached 156850 crores rupees during 2007-2008.

Keywords: Agriculture, Farmers, Credit, Commercial banks and Development

1. Introduction

Agriculture is one of the prominent sectors in India to contribute greatly to gross domestic product. Agriculture is the core source of the livelihood of nearly 58 per cent of the total population. Moreover, the gross value added by the farm, forestry and fishery is estimated at 19.48 lakh crores in the financial year 2020. The share of the farm sector and the allied segments in gross value addition at current prices were stood at 17.8 per cent in the financial



year 2020. According to the economic survey of India (2020-2021) stated that the total food production in the nation recorded at 296.65 million tonnes in the financial year and it has been increased by 11.44 million tonnes in the financial year 2019. The Indian government has set the goal to procure 42.74 million tonnes from the central pond in the financial year 2021. Similarly, the output of horticulture produce was estimated at 326.6 million tonnes in the financial year 2020. The sugar production has increased to 26.46 metric tonnes from 2019 to 2020. India is one of the prominent exporters of farm products across the world. The export of agricultural commodities has reached US\$38.54 billion and US\$35.09 billion in the financial year 2019 and 2020 respectively. The commercial bank is supporting the huge farm sector in the developing nations in many ways. The commercial bank provides credit to farmers and also the traders who sell agricultural commodities. They are consistently opening their bank branches in the villages to provide farm loans. They offer loans directly to the farmers for the production, distribution and marketing of the commodities. The commercial bank would also support the farmers through finance for animal husbandry, dairy, poultry farming and horticulture. With this backdrop, the present paper aims to identify the significant role of the agriculture sector in the promotion of the Indian economy. It also tries to emphasise the agricultural credit policy of the government in enhancing the financial empowerment of farmers.

2. Literature Review

The farm sector plays a key role in making the agricultural sector effective and productive for many developing nations. The shortage of formal credit availability faced by the farmers is the prime issue in applying the innovative technology in the farm sector production (Ayaz, Saima and Zakir, Hussain, 2011). It is time to relook the farm credit policy evolved from time to time narrowly targeted credit (Patel, Amrit, 2016). The institutional loan is considered to play a very crucial role in the farm sector growth and development in India. A huge number of financial institutions were engaged in the disbursement of loans to the farmers. Though, the perseverance of money lenders in the countryside loan market, the reach is still a challenge (Kumar et al, 2010). The admission and delivery of rural credit are slanted in favour of healthier gifted regions and within the similar region posh towards better-off families. The perseverance of non-institutional bases is a substance of concern and concentrated exertions need to be made to minimise their part in rural credit, predominantly because their rate of attention is very high (Kumar, et al, 2007). Agricultural growth can be attained with the support of agricultural credits. The agricultural policy is reviewed from time to time to offer required and timely loans for the farming sector. The rural loan system assumes significance because for many of the rural families in India for the economic activities. The formal institutional credit system is important for agricultural growth and development (Yadav, Sunil Singh, 2017).

Many factors supported in enhancing the farm credit in the nation. The most significant area of these has been the increased financial facilities in the rural areas by expanding the branches of commercial banks and rural development banks. The outreach of the commercial and agricultural banks has been significantly hiked further by various financial inclusion programmes (Hoda, and Terway, 2015). The non-availability of formal loans for the informal



sector workers including both rural and urban areas is one of the reasons for poverty (Sivasubramanian, K, et al., 2020). Selvaraj, N., and Balajikumar, P (2015).

The major cause of rapid rural development could only be improved by a supplementary general adoption of such a policy in close cooperation with the respective government (Wilson, Franck A (1974). The current farm credit methodology is geared to the requirements of food grains output: with the share of food products output reducing as a proportion of total farm production, it is all the more trustworthy that the farm loan has not reduced as a quantity of the agricultural GDP (Mohan, Rakesh, 2004). Narayanan, Sudha, 2015).

To evolve the role and significance of the agriculture sector for the growth of the Indian economy. To emphasise the agricultural credit policy of the government in enhancing the financial empowerment of farmers. To suggest appropriate policy to the government for the promotion of credit facilities to farmers.

Agricultural credit is important to the farm credit system in India due to the capital accessibility of the farmers. It helps them to procure various raw materials such as seeds, fertilizers, land and other capital equipment. The agricultural credit is to be made accessible and available to agricultural and allied activities to promote agricultural output. The developing country like India, need greater support from the farmers for inclusive growth and development.

3. Methodology

This present study is followed the descriptive and analytical methods of research. Data for the present analysis is purely based on secondary data sources. The secondary information has been collected from various published reports such as NABARD and Reserve Bank of India for various years.

4. Analysis and Discussion

The hiked credit flow to the farm segment has not ensued in the proportionate rise in production. The mean rate of the increase of food grain output slowed to 1.2 percent during 1990-2007. Table 1 represents the target amount and the actual amount of disbursement towards the agricultural loan by the various financial institutions such as commercial banks, co-operative banks, and the regional rural banks. The contribution of the commercial banks was relatively very high in terms of the disbursement of credit to the farmers for agricultural purposes. During the 2004-2005 period, the target was aimed by the commercial banks was Rs.57000 crores. But the actual disbursement took place with Rs.81481 crores. It is evident from data sources that the disbursement amount was consistently increased from 2004-05 to 2007-08.

The agricultural loan has been disbursed with Rs. 125477 crores, it was a huge increase as compared to the previous year disbursement of Rs. 81481 crores. It was reached 156850 crores rupees during 2007-2008. Whereas the cooperative banks have disbursed as low as the commercial banks. The disbursement of agricultural credit by the cooperative bank also increased over a period of time. But the targeted amount of disbursement was not attained as per the plan. The target value of Rs.39000 crores was aimed and disbursed at Rs. 31231 crores only in 2004-05.

Table 1. Targets and Actual Disbursement of Agricultural Credit by Banks**(Rs in crores)**

Institution	(2004-05)		(2005-06)		(2006-07)		(2007-08)*	
	Target	Disbursement	Target	Disbursement	Target	Disbursement	Target	Disbursement
Commercial Banks	57000	81481	87200	125477	119000	1664486	150000	156850
Cooperative Banks	39000	31231	38600	39786	41000	42480	52000	43684
Regional Rural Banks	8500	12404	15200	15223	15000	20435	23000	24814
Total	105000	125309	141000	180486	175000	229401	225000	225348

Source: NABARD

During 2007-2008 was also could not able to achieve its target of Rs.52000 crores, it reached Rs.43684 crore of disbursement. The regional rural banks have been reached their target for the year 2004-05, 2005-06 and 2006-2007 and 2007-2008.

4.1. Role of Commercial Banks

Table. 2 Agriculture Share NPA in Commercial Banks

Year	NPA of Commercial Bank in Agriculture	NPA Share of Total Outstanding Loans
2005-2006	6716	3.48
2006-2007	7367	2.93
2007-2008	9735	3.29
2008-2009	7149	1.95
2009-2010	10353	2.25
2010-2011	16700	3.31
2011-2012	24800	4.23
2012-2013	30200	4.77

Source: Report of Trend & Progress of Banking in India, Reserve Bank of India

The commercial banks are recorded as a very less percentage of the total non-performing assets. The minimum percentage of the outstanding loan was recorded as 1.95 percent during

2008-2009 and the maximum percentage was recorded with 4.77 percent in 2012-2013 from the total non-performing asset of the commercial banks in India.

3.2 Government Policy Initiatives for the Promotion of Agriculture

To enhance the exports of agricultural commodities and value-added commodities, the MOU has been signed between the Agricultural and Processed Food Products Export Development Authority and Citrus Research Institute in October 2021. The Union Ministry of Agriculture and Farmers Welfare has declared that 8,20,600 seed kits have been distributed at free of cost. It supports enhancing the farmer's income of 343 districts of 15 major states in India. Recently, in September 2021, the Prime Minister of India has inaugurated 35 crop varieties of higher nutritional content and climatic resilience. The Pradhan Manthri Kisan Samman Nidhi Yojana provided Rs.2021 crores to more than ten million farmer's bank account directly in 2019 and Rs. 65000 crores have been allocated through the union budget. The government of India has allowed a hundred percent of foreign direct investment for the marketing of food commodities under the automated route. The government of India has also announced and approved the postal insurance scheme for the food process units with an encouragement outlay of Rs.10900 crores. Moreover, to enhance the farmer's income in India and develop the agricultural sector, the government released resources for the agricultural machinery such as creating custom hiring places, agricultural machine banks, and high technological hubs in various states.

5. Summary and Conclusion

Agricultural credit is important to the farm credit system in India due to the capital accessibility of the farmers. It helps them to procure various raw materials such as seeds, fertilizers, land and other capital equipment. The agricultural credit is to be made accessible and available to agricultural and allied activities to promote agricultural output. A developing country like India, need greater support from the farmers for inclusive growth and development. During the 2004-2005 period, the target was aimed by the commercial banks was Rs.57000 crores. But the actual disbursement took place with Rs.81481 crores. It is evident from data sources that the disbursement amount was consistently increased from 2004-05 to 2007-08. The agricultural loan has been disbursed with Rs. 125477 crores, it was a huge increase as compared to the previous year disbursement of Rs. 81481 crores. It was reached 156850 crores rupees during 2007-2008. Whereas the cooperative banks have disbursed as low as the commercial banks. The disbursement of agricultural credit by the cooperative bank also increased over a period of time. But the targeted amount of disbursement was not attained as per the plan. The target value of Rs.39000 crores was aimed and disbursed at Rs. 31231 crores only in 2004-05. The commercial banks are recorded as a very less percentage of the total non-performing assets. The minimum percentage of the outstanding loan was recorded as 1.95 percent during 2008-2009 and the maximum percentage was recorded with 4.77 percent in 2012-2013 from the total non-performing asset of the commercial banks in India. The Union Ministry of Agriculture and Farmers Welfare has declared that 8,20,600 seed kits have been distributed at free of cost. It supports enhancing the farmer's income of 343 districts of 15 major states in India. Recently, in September 2021, the Prime Minister of India has inaugurated 35 crop varieties of higher nutritional content and climatic resilience. The Pradhan Manthri Kisan Samman Nidhi Yojana

provided Rs.2021 crores to more than ten million farmer's bank account directly in 2019 and Rs. 65000 crores have been allocated through the union budget. The government of India has allowed a hundred percent of foreign direct investment for the marketing of food commodities under the automated route. This study is recommending increasing the farm credit to the small farmers to enhance productivity and livelihood. The government has to provide the insurance facility to all the farmers for their crops and credits.

References

- Ayaz, Saima and Zakir, Hussain (2011). Impact of Institutional Credit on Production Efficiency of Farming Sector- A Case Study of District Faisalabad. *Pakistan Economic and Social Review*. Volume-49. No-2. pp. 149-162.
- Government of India (2021). The Economic Survey <https://www.ibef.org/industry/agriculture-india.aspx>.
- Hoda, Anwarul and Terway, Prerna (2015). Credit Policy for Agriculture in India – An Evaluation. Supporting Indian Farms, the Smart Way: Rationalising Subsidies and Investments for Faster, Inclusive and Sustainable Growth. Indian Council for Research on International Economic Relations. pp. 1-31.
- Indian Sugar Mill Association (2020). <https://www.indiansugar.com/Statics.aspx>
- Kumar, Anjani, Singh, K. Dhiraj, and Prabhat, Kumar (2007). Performance of Rural Credit and Factors Affecting the Choice of Credit Sources. *Indian Journal of Agricultural Economics*. Volume-62. Number-3. pp. 297-312.
- Kumar, Anjani., Singh, M. Krishna and Sinha, Shradhajali, Sinha (2010). Institutional Credit to Agricultural Sector in India: Status, Performance and Determinants. *Agricultural Economics Research Review*. Volume-23. Number-2. pp. 253-264.
- Mohan, Rakesh (2004). Agricultural Credit in India: Status, Issues and Future Agenda. Reserve Bank of India Bulletin.
- Narayanan, Sudha (2015). The Productivity of Agriculture Credit in India. Working Paper. WP-2015-01. Indira Gandhi Institute of Development Research.
- Patel, Amrit (2016). Agricultural Credit Policy in India – Need for Shift from Supply – Led to Demand – Driven Credit. *International Journal of Research in Science and Technology*. Volume-6. Issue-4. pp.1-13.
- Selvaraj, N., and Balajikumar, P (2015). The Role of Commercial Banks in Providing Agricultural Credit in Tamil Nadu (Extent and Factors Influencing Investment) – India: A View. *Business and Economics Journal*. Volume-3. Issue-3. 158.
- Sivasubramanian, K, Pushpa, A., Raju, V., and Kumar, Madhu Dhruva (2020). Women and Informal Employment: An Analysis of Socio-Economic and Health Conditions of Women Home-Based Workers in Chennai, India. *Journal of International Women Studies*. Volume-21. Issue-5. pp. 97-106.



- Wilson, Franck A (1974). The Role of Commercial Banks in Financing Farmers: Some Reflections on the Situation in Zambia. *Agricultural Administration*. Volume-1. Issue-4.
- Yadav, Sunil Singh (2017). Source of Agricultural Credit in India: A Conceptual Study of Indian Agricultural Credit. *Shodh Drishti*. Volume-3. No.3.

Copyrights

Copyright for this article is retained by the author(s), with first publication rights granted to the journal.

This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by/4.0/>)