Credit Policy for Agriculture in India - An Evaluation

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Abstract: Rural indebtedness and dependence on private moneylenders is an age-old problem in India. For more than 100 years now, the Central Government and the Reserve Bank of India have been making efforts to enhance institutional credit in rural areas particularly to assist in agricultural operations. It began with the enactment of the Co-operative Credit Societies Act (1904) but efforts were redoubled after the nationalization of Scheduled Commercial Banks in 1969. The aim of this paper is to evaluate the measures taken over the years and assess the extent to which they have been successful. It attempts to answer the question, "Is the agenda of expansion of institutional finance to agriculture unfinished?" The findings in the paper are inconclusive on this issue on account of contradictions in evidence: while the 2013 AIDIS survey finds that no institutional lenders still account for only 36 per cent of the total outstanding agricultural loan, the short-term credit from institutional sources in 2012-13 covered 100 per cent of the input cost in agriculture in that year according to the National Accounts Statistics. This research paper indicates the Credit Policy for Agriculture in India.
Keywords: credit policy, commercial banking, Interest Rates, Institutional Credit, Distribution.

Introduction: Rural indebtedness is an age-old problem in India. In the nineteenth century, commercial banking was non-existent in rural areas, and farmers were completely in the hands of usurious moneylenders. Starting from the days of British rule, the central government has been striving to expand institutional lending to the rural agricultural sector. In recent decades, efforts in this direction have intensified and today, there is a vast network of institutions providing credit for agriculture.

One of the first steps taken by the Government of India towards addressing the problem was the establishment of co-operative credit societies. The Co-operative Credit Societies Act (1904) was passed to provide cheap and cost-effective financial services to farmers and attempts were made thereafter to widen the co-operative movement. The Maclagan Committee (1915) and the Royal Commission of Agriculture in India (1928) focused on the expansion of co-operatives in the country. The RBI Act, 1934, made provisions to establish an Agriculture Credit Department in the bank and extend refinancing facilities to the co-operative credit system.

However, there was a slowdown in the co-operative movement in subsequent years, as a large number of co-operative institutions were found to be saddled with the problem of frozen assets, because of heavy overdoes in repayment. The RBI commissioned the All India Rural Credit Survey in 1951 to understand the situation at the grassroots level and address concerns regarding the financing of the rural sector. The committee recommended the creation of an efficient system of agricultural finance and the development of a sound co-operative credit structure. They suggested increasing the share of co-operatives and advised that at least one member of each household should be a member of a co-operative institution.

A directed credit programme towards certain priority sectors was a major development policy in both developed and developing countries in the 1960s. The shortfall in agricultural output in India in 1966 and 1967 helped focus attention on the need for commercial banks to increase their involvement in financing agricultural activities. Under the concept of priority sector lending introduced in 1972, commercial banks