SHANKAR IAS PARLIAMENT
Information is Empowering

Agricultural Credit

What is the issue?

Recently, there is an intense discussion on the strategies needed for addressing farmer distress in India. Among others, assured and greater access to institutional credit has been proposed as a way forward.

What is the case?

- The politicians believe that the removal of credit constraints is necessary to improve farmer welfare and support agricultural growth.
- But, the academic studies state that in India, the **correlation** between the institutional agriculture credit and the agricultural growth is **weak**.
- And **no enough attention** is given to a key policy question - Whether agriculture credit of such size contributes commensurately to agricultural growth.

How to measure credit intensity and what it suggests?

- Reason to measure it - To assess the productivity of institutional credit to the agriculture sector.
- **Credit intensity of Agriculture sector = Agricultural credit /**
- There is a striking increase in the ratio of agricultural credit to agricultural GVA since 2005-06.
- This reveals that the agricultural credit intensity has increased tremendously over the years.
- Calculating agricultural credit implies that it has become less efficient in delivering agricultural growth.

What is the empirical evidence?

- **RBI's study**: There is no statistically significant causal relationship between agricultural growth and credit cycles in India.
- **Seminal study using State-level data**:
    1. Agricultural credit plays a role in influencing the purchase of agricultural inputs by farmers.
    2. But it has a weak impact on agricultural GDP.
    3. Instead, the performance of agricultural GDP is determined by sectoral composition, output prices, the area under irrigation and public

expenditure.

- Studies suggest that there is a weak relationship between the flow of institutional credit to the agriculture sector and agricultural growth in the Indian context.

What does the above evidence suggest?

- The ability of credit to induce agricultural GDP growth is **limited**.
- Adequate attention should be given to **building other capabilities or non-credit growth ingredients** required to promote agricultural growth.
- Emphasises the **need for proper targeting of agricultural credit** to achieve the desired impact on agricultural growth.

What is the current scenario?

- A substantial part of subsidised agricultural loans has been **diverted for non-agricultural purposes**.
- Categorisation of **gold loans as farm credit** by banks adds to the problem because such loans are mostly used for consumption purposes.
- **No concrete actions by RBI** to ensure proper use of agricultural credit are not forthcoming even though it investigated the diversion of farm loans for non-agricultural uses.
- A **notification issued by the RBI** in this regard to public sector banks had advised the latter to ensure that all farm loans meet certain criteria.

What is the way forward?

- **Monitoring** of agricultural credit utilisation at the ground level is the need of the time.
- The RBI and commercial banks are aware of the ground reality.
- Actions should be taken to ensure **proper use of agricultural credit** by ensuring that the loan is used for the stated purpose.
- Public Sector Banks (PSBs) to ensure that all farm loans meet certain criteria as per RBI's notification to PSBs
    1. Limiting the disbursement of farm loans only to an agriculturist,
    2. Ensuring that the loan is used for the stated purpose,
    3. Verifying that disbursal and recovery of farm loans follow seasonality pattern.
- To a larger extent, these tasks could be carried out **using technology** such as analytic software, which is made possible today as all major banks in India follow the Core Banking Solution system.

Source: Business Line

Quick facts:

Non-credit growth ingredients or capabilities:

1. Productivity increases,
2. expansion of infrastructure,
3. higher public expenditure on agriculture and allied services,
4. effective extension services,
5. sound institutions,
6. export competitiveness.

Gross Domestic Product (GDP):

- Gross Domestic Product (GDP) is a broad measurement of a nation's overall economic activity.
- It is the **monetary** value of all the **finished goods and services** produced within a country's borders in a specific time period.
- It is calculated within a **domestic territory** which in layman terms may mean political frontiers of a country.
- It includes all private and public consumption, government outlays, investments, additions to private inventories, paid-in construction costs and the foreign balance of trade.