

# AGRICULTURAL CREDIT GROWTH AND INDEBTEDNESS OF FARMERS IN INDIA

*Abhijit Pathak\**

**Abstract:** In the period after bank nationalisation in India, this country witnessed a large scale expansion of bank credit to agriculture along with the spread of bank branches to the rural areas. Researchers also found its positive impact in reducing rural poverty and increase in employment. This was the period when indebtedness among cultivators declined sharply with rising availability of agricultural credit in rural areas. The indebtedness amongst cultivators started increasing from the beginning of 1990s and the All India Debt Investment Survey in 2013 found that incidence of indebtedness among the rural cultivators had almost reached the level of pre bank nationalisation period of 1960s. The share of credit that the cultivators are forced to take from non-institutional sources has still remained as high as 36 per cent. The money lenders have reinstated themselves in rural areas in the post liberalisation period. This is vindicated with their share of credit to cultivators increasing from 17.2 per cent in 1991 to as high as 26.8 per cent in 2002. This situation has not changed for a decade in spite of a robust agricultural credit growth since 2004. Share of credit to farmers from money lenders has actually increased to 29.6 per cent in 2013. The money lenders' hand has been strengthened in the rural areas mainly due to the apathy of the public sector banks to disburse the small ticket credit to small and marginal peasants.

**Keywords:** Credit, Agriculture, Indebtedness, Commercial Banks.

## **Introduction**

In the period after bank nationalisation in India, this country witnessed a large scale expansion of bank credit to agriculture along with the spread of bank branches to the rural areas. The increase in spread and reach of the formal banking in the rural areas is well documented in the literature on the subject (Shetty 2006). Researchers also found its positive impact in reducing rural poverty and increase in employment (Binswanger and Shahidur Khandker 1992) in India in the following

two decades. Agricultural credit was given the largest share within the priority sector lending (PSL) since 1972. The share of agricultural credit within PSL was increased gradually to 18% of the bank's adjusted net bank credit by 1989. The objective was to increase the access of formal sector credit by the peasantry and thereby relieving them from the clutches of rural moneylenders and usuries. The lack of access to formal credit by the farmers put them at the mercy of the rural

---

\* Assistant Professor, Department of Economics, Dhruba Chand Halder College, West Bengal  
E-mail: abhijitdch@gmail.com

moneylenders. The average rate of interest charged by these moneylenders used to be in the range of 20% to 45%, substantially higher than the prevailing interest in the formal sector (AIDIS 2013). The high interest rates resulted in perpetual indebtedness of the farmers. The interlocking of the rural agricultural markets and guiles of moneylenders never allowed them to come out of the vicious circle of debt obligations. To overcome these impediments, governments prioritised expansion of bank branches in the unbanked areas and augmentation of agricultural credit to a large extent through the public sector banks. Agricultural credit recorded an annual average expansion of 20 per cent during 1971 to 1991.

This scenario changed drastically in the post-liberalisation period when the competition within the banking sector forced public sector banks to abandon the model of social banking. The shift in the approach of the government-owned banks badly affected the rural economy and especially farmers. The small ticket crop loans of the farmers lost its priority to public sector banks. Commercial banks started failing repeatedly to meet their target of lending to the 'priority sector'. 'Agricultural credit' was the biggest loser in this category. Instead of compelling banks to adhere to the priority sector guidelines, the Reserve Bank of India made provisions for them to bypass it. Banks were allowed to contribute to the Rural Infrastructure Development Fund (RIDF) for their shortfalls in priority sector lending. This resulted in very poor

delivery of credit to this sector in the first decade of liberalisation (EPWRF, 2014). The annual average growth of agricultural credit was around 10 per cent only during 1991-2000.

This was the period which also witnessed the withdrawal of public investment in agriculture and rural sectors and thereby a large fall in Gross Domestic Capital Formation (GDCF) in agriculture. The decline in public investment in agriculture has remained a major cause of the dismal performance of farm sector in the post-reform period (Mathur et. all). The lack of diversification, dependence on monsoon, non-remunerative prices of agricultural products, fluctuations in prices in international markets and the dependence of millions of small and marginal farmers on their low-productivity agriculture resulted in agricultural distress in India.

The revival of agricultural credit started from the very beginning of this century but that was not enough to alleviate the rural distress (Ramkumar and Chavan 2007). This was reflected in the miserable defeat of the first National Democratic Alliance (NDA) Government in 2004. The 'India Shining' campaign failed. The newly elected government of the United Progressive Alliance (UPA) announced its intent to double the flow of credit to agriculture within a span of three years. A series of measures were announced to mitigate the problems of agricultural credit in India. This includes increase in agricultural credit by 30 per cent per year, expansion of bank branches in the rural areas, investment in agricultural projects

by each bank branch etc. Accordingly, agricultural credit expanded by an annual average growth rate of 26 per cent during 2005-2010 and 20.3 per cent during 2011-2016.

The major objective of the expansion of agricultural credit in India was to make formal credit available to the farmers at a reasonable rate of interest and bring them out of the clutches of the usurious moneylenders. At this point, it is important to mention that availability of agricultural credit could never achieve this objective alone. There are so many other important issues. But at the same time, credit was obviously an important cog in the wheel. Against this background, in this paper, we are attempting to examine how the expansion of agricultural credit has impacted the indebtedness of the farmers in different phases mentioned above.

### Section I

In this section, we have presented the status of agriculture in Indian economy and attempted to assess its importance in terms of its contribution to both output

and employment in the economy. The share of agriculture to gross domestic product (GDP) has declined from as high as 40.5 per cent in 1972-73 to 13.7 per cent in 2015 (Table 1). This has happened over the period mainly reflecting the low productivity growth of the agricultural sector with respect to other growing sectors of the economy. The share of employment in agriculture in total employment declined from 73.9 per cent in 1972-73 to 47.4 per cent (Table 2). The dependence on agriculture for employment did not decline to the extent of its share in GDP. The growth of other sectors did not create much employment and therefore dependence on agriculture could not decline in spite of its poor productivity growth. As agriculture remains the major source of employment, its performance requires special attention because it still provides around 50 per cent of total employment. Moreover, even though the other sectors may witness high rates of growth, but agricultural sector is the provider of food for 125 crore people and deserves special attention.

**Table 1: Share of Agriculture in GDP and Employment**

	Share of Agriculture in GDP(In per cent)	Share of Agricultural Employment in total Employment(In per cent)
1972-73	40.6	73.9
1993-94	28.9	63.9
1999-00	25.0	60.2
2004-05	18.8	56.5
2011-12	14.7	48.9
2015-16	13.7	47.4

Source: CSO (for GDP data) and NSSO (Employment and Unemployment Survey), GOI.

**Table 2: Workforce Engaged in Agricultural Sector (In Million)**

	Agricultural Work Force	Total Work Force	Share of the Agricultural Work Force in Total Work Force
1999-00	238	398	59.8
2004-05	269	459	58.5
2009-10	245	460	53.2
2011-12	232	474	48.9
2015-16	232	490	47.4

Source: NSSO (Employment and Unemployment Survey), GOI.

## Section II

This section delineates the land holding pattern of farmers in Indian agriculture and its broad trend over the period. According to agricultural Census 2011, the operational holdings of marginal and small farmers accounts for almost 85 per cent of the total holdings. Most of the increase has come from increase in marginal holdings. This has increased gradually from around 50 per cent in 1970 which was already very high (Table 3). However, the operated area under the marginal and small farmers is only around 44.6 per cent of the total operated area. The picture is more dismal when we

find that though 67 per cent of the operational holding belongs to marginal farmers, the area operated by marginal farmers constitutes only 22.5 per cent. The increasing marginalisation of Indian agriculture since 1970s is mentioned in the table below (Table 4). Given the presence of large number of small and marginal farmers and their low average size of holdings (Table 5), it was a necessity for the banking system to formulate innovative measures to address the changing demand pattern of the small and marginal farmers.

**Table 3: Per Cent of Operational Holdings as per Different Agricultural Censuses**

Farmers	1970-71	1976-77	1980-81	1985-86	1990-91	1995-96	2000-01	2005-06	2010-11
Marginal	51.0	54.6	56.4	57.8	59.4	61.6	62.9	64.8	67.1
Small	18.9	18.1	18.1	18.4	18.8	18.7	18.9	18.5	17.9
Semi Medium	15.0	14.3	14.0	13.6	13.1	12.3	11.7	10.9	10.0
Medium	11.2	10.1	9.1	8.1	7.1	6.1	5.5	4.9	4.2
Large	3.9	3.0	2.4	2.0	1.6	1.2	1.0	0.8	0.7
All	100	100	100	100	100	100	100	100	100

Source: Agricultural Census 2011.

**Table 4: Per cent of Operated Area as per Different Agricultural Censuses**

Farmers	1970-71	1976-77	1980-81	1985-86	1990-91	1995-96	2000-01	2005-06	2010-11
Marginal	9.0	10.7	12.0	13.4	15.0	17.2	18.7	20.2	22.5
Small	11.9	12.8	14.1	15.6	17.4	18.8	20.2	20.9	22.1
Semi Medium	18.5	19.9	21.2	22.3	23.2	23.8	24.0	23.9	23.6
Medium	29.7	30.4	29.6	28.6	27.0	25.3	24.0	23.1	21.2
Large	30.9	26.2	23.0	20.1	17.3	14.8	13.2	11.8	10.6
All	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Agricultural Census 2011, GOI.

**Table 5: Average Area Operated as per Different Agricultural Censuses (in Ha)**

Farmers	1970-71	1976-77	1980-81	1985-86	1990-91	1995-96	2000-01	2005-06	2010-11
Marginal	0.40	0.39	0.39	0.39	0.39	0.40	0.40	0.38	0.39
Small	1.44	1.42	1.44	1.43	1.43	1.42	1.42	1.38	1.42
Semi Medium	2.81	2.78	2.78	2.77	2.76	2.73	2.72	2.68	2.71
Medium	6.08	6.04	6.02	5.96	5.90	5.84	5.81	5.74	5.76
Large	18.10	17.57	17.41	17.21	17.33	17.10	17.12	17.08	17.38
All	2.28	2.00	1.84	1.69	1.55	1.41	1.33	1.23	1.15

Source: Agricultural Census 2011, GOI.

### Section III

This section has discussed the shift in the contributions of public sector investment and agricultural credit in capital formation in Indian agriculture over the years. The decline in public investment in agriculture by successive governments at the centre resulted in poor gross domestic capital formation in agriculture (Table 6). The gross capital formation in agriculture as a percentage of India's

aggregate gross capital formation declined from as high as 11.5 per cent in 1990-91 to around 7.3 per cent in 2005-06 and continued to remain in that range until now (7.7 per cent in 2016-17) (NAS 2018). This resulted in very poor progress in irrigation works, research and other infrastructure developments required for the development of agriculture.

**Table 6: Capital Formation in Agriculture and Allied Activities (in per cent)**

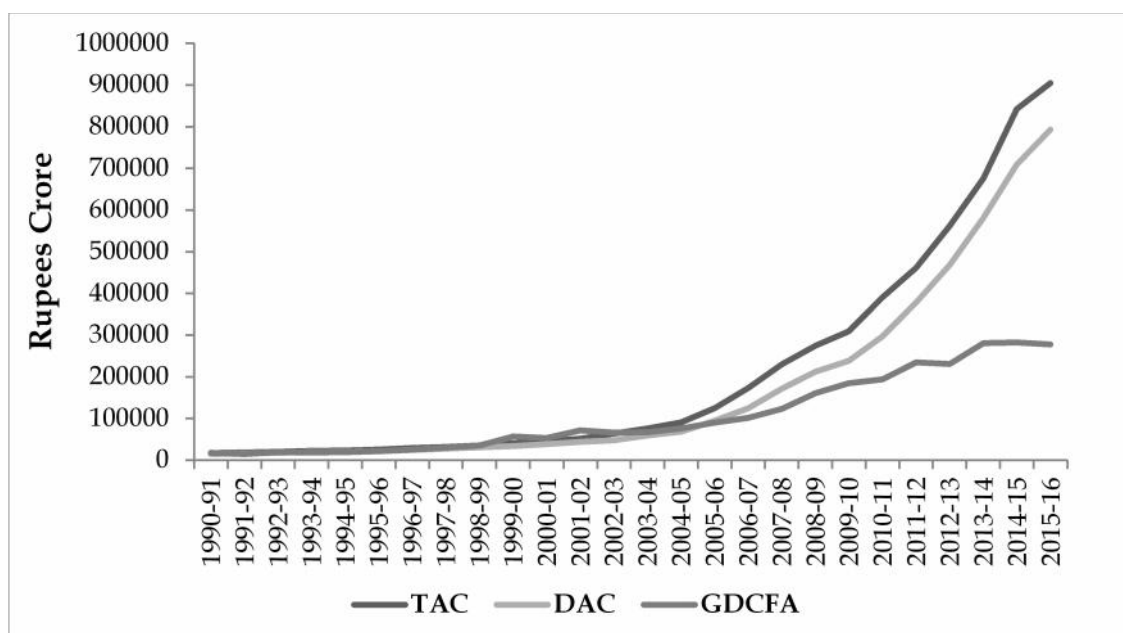
Sector	1970s	1980s	1990s	2000s	2010s	2014-15
Private	66.5	58.3	76.1	81.1	84	86
Public	33.5	41.7	23.9	18.9	16	14

Source: RBI and CSO

Credit and capital formation were roughly almost at similar levels, and they also move together every year. But as evident from the diagram (Chart 1) below, the trajectory of credit and capital is found to diverge from 2005-06. The gap has been widening ever since. This indicates that

a large part of agricultural credit is being used to purchase agricultural inputs and only a small proportion is used for capital formation (Chavan 2013). This along with the decline in public investment in agriculture has resulted in lower capital formation in this sector.

**Chart 1: Gross Domestic Capital Formation in Agriculture and Agricultural Credit**



Source: National Account Statistics GOI, Basic Statistical Returns of SCBs, RBI

**Section IV**

This section has analysed the impact of agricultural credit growth on the indebtedness of farmers in India. With the spread of public sector bank branches in the rural areas in 70s and government’s initiative to provide loans to priority sectors, credit delivery improved to the agricultural sector. The dependence of farmers on local moneylenders was

reduced drastically. The data on rural indebtedness clearly shows a decline in the indebtedness among the cultivators in the two decades after the implementation of bank nationalisation. This was the period when indebtedness among cultivators declined sharply with rapidly increasing availability of agricultural credit in rural areas. The indebtedness amongst cultivators started increasing

from the beginning of 1990s and of All India Debt Investment Survey (AIDIS, 70th round NSSO survey) in 2013 (GOI 2013) found that incidence of indebtedness among the rural cultivators had almost reached the level of pre bank nationalisation period of 1960s (Table 7). Many people may argue that increasing debt may not be a good indicator of distress as increase in debt may be accompanied by a higher asset accumulation. Therefore, it is not debt but the debt assets ratio (DAR) that can actually serve as a better indicator. The analysis of debt asset ratios also vindicate that the DAR among the rural cultivators declined from a level of 4.13 in 1971 to 1.61 in 1991. But since 1991 onwards, the

DAR of rural cultivators has sharply increased to 2.47 in 2002 and remained almost at that level in 2013. This has happened despite a phenomenal growth of agricultural credit since 2004. This clearly indicates that indebtedness among the cultivators has increased in the post liberalisation period. At the all-India level, 46% of the cultivators and 29% non-cultivator households were indebted. Also, compared to the cultivator households, the average amount of debt (AOD) is found to be much less (little more than one third) among the non-cultivators. The AOD for cultivator households was found to be Rs. 70580 (Table 8).

**Table 7: Debt Asset Ratio and Incidence of Indebtedness Among Cultivators of Rural India**

Year	IOI (per cent)	DAR
1971	46.1	4.13
1981	22.3	1.8
1991	25.9	1.61
2002	29.7	2.49
2013	45.9	2.46

Source: *Key Indicators of Debt and Investment in India, NSSO 70<sup>th</sup>, December 2013.*

**Table 8: Incidence of Indebtedness and Average Amount of Debt per HH for Different HH : ALL India**

Rural			
	IOI (per cent)	AOD per HH (Rupees)	AOD per Indebted HH (Rupees)
Cultivators	45.94	70580	153640
Non-Cultivators	28.85	25741	89221
All	31.44	32522	103457

<b>Urban</b>			
Self Employed	35.85	108714	303221
Others	20.96	820904	391724
All	22.37	84625	378238

Source: *Key Indicators of Debt and Investment in India, NSSO 70<sup>th</sup>, December 2013*

The major cause of the increase in indebtedness of the peasantry is the non-increase in the share of institutional credit to cultivators even in periods when agricultural credit recorded phenomenal expansion since 2004. The share of credit that the cultivators are forced to take from non-institutional sources has still remained as high as 36 per cent (AIDIS 2013) (Table 9). The money lenders have reinstated themselves in rural areas in the post liberalisation period. This is vindicated with their share of credit to

cultivators increasing from 17.2 per cent in 1991 to as high as 26.8 per cent in 2002. This situation has not changed for a decade in spite of a robust agricultural credit growth since 2004. Share of credit to farmers from money lenders has actually increased to 29.6 per cent in 2013 (Table 10). The money lenders' hand has been strengthened in the rural areas mainly due to the apathy of the public sector banks to disburse the small ticket credit to small and marginal peasants.

**Table 9: Share of Outstanding Debt of Cultivators Household from Institutional and Non-Institutional Sources**

<b>Year</b>	<b>Institutional</b>	<b>Non-Institutional</b>
1951	10.2	89.8
1961	20.9	79.1
1971	32	68
1981	56.2	43.8
1991	66.3	33.7
2002	61.1	38.9
2013	64	36

Source: *All India Debt and Investment Survey, Various Issues, NSSO.*



**Table 10: Institutional and Non-Institutional Credit to Farmers**

Sources of Credit	1951	1961	1971	1981	1991	2002	2013
<b><i>Institutional</i></b>	<b>10.2</b>	<b>20.9</b>	<b>32</b>	<b>56.2</b>	<b>66.3</b>	<b>61.1</b>	<b>64</b>
Government		6.2		4	5.7	1.7	1.3
Co-operative Banks and Societies	6.2	12.5		27.6	23.6	30.2	28.9
Commercial Banks	4	2.2		23.8	35.2	26.3	30.7
Insurance and Providend Fund				0.8	0.7	0.5	0.1
Other Agencies					1.1	2.4	3
<b><i>Non-Institutional Rural Credit</i></b>	<b>89.8</b>	<b>79.1</b>	<b>68</b>	<b>43.8</b>	<b>33.7</b>	<b>38.9</b>	<b>36</b>
Money Lenders	39.8	25.3		17.2	17.5	26.8	29.6
Relatives, Friends				11.5	4.6	6.2	4.3
Traders, Commission Agents				5.8	2.2	2.6	
Land Lords	21.4	15		3.6	3.7	0.9	0.4
Others	28.6	38.8		5.7	5.7	2.4	1.7
Total	100	100	100	100	100	100	100

Source: All India Debt and Investment Survey, Various Issues, NSSO.

### Conclusion

The major objective of the expansion of agricultural credit in India was to make formal credit available to the farmers at a reasonable rate of interest, bring them out of the clutches of the usurious moneylenders and free them from financial indebtedness. This was the period when indebtedness among cultivators declined sharply with rising availability of agricultural credit in rural areas. The indebtedness amongst cultivators started increasing from the beginning of 1990s and had reached almost the level of pre-bank nationalisation period in 2002. The share of credit that the cultivators are forced to take from non-institutional sources has

still remained as high as 36 per cent in 2013. This is vindicated with share of credit to cultivators from money lenders increasing from 17.2 per cent in 1991 to as high as 29.6 per cent in 2013. The money lenders have reinstated themselves in rural areas in the post liberalisation period. The money lenders' hand has been strengthened in the rural areas mainly due to the apathy of the public sector banks to disburse the small ticket credit to small and marginal peasants.

### References

- Binswanger H. and Shahidur Khandker (1992): 'The Impact of Formal Finance on Rural Economy of India', Working Paper No.

949, *World Bank*, 1992, <http://documents.worldbank.org/curated/en/182621468771647603/pdf/multi-page.pdf>, accessed on 12.01.2019.

- Chavan Pallavi: 'Credit and Capital Formation in Agriculture: A Growing Disconnect', *Social Scientist*, Vol. 41, No. 9/10, pp. 59-67, September-October, 2013.
- EPWRF (2014): 'Agricultural Credit in India: Trends, Regional Spread and Database Issue', Occasional Paper 59, Department of Economic Analysis and Research, NABARD, Mumbai, 2014.
- GOI (2013): 'Key Indicators of Debt and Investment in India' NSS 70th Round, 2013.
- GOI (2014): 'All India Report on Number and Area of Operational Holdings', Agriculture Census 2010-11, Agriculture Census Division Department Of Agriculture & Co-operation Ministry of Agriculture, Government of India, 2014.
- GOI (2018): 'National Account Statistics 2018', Ministry of Statistics and Programme Implementation, Government of India, 2018. <http://mospi.nic.in/node/17651>, accessed on 09.6.2019.
- Mathur S. Archana, Das Surajt, Sircar Subhalakshmi (2006): 'Status of Agriculture in India: Trends and Prospects', *Economic and Political Weekly*, December 30, 2006.
- Ramkumar R and Chavan Pallavi (2007): 'Revival of Agricultural Credit in the 2000s: An explanation', *Economic and Political Weekly*, December 29, 2007.
- Shetty S L (2004): 'Distributional Issues in Bank Credit: Multi-pronged Strategy for Correcting Past Neglect', *Economic and Political Weekly*, July 17, 2004.