



Structural Process and Agriculture Credit in Haryana

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Abstract: Available data suggest that agricultural credit has been rising in recent years as a share of both the value of inputs and the value of output. There are wide regional disparities in the disbursement of agricultural credit by scheduled commercial banks. At the same time the share of agricultural GDP in total GDP is falling. In this context, this paper examines the role of direct and indirect agriculture credit in the agriculture production taking care of the regional disparities in agriculture, credit disbursement and agriculture production in an econometric framework using Dynamic Panel Data Analysis with Instrumental Variables using Arellano-Bond Regression. The analysis suggests that the direct agriculture credit amount has a positive and statistically significant impact on agriculture output and its effect is immediate. The number of accounts of the indirect agriculture credit also has a positive significant impact on agriculture output, but with a year lag. These results reveal that even though there are several gaps in the present institutional credit delivery system like inadequate provision of credit to small and marginal farmers, paucity of medium and long-term lending and limited deposit mobilisation and heavy dependence on borrowed funds by major agricultural credit purveyors, agriculture credit is still playing a critical role in supporting agriculture production in Haryana.

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Introduction: Agriculture plays a crucial role in the development of the Indian economy. It accounts for about 19 percent of GDP and about two-thirds of the population is dependent on the sector. The importance of farm credit as a critical input to agriculture is reinforced by the unique role of Indian agriculture in the macroeconomic framework and its role in poverty alleviation. Recognizing the importance of agriculture sector in India's development, the Government and the Reserve Bank of India (RBI) have played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector. Agricultural policies in India have been reviewed from time to time to maintain pace with the changing requirements of the agriculture sector, which forms an important segment of the priority sector lending of scheduled commercial banks (SCBs) and target of 18 percent of net bank credit has been stipulated for the sector. Eleventh Five Year Plan has set a target of 4 percent for the agriculture sector within the overall GDP growth target of 9 percent. In this context, the need for affordable, sufficient and timely supply of institutional credit to agriculture has assumed critical importance. Agriculture in India is not merely an occupation or a business proposition for the people, it is a tradition, a way of life which for centuries has shaped their thought, outlook and culture. In India especially, agriculture is rural in character, and majority of the population in the country depend on agriculture, directly or indirectly for earning their livelihood. In India the land represents the chief wealth of the nation. The study of trends in the institutional credit indicates the role of money market and progressive market orientation of the rural economy. Further, the relative importance of different institutions in meeting the credit requirements of the agricultural sector can be gauged to rationales the rural lending policy. The total credit advanced can be compared with some standard norms or with the total level of inputs all, cash or some key only to gauge the gap in the institutional credit.



To use agriculture for poverty alleviation, the land resources should be exploited as much as possible. But for full exploitation all the infrastructural facilities should be available. Unfortunately all these cannot be available due to one or more factors. From among the various factors, non availability of adequate and timely agricultural credit is one of the reasons for low productivity.

Loaning procedure of all the three types of rural based credit institutions: Like all other businesses, agriculture has its short term and long term credit needs. The short term credit needs mostly relate to operating expenses or the cost of inputs. The long term credit needs relate to farm development or improvement. Agricultural loans covering production oriented short term credit needs are called crop loans and those covering long term credit needs are called term loans. In this part of the study, the principles of appraisal, sanction and conduct of crop loan and term loan have been explained in brief.

Crop Loan: Agricultural loans covering production oriented short term credit needs are called crop loans. All the three types of credit institutions viz., cooperative societies, commercial banks and regional rural banks give short period loans to their members for productive purposes. In this portion of the study, the principles of appraisal, sanction and conduct of crop loans have been explained in brief. Crop production is the main agricultural activity in India and crop loans form the bulk of bank advances to agriculture. A request for a crop loan usually originates in an interview with the farmer.

The interview should be conducted by a qualified and experienced bank official like the agent, manager or field officer. If it becomes obvious during the interview that the request has to be declined, it would be desirable to end the interview at that stage with a clear explanation to the farmer why his request cannot be considered. However, if the data indicate that the farmers request for a crop loan can be considered, the interviewing official should assist him in completing the loan application form. The next stage is the appraisal of the proposal. The main considerations, of course, are the honesty and ability of the farmer, technical feasibility of the scheme and the economic viability of the farmer. For convenience, we shall consider crop loan proposals under the following heads:

1. Eligibility
2. Feasibility
3. Viability
4. Borrower
5. Stake
6. Marketing
7. Security

Eligibility: Consistent with the 'area approach' banks in India would consider farmers eligible for crop loans only if their farms were situated in areas suitable for adoption. Of course, only owner cultivators and tenant farmers whose tenancy rights are alienable and marketable would ordinarily be considered eligible.

Feasibility: Many banks in India have their own technical organization to examine the technical feasibility of schemes. The technical report, whether it is furnished by the banks own technical staff or by the agricultural department is not to be relied upon entirely. It is the duty of the lending official to examine it thoroughly. Very often, it happens that the lending officials



scrutiny of a scheme is more practical than that the technical officer who is to rely on purely statistical data, whereas the lending official is able to gather qualitative data by actually visiting the farm of the applicant and conversing with his neighbours and other farmers in the area. Also it must be remembered that the technical report is not an insurance against failure of the scheme. It is just an aid to decision making.

Viability: Repayment of crop loan depends on the viability of the farm. The relationship between inputs and outputs determines the viability of the farm. The probable yield should cover the cost of production and farmers family expenses leaving a surplus for reinvestment in the farm or for improvement of the farmer's standard of living. Before deciding to adopt the area, the bank carries out a survey of all farms in the area and collects data such as:

- (a) Number of farmers in the area
- (b) Sizes of their holdings
- (c) Average size of the family
- (d) General cropping pattern
- (e) Water sources
- (f) Irrigation schemes
- (g) Type and quantity of fertilizers used
- (h) Prices of manure, fertilizers prevailing in local markets

Borrower: The success of the scheme and prompt repayment of the bank's loan depends on the qualities of the borrower. It would be necessary for the bank to know the following things about the borrower.

- (a) Title to land
- (b) Repayment record
- (c) Progressiveness and capacity to implement the scheme
- (d) Past performance
- (e) Financial position

Security: The main objective of taking security from the farmer is to ensure that the borrower retains possession of and control over his farm assets that he carries on farming operations according to plan during the currency of the bank's loan. Security does not ensure repayment whereas successful implementation of the schemes does. Security is no substitute for technical feasibility and economic viability. Usually the land is available as security.

Margin: The margin on a crop loan is the borrowers own investment in working capital. It includes farm labour if any provided by himself and his family. The ability to provide a margin varies from borrower to borrower and the principle is that every borrower should provide a reasonable margin. Banks in India usually stipulate a margin of 25 to 30 percent on crop loan.

Stake: Stake means the borrowers own investment in the farm. A farmer who has a substantial stake in the farm would devote himself to any further scheme of development and use the money borrowed from the bank conscientiously. Some borrowers in India want bank loans in order to reduce their own stake in the farm. They want to substitute bank loans for their own investment in the farm. Banks have to be on their guard against such farmers as they are not likely to be honest about the implementation of farm development schemes. They regard money sunk in the farm as lost and try to retrieve the money by borrowing against the security of their



forms. Bank finance merely supplements the borrowers own resources. It is not a substitute. Every borrower should have a reasonable stake in the farm..

Marketing: The prosperity of a farmer depends, to a large extent, on the price at which he can sell his produce. It means that he should be able to sell in markets that are easily accessible and that he should be able to select the best markets. However, it is different from hoarding the produce in the hope of getting a high price. Bank’s finance is not available for hoarding produce although it is available for the holding of produce for a reasonable time in order to select the best available market.

Limit: The total working capital requirements minus the margin give the amount of crop loan required by the borrower. But they may not require the entire amount at one time. The limit is fixed by finding out the maximum working capital requirements at any point of time during the year. This would depend on the crop pattern, the duration of each season in the area where the farm is situated.

Growth in SGST (11TH & 12TH

| Industry | 11 th Plan (2007-12) | 2012-13 (Q) | 2013-14 |
|----------------------------------|---------------------------------|-------------|---------|
| Agriculture & Allied Activities | 3.7 | -0.7 | 3.2 |
| Mining & Quarrying | -20.3 | -13.7 | -1.2 |
| Manufacturing | 6.6 | 4.9 | 3.8 |
| Electricity, Gas & Water Supply | 10.4 | 0.5 | 5.1 |
| Construction | 4.4 | 4.7 | 4.6 |
| Transport, Communication & Trade | 12.8 | 6.7 | 5.6 |
| Finance & Real Estate | 12.2 | 15.3 | 15.6 |
| Public Administration | 9.8 | 5.5 | 3.5 |
| Other Services | 12.6 | 13.0 | 13.0 |
| Community & Personal Services | 11.7 | 10.9 | 10.5 |
| Gross State Domestic Product | 8.7 | 6.5 | 6.9 |

Source: Department of Economic & Statistical Analysis, Haryana

Eligibility for Loans:-

Short Term Agriculture Maximum Credit Limit (MCL): The MCL of agriculturist members shall be prepared in accordance with crop planning separately for Rabi and Kharif. The following procedure is adopted to prepare the MCL of these members. The secretary of each society shall prepare a land register in respect of all its agriculturist members including tenants. It has been observed that some members provide wrong information regarding the area to be cultivated by them in order to avail higher MCL from the society. The land register shall, therefore be prepared on the basis of land record so as to avoid ghost acres. The entries in the land register shall be made in respect of each member on the basis of land record i.e. Jama Bandi / Khasara Girawari or Land Passbook, as owner or tenant and in absence of such record, these entries should be made on the basis of a declaration given by the member duly verified by the village patwari / lambardar / or committee member of the society.

MCL of members: The maximum credit limit of all members shall be fixed by the managing committee of the respective societies once for a period of three years. A member may, however, get his MCL changed during this period due to change in the holdings, occupation, gross income etc., provided complete evidence in support thereof is produced to the satisfaction of the managing committee. The meetings of managing committee held for the purpose shall necessarily be attended by the executive officer of the cooperative bank. In case of societies having annual loaning business of more than Rs. 5 lacks, their meeting shall also be attended by



the managing director / development officer / manager of the central cooperative banks. The participant officers shall ensure that the MCL of the members are prepared correctly and in accordance with the instructions. MCL of all the members shall be prepared by the secretary by 30th of November and shall be submitted to the bank after necessary approval of the managing committee by 31st December. The credit limits of the society approved by the bank shall be communicated to the society and the Assistant Registrar concerned by the following 31st January. This limit is applicable for a single crop i.e. Kharif or Rabi.

Fixation of MCLs: On receipt of scales of finance from the state cooperative bank, the secretary of the society shall workout the MCLs of the members on the following lines:

- Maximum credit limits of cultivating member shall be limited to actual requirement subject to the maximum of amount worked out multiplying the acreages under cultivation with the scales of finance fixed for each crop.
- Maximum credit limit is sanctioned upto a maximum limit of Rs. 70,000 (Rs. 52,500 in cash and Rs. 17,500 in kind), Rs. 30,000 (Rs. 22,500 in cash and Rs. 7,500 in kind) and Rs. 16,000 (Rs. 12,000 in cash and Rs. 4,000 in kind) having a land holding of 5 acre, 2 acre and 1 acre respectively.
- In case of commercial and regional rural banking Kisan Credit Card are delivered (KCC) for crop loan. Under the programme of KCC, an amount upto Rs. 50000 is given to the farmer, having a landholding of one acre. If a farmer owns a large land holding of 10 to 15 acre, a KCC of above Rs. 10 lacks can be availed for crop loan.

Disbursement schedule: The farmer does not require the entire crop loan at one time. A proper schedule of disbursement corresponding to the farmers cropping pattern, stages in raising each crop and the durations of the seasons would ensure proper use of a crop loan besides saving the borrower interest on the crop loan.

Repayment schedule: Similar to the disbursement schedule, a repayment schedule can be drawn up taking into account the duration of seasons, the time of harvest of each crop and the probable time required selling the produce at reasonable prices. Repayment for Kharif crop is fixed on January 31st and for Rabi crop on 31st of May.

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Conclusions: Haryana economy has undergone the process of structural transformation at a faster rate, leading to higher growth rates of the various sectors. But the declining share of agriculture in SGDP without a corresponding fall in the labour share is a matter of concern and it needs serious attention on the part of policy makers for innovations in agriculture in Haryana. The author fully agrees with Hayami and Ruttan (1971) [11] who stressed on the role of public sector in agricultural innovations. Such innovations will induce the farmers and institutions to raise production and further innovations. The study suggests strongly the increased role of government. There is urgent need for farm innovations and diversification of crops and allied activities.



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