

Agricultural Finance in India: Experience and Lessons

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The Paper traces the evaluation of agricultural credit in India. The first attempt at institutional changes in agriculture saw the establishment of special funds under the RBI and formation of co-operative credit societies. Then came nationalisation of commercial banks and concepts of priority sector lending. Targeted lending along with subsidized interest rate charged by the NABARD characterised this phase. Institutional framework undergoes a dramatic change since the nineties when decentralization occupies the centre stage. Micro credit societies and SHG-bank tie up assume the role of feeder canals of finance in agriculture.

Agriculture has played a key role in India's economic development. The higher overall GDP growth witnessed during the eighties and nineties was, *inter-alia*, on account of the higher agricultural growth. The growth in agricultural and increase in agriculture productivity have been of paramount importance to India's development strategy and poverty alleviation as agriculture contributes around 22 per cent of the country's gross domestic product and provides employment to around 65 per cent of the rural labour. Development of agriculture, *inter-alia*, depends on adequate and timely availability of credit, the cost of credit, improvements in credit delivery system and infrastructural facilities. Recognizing the vital role of agriculture in India's development strategy, the Government of India and the Reserve Bank of India (RBI) have played a key role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector. Agricultural credit policies in India have been reviewed from time to time to keep pace with the changing requirements of the agricultural sector. Agricultural finance has played a vital role in supporting agricultural production and making India self-sufficient in foodgrains production (Chart I and II).

Agricultural credit forms an important component of the priority sector lending of scheduled commercial banks and a target of 18 per cent of net bank credit has been stipulated for that sector. It may be mentioned that the National Agricultural Policy announced by the Government of India in July 2000 and the Tenth Five Year Plan envisages an annual growth in agriculture of around 4 per cent per annum and has emphasized the need for adequate and timely supply of institutional credit to farmers. The credit requirements have been estimated to be of the order of around Rs. 7 lakh crore during the Tenth Plan.

Against the above background, this paper attempts to give a bird's eye view of the evolution of the institutional framework for agricultural credit, the role of RBI, the quantitative dimensions and the factors affecting the flow of credit to agriculture and the challenges relating to agricultural credit.

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