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TRANSFORMING AGRICULTURAL SECTOR IN INDIA

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Abstract
Indian economy has emerged as one of the fastest growing economies in the world. Managing growth and price stability are the major challenges of macroeconomic policymaking. Though the share of agricultural sector in Gross Domestic Product(GDP) has reduced from 58 percent (1951-52) to about 13.7 percent (2012-13),still it is considered a decisive driver in order to achieve 8 to 9 percent growth in the GDP. The agriculture sector has witnessed a transformation since independence and India has graduated from the state of being a net importer of food grains to a state of not only self-sufficiency in food grains but also a net exporter. The much needed food security is reflected in the abundant buffer stocks of grains build up out of the surplus agricultural production. However agriculture though a key area has not been subject to comprehensive reforms in India. Agricultural development needs much more focused attention in order to revive the somewhat stagnating agricultural economy. Farmers are heavily involved in debts and cannot afford to spend money for making improvements in land.An attempt has been made in this paper to highlight the issues related to developments regarding agricultural credit to the farmers and challenges faced by them.

Introduction

Indian economy has emerged as one of the fastest growing economies in the world. Managing growth in price stability are the major challenges of macroeconomic policy making. The contribution of agriculture and allied sector to the Gross Domestic Product (GDP) of the country decline from 14.6 percent in 2009-10 to 14.5 percent in 2010-11 and further to 14.1 percent in 2011-12.In the year 2012-13,Indian found itself in the heart of these conflicting demands. The Indian economies registered a growth rate of 4.96 percent for 2012-13 as compared to 8.2 percent in 2011-12 and is estimated to grow by 6.7 percent for 2012-13. This indicates the slowdown compared not just to the previous years but 2003 to 2011(expect 2008-09,6.8 percent).Many economists and policy-makers believe that the future growth of the economy, to a large extent, will depend on the robust performance of the agricultural and rural sector. The history of every developed country reveals that there is a correlation between agriculture and overall economic development. Therefore, every developing economy has to develop agriculture first before becoming industrially developed. Though the share of agricultural sector in Gross Domestic Product (GDP) has reduced from 58 percent (1951-52) to about 14 percent (2011-12), still it is considered a decisive driver in order to achieve 8 to 9 percent growth in GDP. In most of the countries of Asia, Middle East and Africa, two-third to fourth-fifth of their total population solely depend on agriculture. However, the scenario is considerably very different in the developed countries where agriculture forms a very small percentage of the national income e.g. UK 2 percent, Japan 2 percent, USA 3 percent, Korea 5 percent (Singh, 2002). The agriculture sector has witnessed a transformation since independence and India has graduated from the state of being a net importer of food grains to a state of not only self-sufficiency in food grains but also a net exporter. The much needed food security is reflected in the abundant buffer stocks of grains build up out of the surplus agricultural production.

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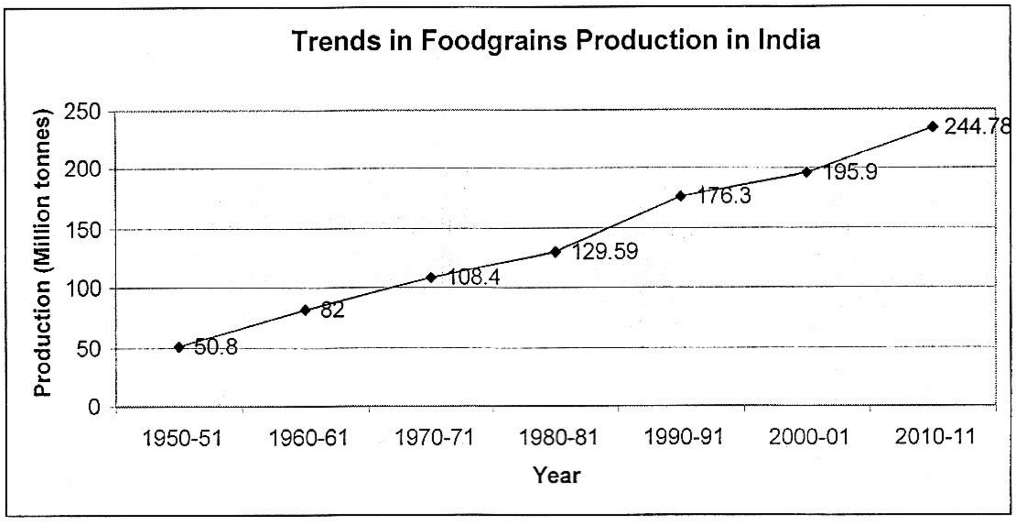
Table 1,Food Grains Production in India

Year	Production (Million tons)
1950-51	50.80
1960-61	82.00
1970-71	108.40
1980-81	129.59
1990-91	176.30
2000-01	195.90
2010-11	244.78

Figure 1



Source : GoI, Economic Survey (Various issues)

Food grains production registered a record level increase to 244.78 million tones during 2010-11 from 50.8 million tones during 1950-51. Here, it is pertinent to mention that India has achieved remarkable achievements in some fields of priority sector including agricultural sector. India ranks first in the world milk production, its production increased from 17 million tones in 1950-51 to 121.84 million tones by 2010-11.

However, agriculture though a key area has not been subject to comprehensive reforms in India. India has the world's second largest arable land base after USA and the second largest irrigated area after China. Further, much of the land in India can be double cropped. In this situation, agriculture sector should be fully equipped to compete with the global challenges. There is an urgent need to focus on research as well as better agricultural practices to ensure that productivity level in increased in the shortest time possible. Thus, agricultural development must be planned and decisions are to be made about allocation of resources first, between agriculture and other sectors. Agricultural development needs much more focused attention in order to revive the somewhat stagnating agricultural economy. India is the second largest producer of fruits (45.5 million tonnes) and vegetables (90.8 million tonnes) in the world contributing 10.23 percent and 14.45 percent of the total world production of fruits and vegetables respectively. The availability of flowers has increased significantly in all major cities in the country.

The conservative estimate of losses of perishable items in anywhere between 35 to 40 per cent which could be utilized through cold-storage facilities for back-end operations and remunerative prices for farmers and growers.

Over the years, there has been a significant increase in the access of rural cultivators to institutional credit and simultaneously, the role of informal agencies including money-lenders has declined. The adage that, "the Indian farmer is born in debt, lives in debt and dies in debt, still holds good. Cultivators are extremely poor and they are forced to depend on outside sources of finance for meeting their essential needs. As a result, most of them are heavily involved in debts and cannot afford to spend money for making improvements in land. As most of the cultivators are heavily indebted to the Mahajans, they are often obliged to sell their produce to the latter at reduced prices or they have to sell in the market immediately after the harvest when the prices or crops are usually the lowest in order to meet the demand of the Mahajans for repayment.

Agricultural Credit Policies in India

History of pre-independent India reveals the story of exploitation of the farmers by the private money-lenders. At that time, absence of institutional credit agencies to finance agriculture was an added advantage to the village Sahukars (Pant, 1985). These money-lenders generally charged very high rate of interest. It was often found that interest charges of 150 percent were quite common and rate of 300 to 360 percent was by no means rare (Malani, 1935). The interest rates varied according to security offered and personal relation between lender and borrower. In regard to recovery of dues, the moneylenders used several coercive methods against the borrower (Desai, 1986).

The institutionalization of agricultural credit has a long history. The problem of agriculture credit began to engage the attention of even the British Colonial Government as early as the 1870s when the farmers were provided with such credit during the drought years. The British Government passed two Acts for agricultural finance: (1) Land Improvement Loans Act, 1883 and (2) Agriculturists Loans Act, 1884. Loans under these Acts were known as Taccavi loans which were generally given at times of difficulties like droughts, famine and floods. Low rate of interest was charged from the farmers and were repaid in installments. The evolution of institutional agricultural credit can be broadly classified into four distinct phases.

First Phase : 1904-1969 (Predominance of cooperatives and setting up of RBI)

Thinking to do with credit cooperation began in the late nineteenth century. Finally, the Cooperative Societies Act was passed in 1904 when the Government of India introduced a number of State Co-operatives credit societies for the purpose of agriculture credit. The Maclagan Committee on Cooperation in India recommended in report issued in 1915, the establishment of provincial cooperative banks which got established in almost all provinces by 1930, thus, giving rise to the three-tier cooperative credit structure. In 1938-39, there was one society for 5.4 villages and about 6.2 percent of the population had been covered by the cooperative movement (Hajela, 1975).

The establishment of the RBI in the year 1935 reinforced the process of institutional development for agricultural credit. The RBI is perhaps the first central bank in the world to have taken interest in the matters related to agriculture and agricultural credit, and it continues to do so (Reddy, 2001). The foundation for building a broader credit infrastructure for rural credit was laid by the Report of the All India Rural Credit Survey (Reserve Bank of India, 1956) in August 1951. This Committee observed that

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agricultural credit fell short of the right quantity, not of the right type, not serve the right purpose and not often go to the right people.

Second Phase: 1969-1975 (Nationalization of Commercial Banks and setting up of ARDC)
The All India Rural Credit Review Committee under the Chairmanship of Shri B. Venkatappiah was set up in July 1966 to review the supply of rural credit and make recommendations to improve the flow of agricultural credit. The committee recommended that commercial banks should play complementary role along with cooperatives in extending rural credit. A major change in agriculture credit policy took place with the nationalization of the major 14 commercial banks during 1969. The concept of priority sector was introduced in 1969.

Third Phase: 1975-1990 (Setting up of Regional Rural Banks and NABARD)
After the 1965-1967 draught, the green revolution followed concentrated attention to agriculture. Agriculture credit was needed to purchase inputs like fertilizers, high yielding variety of seeds, pump set for irrigation, etc. Commercial banks were not tuned to fulfill the requirements of particularly small and marginal farmers. Cooperatives, on the other hand, lacked resources to meet the demands of the farmers. The solution was found with the establishment of a separate banking structure capable of local feel, familiarity with rural problems and large resource base of commercial banks. Following the recommendations of M. Narasimham Committee appointed by RBI, Regional Rural Banks (RRBs) were set up in 1975 by passing Regional Rural Banks Act, 1975. Thus, the Government of India accepted 'Multi-Agency Approach' for farm credit. The approach comprising cooperative banks, scheduled commercial banks and RRBs has been followed for purveying credit to agriculture sector.

Fourth Phase : 1991 Onward (Financial Sector Reforms)
The foreign exchange crisis of 1991 forced the Government to adopt various measures to reform the economy. Reforms were also essential because the Indian financial system suffered from chronic and deep-rooted problems. To overcome these problems, a number of reforms were initiated. The report of the committee on the financial system (Ministry of Finance, 1991) under the chairmanship of Shri M.Narasimham provided the blueprint for carrying out overall financial sector reforms during the 1990s. Furthermore, due to weaknesses in the performance of rural financial institutions, various committees were constituted to look into their operations. 'The High Level Committee on Agricultural Credit through Commercial Banks' was set up by RBI in 1998 under the chairmanship of Shri R.V. Gupta.

The recommendations made by these Committees among the other things are in following directions : phasing out of directed investment and credit, adoption of asset classification norms, intensification of competition by allowing entry of new private and foreign banks, internationally compatible accounting standards, technological upgradation, and excessive staff reduction by VRS schemes, etc. The Narasimham Committee (1991) made recommendations for phasing it out and redefining the priority sector. It was proposed to fix the target at 10 per cent of the aggregate credit. But, considering the important of the priority sector in the Indian economy and the economic and political unfeasibility, the target has not been reduced below 40 per cent. In fact, in the last couple of years added efforts are made by the RBI and the Government to extend the credit to the rural sector.

In fact, the National Agricultural Policy 2000 envisaged the annual growth rate of agriculture of 4 per cent per annum. To achieve the same, the Government of India announced a host of measures in June 2004 to double the flow of agricultural credit during the period from 2004-05 to 2006-07 by all financial institutions. Scheduled Commercial Banks both public and domestic have to formulate a Sepcial

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Agricultural Credit Plan (SACP) and advised to lend 18 per cent of their priority sector lending to the agricultural sector. The shortfall in the priority sector lending has to be covered by the matching contribution to the Rural Infrastructure Development Fund (RIDF) created by NABARD.

National policy for Farmers, 2006 is clear on the fact of making life of farmers as a focal point of agricultural development. It is clear that human dimension must be the principal determinant of agricultural policies and not just production in physical terms. The key priorities reflected in this policy are : measurement of agricultural progress in terms of farmers' earnings; land reforms and to initiate comprehensive asset and Aquarian reforms; development of a social security system and support services to farmers; restructuring agricultural curriculum and pedagogic methodologies to inspire entrepreneurship and making agricultural education gender sensitive. Although the significant efforts have been made during the past decade to improve the quality of extension manpower, still there is a greater scope for further improvement. Government of India (2007) itself has recognized that over the last five decades, in the name of agriculture and rural development, extension has been pushed around.

The Financial sector reforms included various measures in the area of agricultural credit such as deregulation of interest rates of cooperatives and RRBs; deregulation of lending rates of commercial banks for loans above 2 lacs; introduction of prudential accounting norms and provisioning requirements for all rural credit agencies; recapitalization of select RRBs; introduction of Kissan Credit Cards (KCCs) and rates of interest not exceeding 7 percent for crop loans upto '50,000 extended by public sector banks; increased refinance support from the RBI and capital contribution to NABARD. Thus, the agricultural credit system as it has emerged has been a product of both evolution and intervention and symbolizes the system's response to the stimuli from continuing dissatisfaction with credit delivery.

The Union Finance Minister Shri Pranab Mukherjee while presenting union budget 2010-11, has boldly stressed the reforms agenda and focused to create an ethos that would lead to the overdue Second Green Revolution. The scheme of mega food parks is also extended in 2010-11. Further, increased credit to farmers and extension of the repayment period of farm loans are all supposed to remedy the sagging growth in agricultural sector. From Kharif 2006-07, the farmers have been receiving crop loans up to a principal amount of '3 lakh at 7 percent rate of interest. The interest subvention is increased to two percent from the existing one percent to the farmers who stuck to the payment schedule. (TNS, 2010).

Recently, UPA Government has restarted big-bang reforms process allowing FDI in the controversial multi-brand retail trading and aviation, enhancing foreign investment in broadcasting sector and diluting local sourcing condition for single-brand product retailing. But, without proper and effective policy framework FDI would not benefit faremrs, consumers and other stakeholders. Big buyers did not guarantee better prices to the small producers as level of prices depends upon the relative bargaining power. The system of 'contract farming' has been reduced to 'contact farming' which is no way suits to the interests of the farmers. The big companies are not interested in any sort of written agreement with the farmers.

Sector Requiring Focus

Irrigation

Irrigation is one of the most important critical inputs for enhancing the agricultural productivity. Beginning with '441 crore as investment in irrigation in the First Plan (1951-56), the same has increased to '95,743 crore in Tenth Plan (2002-07). However, the share in total plan expenditure has declined from 23 percent in the First Plan to 6.3 percent in the Tenth Plan. About 16.12 million hectares are still to be brought under irrigation to achieve the full potential of irrigation from major and medium irrigation (MMI).

Rain-Fed Farming

About two-third of the net sown area in India is rainfed area which contributes about 40 percent of total agricultural production and about 90 percent of the production of oilseeds and pulses. The Government of India constituted the National Rainfed Area Authority (NRAA) to give focused attention to the problem of rainfed areas of the country. The success of the Pilot Projects under the Indo-German Watershed Development Programme (IGWDP) in Maharashtra indicates such models could be replicated in the other States also.

Soil and Water Conservation

Soil and water conservation are essential for sustainable production. Large investment is required for preparation and adoption of a scientific cropping plan based on land capability to minimize soil erosion and loss of moisture, adoption of full package of agronomic practices and alternate land use in tune with the new technology. Private sector should come in a big way for funding such projects as these projects cannot be funded by public sector alone.

Area Coverage

The area coverage under foodgrains during Kharif 2009-10 was 667.84 lakh hectares as compared to 714.02 lakh hectares during Kharif 2008-09 showing a decline of 46.18 lakh hectares. As per the Economic Survey of India 2009-10, the area coverage of 361.62 lakh hectares under Kharif rice during 2009-10 compared to 406.47 lakh hectares during 2008-09 shows a decline 44.85 lakh hectares. The area coverage under kharif oilseeds as well as sugarcane shows a decline. The need of the hour is to increase the area coverage to increase food grains productions.

Waste Land Development

India has about 24.5 million hectares of waste land and 16.6 million hectares of fallow land has the scope for being brought under cultivation. This large unutilized area could be coverted into arable land though soil amendment and introduction of crop choices. A large investment is required for reclaiming this land to increase the food grains production of the country.

Cold Storage and Post-Harvest Management

To accelerate investment in the cold storage and rural godowns, Capital Investment Subsidy Scheme (CISS) was implemented by the Government since 2000-01. According to annual report, NABARD (2008-09), cold storage and rural godown capacity worth 73.5 lakh MT and 208.2 lakh MT was created respectively under the scheme. To encourage private investment, subsidy is being given under National Horticulture Mission (NHM). Special thrust should be given for development of post-harvest and marketing infrastructure for horticulture product. For further private investments, banks need to extend credit support for identified private investments.

Animal Husbandry and Dairying and Fisheries

The livestock and fisheries sector contributed over 4.07 percent of the total GDP during the year 2008-09 and about 26.84 percent value of output from total agriculture and allied activities. Milk production has increased from 17 million tones in 1950-51 to 108.5 million tones by 2008-09. The per capita availability of milk has increased from 112 grams per day in 1968-69 to 258 grams per day in 2008-09, but it still low as compared to the world average of 265 grams per day (Economic Survey, 2009-10).

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The Eleventh Five Year Plan envisages an overall growth of 6-7 percent per annum for the sector. There is vast scope for the expansion in this sector in the rain-fed and droughtprone area. Fish production has increased from 7.1 million tones in 2007-08 to 7.6 million tones in 2008-09. Fishing, aquaculture and allied activities are reported to have provided livelihood to over 14 million persons in 2006-07 apart from being a major foreign exchange earner.

Credit to Small Farmers

Indian agriculture is dominated by small and marginal farmers. Out of about 100 million farmers (in terms of ownership of holdings) 80 per cent represent small and marginal farmers (cultivating average size of farms of one hectare or less) occupying 36 percent area. Development of agriculture in India depends on these farmers. Moreover, these farmers are practicing traditional method of agriculture. The agricultural development is possible only when these farmers move from traditional agriculture to modern agriculture and increase their productivity. The prime objective of economic development plan in India is to increase the agricultural productivity and thereby the income level of these farmers.

Conclusion

The agriculture sector has witnessed a transformation since independence and India has graduated from the state of being a net importer of food grains to a state of not only self-sufficiency in food grains but also a net exporter. The much needed food security is reflected in the abundant buffer stocks of grains build up out of the surplus agricultural production. Recently, UPA Government has restarted big-bang reforms process allowing FDI in the controversial multi-brand retail trading and aviation, enhancing foreign investment in broadcasting sector and diluting local sourcing condition for single-brand product retailing. But, without proper and effective policy framework FDI would not benefit farmers, consumers and other stakeholders. Big buyers did not guarantee better prices to the small producers as level of prices depends upon the relative bargaining power. The system of 'contract farming' has been reduced to 'contact farming' which in no way suits to the interests of the farmers. The big companies are not interested in any sort of written agreement with the farmers.

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