
Current Issues in Agriculture Credit in India: An Assessment

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This paper attempts to analyse the issues in agricultural credit in India. The analysis reveals that the credit delivery to the agriculture sector continues to be inadequate. It appears that the banking system is still hesitant on various grounds to purvey credit to small and marginal farmers. The situation calls for concerted efforts to augment the flow of credit to agriculture, alongside exploring new innovations in product design and methods of delivery, through better use of technology and related processes. Facilitating credit through processors, input dealers, NGOs, *etc.*, that are vertically integrated with the farmers, including through contract farming, for providing them critical inputs or processing their produce, could increase the credit flow to agriculture significantly.

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Introduction

Agriculture plays a crucial role in the development of the Indian economy. It accounts for about 19 per cent 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. Recognising 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

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requirements of the agriculture sector, which forms an important segment of the priority sector lending of scheduled commercial banks (SCBs) and target of 18 per cent of net bank credit has been stipulated for the sector. The Approach Paper to the Eleventh Five Year Plan has set a target of 4 per cent for the agriculture sector within the overall GDP growth target of 9 per cent. In this context, the need for affordable, sufficient and timely supply of institutional credit to agriculture has assumed critical importance.

The evolution of institutional credit to agriculture could be broadly classified into four distinct phases - 1904-1969 (predominance of co-operatives and setting up of RBI), 1969-1975 [nationalisation of commercial banks and setting up of Regional Rural Banks (RRBs)], 1975-1990 (setting up of NABARD) and from 1991 onwards (financial sector reforms).

The genesis of institutional involvement in the sphere of agricultural credit could be traced back to the enactment of the Co-operative Societies Act in 1904. The establishment of the RBI in 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 demand for agricultural credit arises due to i) lack of simultaneity between the realisation of income and act of expenditure; ii) lumpiness of investment in fixed capital formation; and iii) stochastic surges in capital needs and saving that accompany technological innovations. Credit, as one of the critical non-land inputs, has two-dimensions from the viewpoint of its contribution to the augmentation of agricultural growth *viz.*, availability of credit (the quantum) and the distribution of credit. In this paper, the trends in agricultural credit are analysed in Section I; Section II covers State-wise distribution of institutional credit; Section III deals with recent policy initiatives; issues and concerns are dealt with in Section IV; Section V draws implications for the future followed by the concluding observations in Section VI.

Section I

Agricultural Credit: Discernible Trends

In India a multi-agency approach comprising co-operative banks, scheduled commercial banks and RRBs has been followed for purveying credit to agricultural sector. The policy of agricultural credit is guided mainly by the considerations of ensuring adequate and timely availability of credit at reasonable rates through the expansion of institutional framework, its outreach and scale as also by way of directed lending. Over time, spectacular progress has been achieved in terms of the scale and outreach of institutional framework for agricultural credit. Some of the major discernible trends are as follows:

- Over time the public sector banks have made commendable progress in terms of putting in place a wide banking network, particularly in the aftermath of nationalisation of banks. The number of offices of public sector banks increased rapidly from 8,262 in June 1969 to 68,355 by March 2005.
- One of the major achievements in the post-independent India has been widening the spread of institutional machinery for credit and decline in the role of non-institutional sources, notwithstanding some reversal in the trend observed particularly in the 1990s.
- The share of institutional credit, which was little over 7 per cent in 1951, increased manifold to over 66 per cent in 1991, reflecting concomitantly a remarkable decline in the share of non-institutional credit from around 93 per cent to about 31 per cent during the same period. However, the latest NSSO Survey reveals that the share of non-institutional credit has taken a reverse swing which is a cause of concern (Table 1).
- Notwithstanding their wide network, co-operative banks, particularly since the 1990s have lost their dominant position to commercial banks. The share of co-operative banks (22 per cent) during 2005-06 was less than half of what it was in 1992-93 (62 per cent), while the share of commercial banks (33 to 68 per

Table 1: Relative Share of Borrowing of Cultivator Households from Different Sources

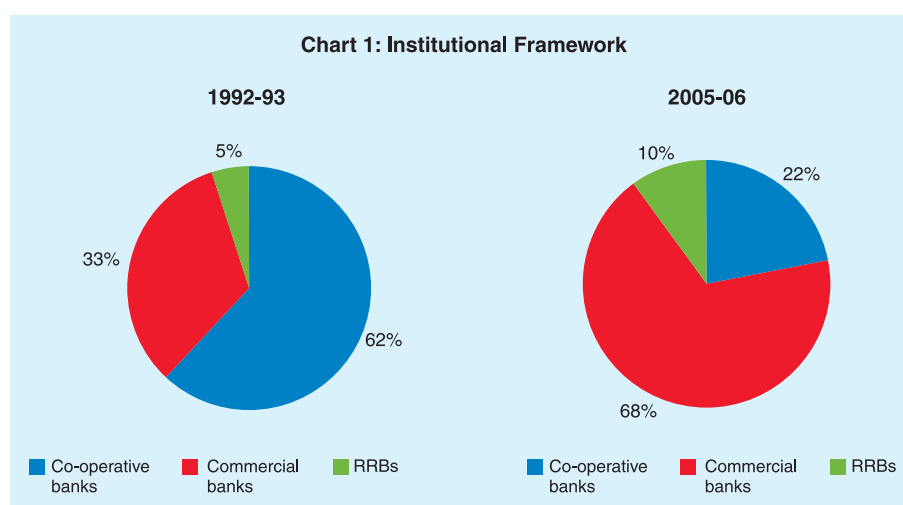
(Per cent)

Sources Credit	1951	1961	1971	1981	1991	2002
1	2	3	4	5	6	7
Non-Institutional	92.7	81.3	68.3	36.8	30.6	38.9
<i>of which</i>						
Money Lenders	69.7	49.2	36.1	16.1	17.5	26.8
Institutional	7.3	18.7	31.7	63.2	66.3	61.1
<i>of which</i>						
Cooperatives Societies / Banks	3.3	2.6	22.0	29.8	23.6	30.2
Commercial Banks	0.9	0.6	2.4	28.8	35.2	26.3
Unspecified	–	–	–	–	3.1	–
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source : All India Debt and Investment Survey and NSSO.

cent) including RRBs (5 to 10 per cent) almost doubled during the above period (Chart 1).

- The efforts to increase the flow of credit to agriculture seems to have yielded better results in the recent period as the total institutional credit to agriculture recorded a growth of around 21 per cent during 1995-96 to 2004-05 from little over 12 per cent during 1986-87 to 1994-95. In terms of total credit to agriculture, the commercial banks recorded a considerable



growth (from around 13 per cent to about 21 per cent), while co-operative banks registered a fall (over 14 per cent to over 10 per cent) during the above period (Table 2).

- However, the growth of direct finance to agriculture and allied activities witnessed a decline in the 1990s¹ (12 per cent) as compared to the 1980s (14 per cent) and 1970s (around 16 per cent). Furthermore, a comparative analysis of direct credit to agriculture and allied activities during 1980s and since 1990s reveals the fact that the average share of long-term credit in the total direct finance has not only been much lower but has also decelerated (from over 38 per cent to around 36 per cent), which could have dampening effect on the agricultural investment for future growth process (Chart 2).

Table 2: Institutional Credit to Agriculture

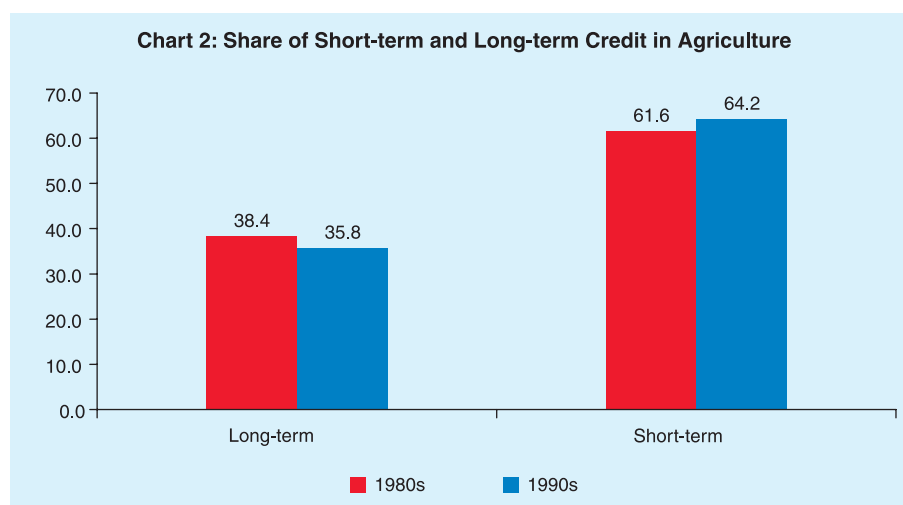
(Rs. crore)

Year	Institutions						Total	Per cent increase
	Co-op Banks	Share (per cent)	RRBs	Share (per cent)	Commercial Banks	Share (per cent)		
1	2	4	5	6	7	8	9	10
1985-86	3,874	55	–	–	3,131	45	7,005	–
1986-87	4,207	52	–	–	3,809	48	8,016	14
1987-88	4,420	52	–	–	4,009	48	8,429	5
1988-89	4,851	53	–	–	4,233	47	9,084	8
1989-90	5,082	52	–	–	4,719	48	9,801	8
1990-91	3,408	39	–	–	5,438	61	8,846	-10
1991-92	5,800	52	596	5	4,806	43	11,202	27
1992-93	9,378	62	831	5	4,960	33	15,169	35
1993-94	10,117	61	977	6	5,400	33	16,494	9
1994-95	9,406	50	1,083	6	8,255	44	18,744	14
1995-96	10,479	48	1,381	6	10,172	46	22,032	18
1996-97	11,944	45	1,684	6	12,783	48	26,411	20
1997-98	14,085	44	2,040	6	15,831	50	31,956	21
1998-99	15,916	43	2,538	7	18,443	50	36,897	15
1999-00	18,363	40	3,172	7	24,733	53	46,268	25
2000-01	20,801	39	4,219	8	27,807	53	52,827	14
2001-02	23,604	38	4,854	8	33,587	54	62,045	17
2002-03	23,716	34	6,070	9	39,774	57	69,560	12
2003-04	26,959	31	7,581	9	52,441	60	86,981	25
2004-05	31,424	25	12,404	10	81,481	65	1,25,309	44
2005-06	39,404	22	15,223	8	1,25,859	70	1,80,486	44
2006-07*	33,174	22	15,170	10	1,00,999	68	1,49,349	–

* : up to December 2006.

Note : Commercial Banks and RRBs were clubbed together up to 1990-91.

Source : Economic Survey and NABARD various issues.



- The disaggregated picture as per size-wise distribution of credit reveals that the growth of direct finance to small and marginal farmers witnessed a marked deceleration from about 24 per cent in the 1980s to little over 13 per cent during the 1990s.
- Sectoral deployment of gross bank credit reveals that the share of agriculture since the second half of 1990s has ranged between 11-12 per cent. As at end March 2006, the share stood at around 11.9 per cent (Table 3).

Table 3: Sectoral Deployment of Gross Bank Credit

(Rupees crore)

Sectors	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
I	2	3	4	5	6	7	8	9	10	11
Gross Bank Credit	2,58,991	3,00,283	3,42,012	4,00,818	4,69,153	5,36,727	6,69,534	7,64,383	10,40,909	14,45,837
A. Priority Sector	84,880	99,507	1,14,611	1,31,827	1,54,414	1,75,259	2,11,609	2,63,834	3,81,476	5,09,910
I. Agriculture	31,442	34,869	39,634	44,381	51,922	60,761	73,518	90,541	1,25,250	1,72,279
<i>Share of Agriculture in Total</i>	<i>12.14</i>	<i>11.61</i>	<i>11.59</i>	<i>11.07</i>	<i>11.07</i>	<i>11.32</i>	<i>10.98</i>	<i>11.84</i>	<i>12.03</i>	<i>11.92</i>
II. Small Scale Industries	35,944	43,508	48,483	52,841	56,002	57,119	60,394	65,855	74,588	90,239
III. Other Priority Sector	17,494	21,130	26,494	34,362	46,490	57,299	77,697	1,07,438	1,81,638	2,47,379
B. Industry	1,02,604	1,17,350	1,30,516	1,47,319	1,62,837	1,72,324	2,35,168	2,47,210	3,52,304	4,58,808
<i>Share of Industry in Total</i>	<i>39.62</i>	<i>39.08</i>	<i>38.16</i>	<i>36.75</i>	<i>34.71</i>	<i>32.11</i>	<i>35.12</i>	<i>32.34</i>	<i>33.85</i>	<i>31.73</i>

Source : Report on Trend and Progress of Banking in India, Various issues.

Section II

State-wise Distribution of Institutional Credit

There are wide variations in the availability of institutional credit per hectare of gross cropped area in different States. It was as high as Rs.9,403 in Tamil Nadu, Rs.7,666 in Kerala, Rs.5,352 in Punjab and Rs.4,604 in Andhra Pradesh, while it was as low as Rs.311 in Assam, Rs.667 in Rajasthan and Rs.698 in Madhya Pradesh during 2001-02 (Table 4).

Table 4: Distribution of Flow of Institutional Agricultural Credit in Different States of India

Region/States	1990-91		2001-02		Annual Increase (per cent)	Percentage GCA (1998-99)	Rs./hectare of GCA		Annual Increase (per cent)
	Rs. Crore	Per cent	Rs. Crore	Per cent			1990-91	2001-02	
1	2	3	4	5	6	7	8	9	10
Northern	1,314	12.9	8,236	19.9	43.9	20.25	377	2,132	38.9
Punjab	642	6.3	4,304	10.4	47.5	4.22	856	5,352	43.8
Haryana	285	2.8	1,821	4.4	44.9	3.22	482	2,964	42.9
Rajasthan	326	3.2	1,490	3.6	29.7	11.70	168	667	24.7
Himachal Pradesh	20	0.2	248	0.6	93.2	0.51	207	2,555	94.5
Jammu and Kashmir	20	0.2	83	0.2	25.5	0.57	191	764	25.0
North-Eastern	41	0.4	207	0.5	34.0	2.90	96	374	31.4
Assam	20	0.2	124	0.3	42.4	2.09	54	311	39.9
Eastern	846	8.3	3,062	7.4	21.8	14.71	463	1,092	22.8
Orissa	306	3.0	414	1.0	3.0	4.53	319	479	4.2
West Bengal	285	2.8	1,573	3.8	37.6	4.83	329	1,708	34.9
Bihar (includes Jharkhand)	245	2.4	1,076	2.6	28.3	5.25	233	1,075	30.1
Central	1,722	16.9	5,835	14.1	19.9	27.57	349	1,110	18.2
Madhya Pradesh (includes Chhatisgarh)	746	7.5	1,821	4.4	11.5	13.67	320	698	9.9
Uttar Pradesh (includes Uttranchal)	958	9.4	4,056	9.8	27.0	13.90	376	1,529	25.6
Western	1,386	13.6	5,959	14.4	27.5	7.06	430	1,831	27.4
Gujarat	520	5.1	2,980	7.2	39.5	5.56	501	2,809	38.3
Maharashtra	846	8.3	2,938	7.1	20.6	11.40	387	1,352	20.8
Southern	4,880	47.9	18,127	43.8	22.6	17.51	1,410	5,426	23.8
Andhra Pradesh	1,477	14.5	5,587	13.5	23.2	6.36	1,120	4,604	25.9
Karnataka	642	6.3	4,041	9.7	43.8	6.13	546	3,432	44.1
Kerala	835	8.2	2,276	5.5	14.4	1.56	2,766	7,666	14.8
Tamil Nadu	1,895	18.6	6,166	14.9	18.8	3.44	2,857	9,403	19.1
All-India	10,188	100.0	41,385	100.0	25.5	100.00	549	2,169	24.6

GCA refers to gross cropped area.

Source : Report of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System, RBI, Mumbai, 2004.

The accessibility to institutional credit is higher in the Southern region where the level of agricultural development is also higher. Similar results were reported in the studies conducted earlier during the 1980s (Rao, 1994). It is kind of vicious cycle operating in less developed States. Less availability of credit influences adversely the adoption of modern technology and private capital investments, which in turn lowers the productive capacity of the agricultural sector and results in lower productivity and production, and also pushes the farmers to borrow from non-institutional sources. Consequently, the demand for agricultural credit for short and long-term purposes is dampened.

The extent of deployment of credit out of deposits in a given State could be measured by Credit-Deposit Ratio (CDR). The proportion of districts having CDR less than 40 is higher (66 per cent) in less developed States as compared to the developed States (32 per cent) indicating growing migration and wide disparities in the deployment of credit in major States (Table 5).

During Tenth Five Year Plan, the total credit flow to agriculture and allied activities was projected at Rs.7,36,570 crore. Accordingly, the ground level credit flow to agriculture has grown to reach over Rs.2,60,540 crore (36 per cent of the projected level) during the first three year period (2002-03 to 2004-05) of Tenth Plan, indicating a wide gap in supply of credit, requiring a large increase in credit, particularly in investment credit to achieve the desired growth level.

Table 5: Credit Deposit Ratio in Major States

(Rupees crore)

Description	Number of States	Number of Districts	<40	40-50	>50
1	2	3	4	5	6
States with per capita SDP less than national average	9	196 (100)	129 (66)	26 (13)	41 (21)
States with per capita SDP more than national average	11	187 (100)	60 (32)	33 (18)	94 (50)
Total	20	383 (100)	189 (50)	59 (15)	134 (35)

Figures in the brackets represent percentages. Credit is taken on utilization basis.

Source : Report of the Expert Group on Investment Credit, RBI, 2005.

Section III

Recent Policy Initiatives

The Finance Minister in his Union Budget 1995-96 speech stated that, “Inadequacy of public investment in agriculture is today a matter of general concern. This is an area which is the responsibility of States. But many States have neglected investment in infrastructure for agriculture. There are many rural infrastructure projects which have been started but are lying incomplete for want of resources. They represent a major loss of potential income and employment to rural population.”

Rural Infrastructure Development Fund (RIDF) was set up in NABARD². Since then, 11 tranches of allocations have been made towards the Fund. Commercial banks make contributions towards the Fund on account of the shortfalls in their priority/agriculture sector lending. The scope of RIDF has been widened to enable utilisation of loan by Panchayati Raj Institutions (PRIs), Self-Help Groups (SHGs), Non-Government Organisations (NGOs), *etc.*, since 1999-2000.

The Fund has continued with additional corpus being announced every year in the Union Budget. The RIDF XI was announced in the Union Budget for 2005-06 with an allocation of Rs.8,000 crore making a total corpus of Rs.50,000 crore. RIDF XI accorded special emphasis for setting up of Village Knowledge Centres by providing Rs.100 crore out of the corpus of Rs.8,000 crore (Table 6).

Two innovations, *viz.*, micro-finance and Kisan Credit Card Scheme (KCCS) have emerged as the major policy developments in addressing the infirmities associated with the distributional aspects of credit in the recent years. The KCCS has emerged as the most effective mode of credit delivery to agriculture in terms of the timeliness, hassle-free operations as also adequacy of credit with minimum of transaction costs and documentation.

Around 59.09 million KCCs were issued till end-March 2006. The cooperative banks (51.5 per cent) had a major share followed

Table 6: RIDF: Tranche-wise Size of Corpus

(Rs. crore)

RIDF Tranche	Year	Corpus
1	2	3
RIDF I	1995-1996	2,000
RIDF II	1996-1997	2,500
RIDF III	1997-1998	2,500
RIDF IV	1998-1999	3,000
RIDF V	1999-2000	3,500
RIDF VI	2000-2001	4,500
RIDF VII	2001-2002	5,000
RIDF VIII	2002-2003	5,500
RIDF IX	2003-2004	5,500
RIDF X	2004-2005	8,000
RIDF XI	2005-2006	8,000
TOTAL	—	50,000

Source : NABARD.

by commercial banks (36.9 per cent) and RRBs (11.6 per cent) (Table 7).

The micro credit programme, which was formally heralded in 1992 with a modest pilot project of linking around 500 SHGs has made rapid strides in India exhibiting considerable democratic

Table 7: Agency-wise and Year-wise KCC

(Numbers in Millions)

Year	Co-operative Banks	RRB's	Commercial Banks	Total
1	2	3	4	5
1998-99	0.16	0.01	0.62	0.78
1999-2000	3.6	0.17	1.37	5.13
2000-01	5.61	0.65	2.39	8.65
2001-02	5.44	0.83	3.07	9.34
2002-03	4.58	0.96	2.7	8.24
2003-04	4.88	1.27	3.09	9.25
2004-05	3.56	1.73	4.4	9.68
2005-06	2.60	1.25	4.17	8.01
Total	30.41	6.88	21.80	59.09
Share in Total (per cent)	51.5	11.6	36.9	100.0

Source : Report on Trend and Progress of Banking in India, RBI.

functioning and group dynamism. The programme has now assumed the form of a micro finance movement in many parts of the country.

There was a massive expansion during 2004-05 with the banking system establishing credit linkage with 539 thousands new SHGs, taking the cumulative number of such SHGs to 2.9 million at end-March 2007. Banks extended loans aggregating Rs.18,041 crore at end-March 2007 registering a growth of 58.3 per cent over the previous year (Table 8).

Several Committees were set up from time to time to look into the various issues relating to credit delivery for agriculture, the recent one being Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Chairman: Prof. V.S. Vyas, June, 2004)³.

Table 8: SHG-Bank Linkage Programme

Year	Total SHGs Financed by Banks Number in '000		Bank Loans (Rs. crore)		Refinance (Rs. crore)	
	During the Year	Cumulative	During the Year	Cumulative	During the Year	Cumulative
1	2	3	4	5	6	7
1999-00	81.78 (147.9)	114.78 (247.9)	136 (138.6)	193 (238.6)	98 (88.5)	150 (188.5)
2000-01	149.05 (82.3)	263.83 (129.9)	288 (111.8)	481 (149.2)	251 (156.1)	401 (167.3)
2001-02	197.65 (32.6)	461.48 (74.9)	546 (89.6)	1,026 (113.3)	396 (57.8)	797 (98.8)
2002-03	255.88 (29.5)	717.36 (55.4)	1,022 (87.2)	2,049 (99.7)	622 (57.1)	1,419 (78.0)
2003-04	361.73 (41.4)	1079.09 (50.4)	1,856 (81.6)	3,904 (90.5)	705 (13.3)	2,125 (49.7)
2004-05	539.39 (49.1)	1,618.48 (50.0)	2,994 (61.4)	6,899 (76.7)	968 (37.3)	3,092 (45.5)
2005-06	620 (15.0)	2,239 (38.3)	4,449 (50.3)	11,398 (65.2)	1,068 (10.3)	4,160 (34.5)
2006-07	686 (11.0)	2,924 (30.6)	6,643 (47.6)	18,041 (58.3)	1,299 (21.6)	5,459 (31.2)

Notes : 1. Figures in parentheses indicate percentage variations over the previous year.

2. Data for 2006-07 are provisional.

Source : Report on Trend and Progress of Banking in India, various issues.

The Government has since approved rehabilitation package for the identified districts in the States of Andhra Pradesh, Karnataka, Kerala, and Maharashtra. Altogether, the rehabilitation package for the four States involves a total amount of Rs.16,978 crore consisting of Rs.10,579 crore as subsidy/grants and Rs.6,399 crore as loan.

In order to give further fillip to micro-finance movement, the RBI has enabled Non-Governmental Organisations (NGOs) engaged in micro-finance activities to access external commercial borrowings (ECBs) up to US \$ 5 million during a financial year for permitted end-use, under automatic route, as an additional channel of resource mobilisation. Besides, as a follow-up of the Union Budget proposals, modalities for allowing banks to adopt the agency model⁴ for providing credit support to rural and farm sectors and appointment of micro-finance institutions (MFIs) as banking correspondents are also worked out.

The Government of India announced a host of measures in June 2004 to double the flow of agricultural credit during the period 2004-05 to 2006-07 by all the financial institutions. Towards this end, it was proposed to increase the agricultural credit by 30 per cent to about Rs.1.05 lakh crore in 2004-05. While the target set for 2004-05 was achieved, the Union Budget for 2005-06 proposed to increase the credit flow to agriculture by another 30 per cent by all the institutions concerned.

The Reserve Bank has undertaken several policy initiatives in pursuance of the objective set in the Union Budget 2004-05 to achieve a doubling of flow of credit to agriculture. On the issue of farmers' suicide in the country, the Government has realised that indebtedness is one of the major reasons for suicide by farmers in the country. To prevent and save the farmers from the clutches of private money lenders, several measures were taken. Banks were advised in particular :

- i) To increase the agricultural credit flow at the rate of 30 per cent per year.
- ii) To restructure the outstanding debt of the farmers under the following heads in accordance with the guidelines issued by RBI/NABARD:

- Farmers in distress – Rescheduling/restructuring of the outstanding loan of the farmers as on March 31, 2004 in the districts declared as calamity – affected by the State Government. Rescheduled loan shall be repayable over a period of five years, at current interest rates, including an initial moratorium of two years.
 - Farmers in arrears - Loans in default of farmers who have become ineligible for fresh credit as their earlier debts have been categorised as sub-standard or doubtful shall be rescheduled as per the guidelines so that such farmers become eligible for fresh credit.
- iii) To grant a one-time settlement (OTS) including partial waiver of interest or loan to the small and marginal farmers who have been declared as defaulters and have become ineligible for fresh credit. Banks have also been advised to review cases where credit has been denied on the sole ground that a loan account was settled through compromise or write offs.
- iv) In some parts of the country, farmers face acute distress because of the heavy burden of debt from non-institutional lenders (*e.g.*, moneylenders). Banks have been permitted to advance loans to such farmers to provide them relief from indebtedness.
- v) All the Public Sector banks have been advised to reduce their lending rate for agriculture to a single digit rate of not more than 9 per cent per annum on crop loans upto a ceiling of Rs.50,000. This rate will benefit most of the crop loan account holders and will cover almost all the small and marginal farmers.
- vi) To waive margin/security requirements for agricultural loans up to Rs.50,000 and agri-business and agri-clinics up to Rs.5 lakhs.

With a view to further increasing the flow of credit to agriculture, several measures were announced by RBI in its Annual Policy Statement 2005-06. These include i) setting up of an Expert Group to formulate strategy for increasing investment in agriculture, ii) conducting a survey with the help of an outside agency to make an assessment of customer satisfaction on credit delivery in rural areas by banks, iii) to increase the

limit on loans to farmers through the produce marketing scheme from Rs.5 lakh to Rs.10 lakh under priority sector lending.

Special Rehabilitation Package for the Districts Severely Affected by Farmers' Suicide

The incidents of suicide by farmers have been mainly reported from the States of Andhra Pradesh, Karnataka, Maharashtra, and Kerala. Such incidents have also been reported from the States of Orissa, Gujarat, and Punjab. To mitigate the distress of farmers, the Government of India decided to launch a special rehabilitation package in 31 Districts in the States of Maharashtra, Andhra Pradesh, Karnataka, and Kerala. The 31 Districts⁵ were identified based on the severity and magnitude of the incidence of farmers' suicide, as reported by the State Governments. The intent is to initially solve the problem and correct the situation in those areas reporting high number of suicides so that an effective dent on the problem is made and the incidence of farmers' suicide which is of national concern could be curbed.

The package aims at establishing a sustainable and viable farming and livelihood support system through debt relief to farmers, improved supply of institutional credit, crop-centric approach to agriculture, assured irrigation facilities, watershed management, better extension and farming support services, improved marketing facilities and subsidiary income opportunities through horticulture, livestock, dairying, fisheries. For alleviating the hardships caused to debt stressed families of farmers in the affected districts, ex-gratia assistance from Prime Minister's National Relief Fund (PMNRF) was also proposed.

Section IV

Issues and Concerns

Despite the significant strides achieved in terms of spread, network and outreach of rural financial institutions, the quantum of flow of financial resources to agriculture continues to be inadequate. One of the major impediments constraining the adoption of new technological practices, land improvements and building up of

irrigation and marketing infrastructure has been the inadequacy of farm investment capital. Farmers seem to borrow more short-term credit in order to meet input needs to maintain continuity in agricultural operations without much worrying about long-term capital formation in the face of agricultural bountiness. It might be the case from supply side that short-term credit bears low credit risk, lower supervision and monitoring costs, and a better asset liability management.

The flow of investment credit to agriculture is constrained by host of factors such as high transaction costs, structural deficiencies in the rural credit delivery system, issues relating to credit worthiness, lack of collaterals in view of low asset base of farmers, low volume of loans with associated higher risks, high man power requirements, *etc.*

The large proportion of population in the lower strata, which is having major share in the land holdings receives much less credit than its requirements. The growing disparities between marginal, small and large farmers continues to be a cause for concern. This observed phenomenon may be attributed, *inter alia*, to the “risk aversion” tendency of the bankers towards small and marginal farmers as against the large farmers, who are better placed in offering collaterals.

Notwithstanding the rapid spread of micro-finance programme, the distribution of SHGs is skewed across the States. More than 50 per cent of the total SHG credit linkages in the country are concentrated in the Southern States. In the States, which have a larger share of the poor, the coverage is comparatively low.

The tragic incidents of farmers’ suicides in some of the States have been a matter of serious concern. A study⁶ was conducted in some regions of Andhra Pradesh to go into the causes of such tragedies and to suggest short and long term measures to prevent such unfortunate incidents. The study has identified crop losses, consecutive failure of monsoon, recurrent droughts, mounting debts, mono-cropping, land tenancy, as some of the main causes which led many distressed farmers to commit suicide. Of the total number of suicide cases reported, 76 per cent of the victims were dependent on rain-fed agriculture and 78 per cent were small and marginal farmers. An important finding of the study was that 76 to 82 per cent of the

victim households had borrowed from non-institutional sources and the interest rates charged on such debts ranged from 24 to 36 per cent. The study has recommended several measures to tackle the situation. These include improvement irrigation coverage; crop diversification; promotion of animal husbandry as an alternate source of income; better accessibility to institutional credit and overall improvement of the marketing infrastructure.

Section V **Implications for the Future**

Indian agriculture still suffers from: i) poor productivity, ii) falling water levels, iii) expensive credit, iv) a distorted market, v) many intermediaries who increase cost but do not add much value, vi) laws that stifle private investment, vii) controlled prices, viii) poor infrastructure, and ix) inappropriate research. Thus the supply leading approach with mere emphasis on credit in isolation from the above factors will not help agriculture to attain the desired growth levels. Furthermore, agriculture being a State subject, States are required to play a more pro-active role in agriculture development by putting in place adequate infrastructure through means such as RIDF.

As noted above, the share of marginal and small farmers in the total credit (both disbursed and outstanding) has been shrinking. The need to augment the credit flow to the lower strata of the farming community, which has more share in the total operational land holdings becomes all the more important.

This underscores the scope for supplementing the land inputs of marginal and small farmers with the non-land inputs such as credit with a view to enhancing the productivity and thereby the production performance of Indian agriculture. In this context, the need for linking credit supply to input use assumes importance. There is also a need for exploring new innovations in product design and methods of delivery, through better use of technology and related processes. It needs to be seen whether credit going to farmers especially small and marginal is in sufficient quantity and if so whether it will have

any meaningful effect in the absence of other supportive measures for ensuring their economic viability. In this context, creation of production and employment opportunities in the rural sector through public investment assumes critical importance. The SHG-Bank Linkage model is an outstanding example of an innovation leveraging on community-based structures and existing banking institutions.

In future, concerted efforts have to be made for enhancing the flow of credit to critical infrastructure areas such as irrigation, marketing and storage, *etc.*, and also to areas such as watershed/wasteland development, wind energy, allied activities such as poultry, horticulture, dairying, *etc.*

With regard to KCCS, there is a need to upscale its outreach to cover all the eligible farmers by creating greater awareness and giving greater publicity to the scheme. Updation of land records and sensitisation of bank staff through training programmes will further add to the spread of the scheme. The exercise of preparing special agricultural credit plans with higher component of direct finance with a special thrust on small and marginal farmers should also receive high priority.

The success of KCC scheme depends on less stipulated norms. High value agriculture needs higher working capital and also entails higher risks. Facilitating credit through processors, input dealers, NGOs, that are vertically integrated with the farmers, including through contract farming, for providing them critical inputs or processing their produce, could increase the credit flow to agriculture significantly.

Section VI

Concluding Observations

The co-operative credit structure needs revamping to improve the efficiency of the credit delivery system in rural areas. In case of co-operatives, the Vaidyanathan Committee concluded that having regard to its outreach and potential, recapitalisation could be undertaken so that the credit channels for agricultural credit which

are presently choked could be declogged. The Committee has, however, made it clear that recapitalisation should only be considered if it is preceded by legal and institutional reforms by State Governments aimed at making co-operatives democratic and vibrant institutions running as per sound business practices, governance standards and regulated at the upper tiers by the RBI. In this connection, it may be suggested that the State Governments' performance in bringing about the reforms in co-operative banks should form one of the yardsticks for sanctioning assistance/grants by the Central Government.

The competition and search for higher returns has made commercial banks to explore profitable avenues and activities for lending such as financing of contract farming, extending credit to the value chain, financing traders and other intermediaries, which needs to be encouraged. While the institutional systems and products such as futures markets, and weather insurance have great potential to minimise the risk of lending, the process of their development needs to be carried forward.

Merging and revamping of RRBs that are predominantly located in tribal/backward regions is seen as a potentially significant institutional arrangement for financing the hitherto unreached population. Such an exercise is currently on and the State Governments and Sponsor Banks have to come together and cooperate in this area. The experience of micro finance proved that the "poor are bankable" and they can and do save in a variety of ways and the creative harnessing of such savings is a key success factor. The SHG-Bank linkage programme is built upon the existing banking infrastructure, it has obviated the need for the creation of a new institutional set-up or introduction of a separate legal and regulatory framework. Policy making bodies have an important role in creating the enabling environment and putting appropriate policies and interventions in position, which enable rapid up scaling of efforts consistent with prudential practices.

There is also a need to explore the possibility how SHGs can be induced to graduate into matured levels of enterprise. The SHG Bank-Linkage programme also needs to introspect whether it is sufficient

for SHGs to only meet the financial needs of their members, or whether there is a further obligation on their part to meet the non-financial requirements necessary for setting up business and enterprises. In the process, ensuring the quality of SHGs warrants priority attention. State Governments have to make critical assessment of the manpower and skill sets available with them for forming, and nurturing groups and handholding and maintaining them over time. There is a need to study the best practices in the area and evolve a policy by learning from them. Since, the access of small and marginal farmers to credit has been constrained by their inability to offer the collaterals, micro finance, which works on social collaterals, can go a long way in catering to their requirements. Hence, there is need to promote micro finance more vigorously on a widespread basis.

To conclude, an assesment of agriculture credit situation brings out the fact that the credit delivery to the agriculture sector continues to be inadequate. It appears that the banking system is still hesitant on various grounds to purvey credit to small and marginal farmers. The situation calls for concerted efforts to augment the flow of credit to agriculture, alongside exploring new innovations in product design and methods of delivery, through better use of technology and related processes.

Notes

- ¹ 1990s referred wherever covers the period from 1990-91 to 2001-02, the latest year for which the data are available.
- ² RIDF was setup under the initiative of the Government of India in 1995-96 with an initial corpus of Rs.2,000 crore to provide loans to State Governments for financing rural infrastructure projects.
- ³ 32 recommendations (out of 99 recommendations made by the Committee) have been accepted and implemented by the Reserve Bank. The major recommendations are i) A comprehensive review of mandatory lending to agriculture by commercial banks to enlarge direct lending programmes for greater integration of investment credit and production credit. ii) A road map for public sector and private sector banks to reach a level of direct lending at 13.5 per cent of net bank credit-within the overall limit of 18.0 per cent of total agricultural

lending -within a period of four years with an interim target of 12 per cent in two years. Special Agricultural Credit Plan (SACP) to be restricted to direct lending and extended to private sector banks. iii) The share of small and marginal farmers in agricultural credit to be raised to 40 per cent of disbursements under the Special Agricultural Credit Plan (SACP) by the end of the Tenth Plan period. iv) Expanding the outreach of banks in rural areas by enlarging retail lending to agriculture, externalising retailing through corporate dealer networks, organisational innovations, offering hedging mechanisms to the farmers, providing legal backing to tenancy to facilitate access to credit, capacity building of borrowers, greater use of information technology, procedural simplifications and modifications in the service area approach. v) Reductions in cost of agricultural credit through enhancing the cost effectiveness of agricultural loans, especially in terms of cost of raising funds, transaction cost and risk cost. vii) Impediments to the flow of credit to disadvantaged borrowers to be mitigated through reduction in cost of borrowing, revolving credit packages, procedural simplifications, involvement of Panchayati Raj institutions and extension of micro finance.

- ⁴ In agency model, banks adopt the infrastructure of civil society organisation, rural kiosks and village knowledge centres to provide credit support to rural and farm sector
- ⁵ Maharashtra (6): Akola, Wardha, Amaravati, Buldhana, Washim, and Yawatmal. Karnataka (6): Belgaum, Hasan, Chitradurga, Chikmagalur, Kodagu, and Shimoga. Kerala (3) : Wayanad, Palakkad, and Kasargod. Andhra Pradesh (16) : Prakasam, Guntur, Nellore, Kadapa, Chittoor, Ananthapur, Kurnool, Adilabad, Karimnagar, Khammam, Mahabubnagar, Medak, Nalgonda, Nizamabad, Ranga Reddy, and Warangal.
- ⁶ As per the information available in a speech delivered by the Union Minister of Agriculture at the National Development Council, New Delhi on June 27, 2005.

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