CHANNELIZING CREDIT TO AGRICULTURE

Agriculture - a significant contributor to rural economy – has so far survived on meagre cash flows and debt waivers. In the wake of rising production costs and market fluctuations, agriculture is becoming bracketed into a non-profitable venture. Persistent drain of work force and the reluctance of youngsters to take up agriculture as a profession pose serious threat to the food security of the country. Rural landscape is thus changing, and agriculture is seldom practised as a vocation of choice. Credit is one of the limiting factors in pursuing agriculture as a profession. Access to cheaper and reliable credit holds the key to improving rural economy and agriculture.

Rural India – the agriculture hub of India- owes its growth and progress to the developments in the agriculture segment of the country. Agriculture which contributes to the income prospects of more than half of India's population is a major source of livelihood for the rural community. Although this trend has progressively diminished, and non-farm activities have emerged as an important source of rural income, the country's reliance on agriculture cannot be displaced in near future.

Agriculture becoming capital intensive, the flow of rural credit has become increasingly pertinent for the success of agriculture. Unfortunately, the rural credit scene has been under the influence of money lenders for an unusually longer time. They still exert dominance in the rural settings, despite the presence of cheaper and reliable credit options. The flow of credit to agriculture sector has seen increments over the years. It will take many more years to negate entirely the existing disorganization in rural credit sector, till then, the governments – at the center and the state- have to work closely together to bring clarity and access of credit to Indian agriculture.

Indian Rural Credit – A Glance

Agriculture employs a considerable share of workforce in India. However, it contributes to 17.5% of the GDP (at current prices in 2015-16). The agriculture sector's contribution has decreased from more than 50% of GDP in the 1950s to 15.4% in 2015-16. Agricultural growth has been fairly volatile over the past decade, ranging from 5.8% in 2005-06 to 0.4% in 2009-10 and -0.2% in 2014-15. Such a variance in agricultural growth takes a direct bearing on farm incomes as well as farmers' ability to avail credit for investing in their land holdings.

Agriculture sector has seen a continuous flow of rural credit. The total institutional credit flow to agriculture sector had increased from Rs. 2,85,146 crore during the Ninth Five Year Plan (1997-2002) to Rs. 6,85,146 crore during the Tenth Five Year Plan (2002-2007). In line with the announcement (by the Union Finance Minister in 2004) of doubling the institutional credit flow to agriculture sector, a target was fixed at Rs. 2,25,000 crore for the year 2007-08, with an inclusion of 50 lakh farmers into the ambit of farm credit. Against the target of disbursing Rs. 2,25,000 crore to this sector, all banks (including cooperatives and regional rural banks) disbursed Rs. 2,54,658 crore, which was 113 percent of the targeted amount fixed for the year 2007-08.

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Further, in the Eleventh Five Year Plan (2007-2012) also, the target for the flow of credit to agriculture sector was set on the higher side, and, by the end of the financial year 2010-11, the amount disbursed by all banks was recorded at Rs. 4,68,291 crore.

In all the budget speeches throughout the years, it has been noticed that the credit flow to agriculture sector has always exceeded the targets. For instance, the targets set for the financial year 2012-13 and 2013-14 were at Rs. 5,75,000 crore and Rs. 7,00,000 crore respectively. The actual disbursement of credit to agriculture sector for the year 2013-14 has likely touched Rs. 7,35,000 crore. This indicates that there has indeed been a continuous increase in the flow of institutional credit to agriculture sector over the last few years.

Institutional credit to agriculture sector during the period between 1999-2000 and 2013-14, has witnessed an increase of almost 15 times. In absolute terms, the total flow of institutional credit (by Cooperative Banks, Regional Rural Banks, Commercial Banks and Other Agencies) to agriculture sector (which constitutes short term, medium term and long term credit) during 1999-2000 was Rs. 46,268 crore, which has increased to Rs. 3,84,514crore in 2009-10, and further to Rs. 6,07,375 crore and Rs. 7,35,000 crore in 2012-13 and 2013-14 respectively. Of this, however, short term credit (production credit) accounts for a major share, i.e. almost two-third of the total institutional credit flow to agriculture sector. In fact, the share of short term credit ranges between 58 - 78 percent during the period between 1999-2000 and 2012-13.

From this steady supply of credit, sadly a very small amount percolates to the largest category of farming population in India. The Input Survey, 2006-07 reveals that only 19.6 percent of the estimated operational holdings belonging to the marginal category of farming had found shelter in the institutional credit for agricultural purposes. Such percentage shares for small, semi-medium, medium and large operational holders constituted 33 percent, 35 percent, 39 percent and 40 percent respectively. In all, only 25 percent of estimated operational holdings had taken institutional credit for agricultural purposes out of the total number of operational holdings in the country. This signifies that rest 75 percent of the total operational holdings did not avail of institutional credit.

RURAL CREDIT PROFILE

Credit assumes many forms in the rural credit business. The most common form is the direct finance which comprises of credit provided directly to cultivators. In this category, short-term- credit accounts for a significant share. These crop loans reach the farmers as cash or in kind such as the supply of fertilisers and seeds. Medium and Long term loans also constitute direct finances.

The second component of agricultural finance is called “indirect finance”, which does not go directly to cultivators but to institutions that support agricultural production in rural areas. Loans to input dealers for their role in the provision of agricultural inputs and loans to electricity boards for supplying power to cultivators fall under this category. In the 1990s, when India began to implement the policy of financial sector liberalisation, there was a significant slowdown in the growth of commercial bank credit to agriculture compared to the 1980s. Medium term credit includes credit requirement of farmers for medium period ranging between 15 months and 5 years and it is required for purchasing cattle, pumping sets, other agricultural implements. Medium term credits are normally larger in size than short term credit. Farmers also require finance for a long period of more than 5 years for purposes such as buying additional land or for making any permanent improvement on land like sinking of wells, reclamation of land, horticulture etc. This type of loan is called long term credit.

Apart from these traditional categories of credit, other forms of credit has also been lending support to the farmers. Crop insurance has also been able to extend the much needed financial aid to the farmers at times of distress and hence can be considered as an important source of rural credit. India has dabbled with this category and over the years have acquainted with a number of schemes. National Agricultural Insurance Scheme (NAIS) introduced during Rabi 1999-2000 and implemented by Agriculture Insurance Company of India limited protected the farmers against the losses suffered on account of natural calamities. The Scheme was available to all the farmers both, loanee and non loanee, irrespective of the size of their holding. The Scheme envisages coverage of all crops including cereals, millets, pulses, oilseeds and annual commercial and horticultural crops in respect of which past yield data is available. The modified version has many improvements viz., Insurance Unit for major crops are village Panchayat or other equivalent unit; in case of prevented / failed sowing claims up to 25% of the sum insured is payable, post-harvest losses caused by cyclonic rains are assessed at farm level for the crop harvested and left in 'cut & spread' condition up to a period of 2 weeks in coastal areas; individual farm level assessment of losses in case of localized calamities, like hailstorm and landslide; on-account payment up to 25% of likely claim as advance, for providing immediate relief to farmers in case of severe calamities; threshold yield based on average yield of past seven years, excluding up to two years of declared natural calamities; minimum indemnity level of 80% is available (instead of 60% in NAIS); and premium rates are actuarial supported by up-front subsidy in premium, which ranges from 40% to 75%, equally shared by Centre and States. Weather Based Crop Insurance that was introduced in 2011-12 on a pilot basis with an aim to make it more convenient for the farmers to avail crop insurance appeared to have received good response from the farmers. Pradhan Mantri Fasal Bima Yojana (PMFBY)-2016 has been the most recent version of crop insurance in the country. Pooling in the important learning from all the earlier schemes and taking into consideration of access to technology in the recent days, Pradhan Mantri Fasal Bima Yojana promises to take care of the loopholes of earlier schemes. The Fasal Bima Yojana has done away with this cap on premium. The sum insured per hectare for a farmer is now decided by the District Level Technical Committee and is pre-declared and notified by the State Level Coordination Committee on Crop Insurance. The farmer also pays less — the premium he shells out is 2 per cent of the sum insured for all kharif crops and 1.5 per cent of it for all rabi crops. For horticulture and commercial crops, the premium is 5 per cent of sum covered. The remaining premium is

S.NO	TIME FRAME	INITIATIVE/SCHEME
1	1971-1978	First individual Approach Scheme
2	1979-1984	Pilot Crop Insurance Scheme (PCIS)
3	1985-1999	Comprehensive Crop Insurance Scheme (CCIS)
4	Rabi 1999-2000 to Rabi 2013-14	National Agricultural Insurance Scheme (NAIS)
5	Rabi 2010-11 season	Mdified National Agricultural Insurance Scheme (MNAIS)
6	2007-08	Weather Based Crop Insurance Scheme (WBCIS)
7	2009-10	Coconut Palm Insurance Scheme (CPIS)
8	2016	Pradhan MantriFasalBimaYojana (PMFBY)

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paid by the government. This will be done online once the E platform is put in the place. During 2017, under Rabi & Kharif crops, 5 crore 71 lakh farmers were provided protective coverage under this scheme.

Loan waivers add an interesting layer to the credit flow in agriculture. Derided and often relegated as a populist measure, the series of loan waivers have added credit to the agriculture kitty, at the expense of an ethical credit behavior. Uttar Pradesh, last year, decided to waive loans of Rs 36,359 crore taken by about 94 lakh small and marginal farmers. The reason for this benevolent action was the poll promise by the Chief Minister Yogi Adityanath. The waiver amount included Rs 5,630 crore loans of seven lakh farmers whose accounts were declared non-performing assets (NPAs) by banks. Even last year, loan waivers made repeated appearance in different states such as Tamil Nadu and Telengana. Post Maharashtra's decision to waive loans, many more states are believed to demand this extravaganza. India faces a cumulative loan waiver of Rs 3.1 lakh crore ($49.1 billion), or 2.6% of the country's gross domestic product (GDP) in 2016-17.

Another phase in rural credit began with the introduction of micro finance. Microfinance constituted the provision of thrift, credit and other financial services and products of very small amounts to the poor enabling them to raise their income levels and improve living standards, operated through Self-Help Group (SHG)-bank Linkage (SBL) and Micro-Finance Institutions (MFIs). The SBL is the larger model and is unique to India but MFI model was internationally more established. Microfinance makes finance accessible and available for consumption needs. Freedom from the need for collateral is the other great attraction of microfinance. The Union Budget presented by the Hon'ble Finance Minister Shri Arun Jaitley, for FY 2015-16, announced the formation of MUDRA (Micro Unit Development and Refinance Agency) Bank which was formed to fund and promote microfinance institutions.

RURAL CREDIT IRREGULARITIES

Institutionalization of rural credit has become the top priority of the government. While schemes galore at the national level to channelize the credit flow to rural strongholds, certain pockets remain unreachable. Debt traps have become far too common and farmes suicides have not seen any let down. According to data released by National Crime Records Bureau (NCRB) 5,600 farmers committed suicide across the country in 2014. Maharashtra and Telangana, infamous for the stranglehold of private money-lenders on farmers, have kept their dubious record intact. As many as 33.4% suicides in Maharashtra and 23.2% in Telangana were due to 'bankruptcy or indebtedness'.

Although the entire system of credit delivery could not be blamed, certain instances suggest a malpractice. The interest subvention scheme which was introduced in 2006-07, provides loans at 7 per cent interest (upper limit of Rs 3 lakh), and if payment is regular, gradually it is lowered to 4 per cent. Some states have extended loans even at zero interest rate to farmers. This has resulted in a significant increase in short-term agricultural credit, with actual disbursements consistently surpassing targets, the expense on account of it has increased from Rs 3,283 crore in FY12 to Rs 13,000 crore in FY16. It is hard to believe that the amount has percolated to farmers. There is reasonable evidence that a significant proportion of crop loans granted at subvented interest rates has quite deceptively seeped for other purposes. A beneficiary of this scheme whether a farmer or someone posing as a farmer, receives the loans at a concessional rate of 4 per cent and instead of investing that in farming he can deposit at least a part of it in fixed deposits in the bank, earning about 8 per cent interest, or even become a moneylender to offer loans at 15-20 per cent interest to those who don't have access to institutional sources of finance. Short-term credit from institutional sources reached 110 per cent of the total value of agricultural inputs in 2014 (NAS 2015), and at the same time, AIDIS data shows 44 per cent loans were from non-institutional sources in 2013. This suspicion is reaffirmed when one looks at the month-wise disbursement of agricultural credit, which spiked to 62 per cent of annual disbursement in the last quarter of FY14, with no corresponding spike in agri-production activities. Even the RBI committee has recommended phasing out the interest subvention scheme.

Loan waivers are another category of financial support that have time and again supported the farmers. Although distorting, this financial aid bails out farmers from having to pay back their loan amount. Although the merits are temporary, this has become the favourite political instrument. Generalized loan waivers raise expectations among the farmers for such future interventions acting as a disincentive to pay back their loans. This would also raise the number of defaulters, and create a crop of habitual defaulters.

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There is no dearth of loans or schemes that extend financial assistance to the farmers. But somehow, not all are benefited by this scheme. Money lenders still influence the farmers. The government should raise the awareness of the farmers and they should be made aware of the existence of such schemes. This will kill the unorganized sources of credit and expand institutionalization of rural credit.

Agriculture credit has an important influence on enhancing India's agriculture potential. Investing in proper and relevant technologies requires Credit. Access to reliable and cheaper credit is significant to sustainable agriculture and rural development.