

AGRICULTURAL CREDIT

The Agricultural Credit Policy essentially lays emphasis on augmenting credit flow at the ground level through credit planning, adoption of region-specific strategies, rationalisation of lending policies and procedures and bringing down the cost of borrowing. Bank credit is available to the farmers in the form of short-term credit for financing crop production programmes and in the form of medium-term/long-term credit for financing capital investment in agriculture and allied activities like land development including purchase of land, minor irrigation, farm mechanisation, dairy development, poultry, animal husbandry, fisheries, plantation, and horticulture. Loans are also available for storage, processing and marketing of agricultural produce.

9.2 Institutional Arrangements: Agricultural credit is disbursed through a multi-agency network consisting of Commercial Banks (CBs), Regional Rural Banks (RRBs) and Cooperatives. There are approximately 100,000 village-level Primary Agricultural Credit Societies (PACS), 368 District Central Cooperative Banks (DCCBs) with 12,858 branches and 30 State Cooperative Banks (SCBs) with 953 branches providing primarily short- and medium-term agricultural credit in India. The long-term cooperative structure consists of 19 State Cooperative Agricultural and Rural Development Banks (SCARDBs), with 2609 operational units as on 31 March 2005 comprising 788 branches and 772 Primary Agricultural and Rural Development Banks (PA&RDBs) with 1049 branches.

9.3 Flow of Credit: A comprehensive credit policy was announced by the Government of India on 18 June 2004, containing measures for doubling agriculture credit flow in the next three years and providing debt relief to farmers affected by natural calamities. The following are the highlights of this announcement:

- Credit flow to agriculture sector to increase at the rate of 30 per cent per year.
- Debt restructuring in respect of farmers in distress and farmers in arrears providing for rescheduling of outstanding loans over a period of five years including moratorium of two years, thereby making all farmers eligible for fresh credit.
- Special One-Time Settlement scheme for old and chronic loan accounts of small and marginal farmers.
- Banks allowed to extend financial assistance for redeeming the loans taken by farmers from private moneylenders.
- Commercial Banks (CBs) to finance at the rate of 100 farmers/ branch; 50 lakh new farmers to be financed by the banks in a year.
- New investments in agriculture and allied activities at the rate of two to three projects per branch.
- Refinements in Kisan Credit Cards (KCCs) and fixation of scale of finance.

9.4 The achievements in term of credit flow during the year 2005-06 are listed below:

- The target of agriculture credit flow for the year 2005-06 was fixed at Rs 141000.00 crore and the achievement as on 31st March 2006 was Rs 167775.00 crore, representing 119 per cent of the target.
- Around 42.01 lakh new farmers were financed by the public sector CBs and 5.26 lakh new farmers by private sector CBs. Further, RRBs have financed 17.03 lakh new farmers during the year. The total number of new farmers financed by CBs and RRBs together formed 64.30 lakh, which is 128.60 per cent of the target set for the year.
- An amount of Rs 4393.81 crore was provided as debt relief to farmers in distress, farmers in arrears and under the One-Time Settlement scheme during 2005-06.
- Public sector CBs provided Rs 22.14 crore as advances to 5173 farmers to enable them to redeem their debt from moneylenders. The corresponding figures for Cooperative Banks and RRBs are Rs 2.22 crores (283 loan accounts), and Rs 7.05 crore (2826 loan accounts) respectively.

9.5 During the current year (as on 31 December 2006), the achievements with regard to credit flow are as follows:

- The target of agriculture credit flow for the year 2006-07 was fixed at Rs 175000.00 crore and the achievement as on 31 December 2006 was Rs 149343.16 crore, constituting 85.34 per cent of the target.
- During the first nine months of 2006-07, 34.92 lakh new farmers were financed by public sector CBs and 4.23 lakh new farmers by private sector CBs. Further, RRBs have financed 14.22 lakh new farmers during the year. Thus, the total number of new farmers financed by CBs and RRBs together aggregated to 53.37 lakh, which exceeds the target of 50 lakh farmers for the year. In addition to this, cooperative banks financed 9.66 lakh new farmers during the year, taking the total number of new farmers financed by the banking system to 63.03 lakh.
- An amount of Rs 4158.30 crore has been provided as debt relief to farmers in distress, farmers in arrears and under the one-time settlement scheme up to 31st December 2006.
- Public sector CBs provided Rs 36.25 crore as advances to 8722 farmers to enable them to redeem their debts from moneylenders. The corresponding figures for cooperative banks and RRBs are Rs 10.76 crore (7311 loan accounts) and Rs 17.06 crore (3548 loan accounts) respectively.

9.6 **Restructuring Cooperative Credit:** In August 2004, the Government of India constituted a task force under the chairmanship of Professor A. Vaidyanathan for suggesting measures for the revival of cooperative credit institutions. The task force submitted its report in respect of a short-term cooperative credit structure and recommended a financial package of Rs 14839.00 crore for rural credit co-operative

institutions. Based on the consensus arrived at with the state governments and other stakeholders on the recommendations made by the task force, the central government approved the revival package that involves financial assistance of Rs 13596.00 crore. NABARD has been designated as the implementing agency for the revival of the short-term cooperative credit scheme. A Department for Cooperative Revival and Reforms has been set up in the head office of NABARD for facilitating the implementation process. For guiding and monitoring the implementation of the revival package, a National-Level Implementing and Monitoring Committee (NIMC) has been set up under the chairmanship of the governor of the RBI. The provision of financial assistance under the package has been linked to reforms in the cooperative sector. In order to avail financial assistance under the package, the state governments are required to sign an MoU with NABARD, committing to implement the legal, institutional and other reforms as envisaged in the revival package. So far, eight state governments, namely, Andhra Pradesh, Maharashtra, Gujarat, Rajasthan, Orissa, Madhya Pradesh, Uttar Pradesh and Uttarakhand have signed MoUs with the Government of India, and four other state governments, namely, Punjab, Bihar, Tamil Nadu and Sikkim, have conveyed their consent for participation in the revival package. The same task force has also submitted its report for revival of the long-term cooperative credit structure.

9.7 Credit Card Scheme: The KCC was introduced in August 1998 for short- and medium-term loans to provide adequate and timely credit support from the banking system in a flexible and cost-effective manner, covers 644.65 lakh farmers throughout India as on 30 December 2006. The scheme has been extended with effect from 31 October 2006 for all kinds of loan requirements of borrowers of the SCARDBs under the KCC, viz, short-, medium- and long-term and a reasonable component of consumption credit within the overall limit sanctioned to the borrowers.

9.8 Rate of Interest on Agricultural Loan: In the Union Budget for the year 2006-07, it was announced that effective from Kharif 2006-07, farmers would receive crop loans up to a principal amount of Rs 3.00 lakh at 7 per cent rate of interest and that the Government of India would provide the necessary interest subvention to NABARD for this purpose. Further, in order to provide relief to the farmers who have availed of crop loans from CBs, RRBs and PACS for Kharif and Rabi 2005-06, an amount equal to two percentage points of the borrower's interest liability on a principal amount up to Rs 1.00 lakh has been credited to their bank account before 31 March 2006. The Government has provided a sum of Rs 1700.00 crore for this purpose in the Union Budget for the year 2006-07.

9.9 Rehabilitation Package for Distressed Farmers: The Government of India has approved a rehabilitation package of Rs 16978.69 crore for 31 suicide-prone districts in the states of Andhra Pradesh, Maharashtra, Karnataka, and Kerala. The package will be implemented over a period of 3 years and includes both immediate and medium-term measures. The rehabilitation package aims at establishing a sustainable and viable farming and livelihood support system through debt relief to farmers, improved supply of institutional credit, a crop-centric approach to agriculture, assured irrigation facilities, watershed management, better extension and farming support services, and subsidiary income opportunities through horticulture, livestock, dairying, fisheries, etc.

9.10 **Simplification of Procedures:** The RBI has issued instructions to banks to waive margin/security requirements for agricultural loans up to Rs 50,000. The introduction of the KCC scheme has also facilitated the extension of easy credit to the farmers. As the card is valid for three years, the farmers have been freed from routine documentation every year. The scope of the KCC has been expanded to include credit for investment purposes, as well as an element of consumption loan.

9.11 **Standing Guidelines for Relief due to Natural Calamities:** The RBI has issued standing guidelines to banks for providing relief to farmers in areas affected by natural calamities. These guidelines have been issued to enable banks to take uniform and concerted action expeditiously, and particularly to provide financial assistance to farmers affected by natural calamities.

9.12 **National Agricultural Insurance Scheme (NAIS):** This scheme, with increased coverage of farmers, crops and risk commitment, was introduced in India from Rabi 1999-2000, replacing the erstwhile Comprehensive Crop Insurance Scheme (CCIS). The main objective of the scheme is to protect farmers against crop losses suffered on account of natural calamities, such as drought, flood, hailstorm, cyclone, pests and diseases. The scheme is being implemented by the Agriculture Insurance Company of India Ltd (AICL).

9.13 The scheme is available to all farmers – both loanee and non-loanee – irrespective of their size of holding. It envisages coverage of all food crops (cereals, millets and pulses), oilseeds and annual commercial/horticultural crops, in respect of which past yield data is available for an adequate number of years. Among the annual commercial/horticultural crops, sugarcane, potato, cotton, ginger, onion, turmeric, chillies, pineapple, annual banana, jute, tapioca, coriander, cumin and garlic, have already been covered under the scheme. All other annual commercial/horticultural crops are stipulated to be insured in due course of time, subject to availability of past yield data. The scheme is operating on the basis of ‘area approach’, i.e., defined areas for each notified crop.

9.14 The premium rates are 3.5 per cent (of sum insured) for bajra and oilseeds; 2.5 per cent for other Kharif crops; 1.5 per cent for wheat, and 2 per cent for other Rabi crops. In the case of commercial/horticultural crops, actuarial rates are being charged. Small and marginal farmers are entitled to a subsidy of 50 per cent of the premium charged from them, which will be shared 50:50 by the central and state governments. The premium subsidy will be phased out over a period of five years. During 2006-07, a 10 per cent subsidy on the premium is available to small and marginal farmers.

9.15 The scheme is optional for states/UTs. At present, the scheme is being implemented by the following 23 states and two UTs:

1. Andhra Pradesh	2. Assam	3. Bihar
4. Goa	5. Gujarat	6. Himachal Pradesh
7. Karnataka	8. Kerala	9. Maharashtra
10. Madhya Pradesh	11. Meghalaya	12. Tamil Nadu
13. Uttar Pradesh	14. West Bengal	15. Sikkim
16. Chattisgarh	17. Jharkhand	18. Tripura

19. Orissa	20. Jammu & Kashmir	21. Uttrakhand
22. Haryana	23. Rajasthan	24. Puducherry
25. Andaman and Nicobar		

9.16 Details of farmers covered, area covered, and sum insured and insurance charges under the NAIS during the last 14 crop seasons (i.e., from Rabi 1999-2000 to Kharif 2006) is given as under:

(*Rs in crore)

S. No.	Seasons	Farmers covered	Area (in hect.)	Sum Insured *	Premium*	Total Claims*
1	Rabi 1999-2000	579940	780569	356.41	5.42	769
2	Kharif 2000	8409374	13219829	6903.38	206.74	1222.48
3	Rabi 2000-01	2091733	3111423	1602.68	27.79	59.49
4	Kharif 2001	8696587	12887710	7502.46	261.62	493.54
5	Rabi 2001-02	1955431	3145873	1497.51	30.15	64.66
6	Kharif 2002	9768711	15532348	9431.69	325.47	1824.31
7	Rabi 2002-03	2326811	4037824	1837.55	38.50	188.55
8	Kharif 2003	7970830	12355514	8114.13	283.33	649.88
9.	Rabi 2003-04	4421287	6468663	3049.49	64.06	490.67
10.	Kharif 2004	12687046	24273242	13170.49	458.94	1037.64
11.	Rabi 2004-05	3531045	5343244	3774.21	75.85	160.59
12.	Kharif 2005	12673420	20530607	13517.73	449.88	1054.76
13.	Rabi 2005-06 [#]	4045335	7216771	5069.45	104.78	252.29
14.	Kharif 2006 [#]	6646649	10105442	7500.27	233.16	Not Available
	Total	85804199	139009060	83327.45	2565.69	7506.54

Provisional

9.17 The outlay for the Tenth Plan was fixed at Rs 1500.00 crore against which Rs 1992.47 crore was utilised during the first four years of the Tenth Five-Year Plan, i.e., up to 31 March 2006. Out of the budget provision of Rs 500.00 crore (including Rs 1.00 crore for NER for the year 2006-07, Rs 499.00 crore has been utilised up to 31 December 2006. No state-wise allocation is made under the scheme.

9.18 **Review of NAIS:** Over a period of implementation of the NAIS, certain limitations/shortcomings relating to unit area of insurance, calculation of guaranteed income, low indemnity level, delay in settlement of insurance claims etc., have been observed. Keeping in view the limitations in the existing scheme, a joint group was constituted to study the improvements required in the existing crop insurance schemes. The group made an in-depth study of the related issues and submitted its report, following which the report was circulated among the states/UTs and various other quarters for comments/views. Most of the states/UTs have agreed to the suggestions given by the joint group. Based on the recommendations of the joint group and comments received from various states/UTs and other concerned organisations, a review of the NAIS is under consideration of the Government of India. The proposed modified scheme with improved features, likely to be implemented from the year 2007-08, will provide an effective risk mitigation mechanism to the farming community in the form of effective crop insurance solutions.

9.19 Central Financial Assistance: In order to strengthen the cooperative credit structure for meeting the credit requirement of the farmers, central assistance is released to the state government under the scheme viz. investment in debentures of SLDBs. Under the NAIS, the Government of India releases the central share towards payment of indemnity claims, premium subsidy, operational expenses, etc. to the AICL. The central assistance earmarked for the year 2006-07 and expenditure incurred up to 31 December 2006 under the above schemes are as under:

(Rs in crore)

Sr No.	Name of the Scheme	Budget Estimates	Expenditure Up to 31 December 2006
1.	Investment in Debentures of SLDBs including NER	50.00	45.00
2.	NAIS including NER	500.00	499.00

9.20 Implementation of NAIS in North-Eastern States: At present NAIS is being implemented in four of the seven North-Eastern states, namely, Assam, Meghalaya, Sikkim and Tripura. Progress of implementation of the scheme up to Kharif 2006, in these four states, is given as under:

(Rs in crore)

Particulars	Assam	Meghalaya	Sikkim	Tripura
Participated From	Rabi 1999-2000	Kharif 2000	Kharif 2001	Rabi 2001-02
Farmers Covered	71693	10883	1370	6905
Area Covered (in Ha.)	54205.12	12768.61	802.53	4168.08
Sum Insured	61.70	10.03	1.35	6.91
Premium	1.53	0.63	0.01	0.20
Subsidy	0.25	0.17	0.003	0.03
Total Claims	2.52	0.29	0.01	0.47
Farmers Benefited	12856	1169	86	2591