FARMER'S ACCESS TO AGRICULTURAL CREDIT

I. INTRODUCTION

Agriculture is a dominant sector of our economy and credit plays an important role in increasing agriculture production. Availability and access to adequate, timely and low cost credit from institutional sources is of great importance especially to small and marginal farmers. Along with other inputs, credit is essential for establishing sustainable and profitable farming systems. Most of the farmers are small producers engaged in agricultural activities in areas of widely varying potential. Experience has shown that easy access to financial services at affordable cost positively affects the productivity, asset formation, income and food security of the rural poor. The major concern of the Government is therefore, to bring all the farmer households within the banking fold and promote complete financial inclusion.

II. AGRICULTURAL CREDIT POLICY

The Government of India has initiated several policy measures to improve the accessibility of farmers to the institutional sources of credit. The emphasis of these policies has been on progressive institutionalization for providing timely and adequate credit support to all farmers with particular focus on small and marginal farmers and weaker sections of society to enable them to adopt modern technology and improved agricultural practices for increasing agricultural production and productivity. The Policy lays emphasis on augmenting credit flow at the ground level through credit planning, adoption of region-specific strategies and rationalization of lending Policies and Procedures. These policy measures have resulted in the increase in the share of institutional credit of the rural households. Progress in regard to flow of agricultural credit is given below:

(Rs. in Crore)

Year	Target	Achievement
2004-05	105000	125309
2005-06	141000	180486
2006-07	175000	229400
2007-08	225000	254658
2008-09	280000	287149
2009-10	325000	384514
2010-11	375000	468291
2011-12	475000	511029
2012-13	575000	308025*
2013-14	700000	

*As on 31 October, 2012

III. INSTITIUTIONAL ARRANGEMENTS

Agricultural credit is disbursed through multi-agency network consisting of Commercial Banks (CBs), Regional Rural Banks (RRBs) and Cooperatives. There are approximately 121225 million village level Primary Agricultural Credit Societies (PACS), 371 District Central Cooperative Banks (DCCBs) with 13327 branches and 31 State Cooperative Banks (SCBs) with 1028 branches providing primarily short-term and medium term agricultural credit in the country. The long term cooperative structure consists of 19 State Cooperative Agriculture and Rural Development Banks (SCARDBs) and 755 Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) with 1219 branches and 689 branches respectively, which are catering to the requirement of investment credit. Besides, there are 45957 rural and semi-urban branches of Commercial Banks, 14462 branches of RRBs and more than 7 million micro finance institutions.

IV. INITIATIVES TAKEN BY THE GOVERNMENT FOR INCREASING FLOW OF CREDIT

(i). Farm credit package: Government of India in its Farm Credit Package announced in June 2004, advised banks to double credit to agriculture sector in three years, i.e., by 2006-07. In the subsequent annual budgets, Government of India announced targets for credit to agriculture to ensure adequate credit flow to the sector. The flow of agriculture credit since 2003-04 has consistently exceeded the target. Agriculture credit flow has increased from Rs.86981 crore in 2003-04 to Rs. 468291 crore in 2010-11. The target for the 2011-12 was fixed at Rs.475000 crore and achievement as on 31.03.2012 is Rs. 511029 crore (as per provisional figures given by NABARD) forming more than 107% of the target. The target of credit flow for the year 2012-13 has been fixed at Rs. 575000 crore and achievement as on October, 2012 is Rs. 308025 crore.

(ii). Interest subvention to farmers : Government of India announced an interest subvention scheme in 2006-07 to enable banks to provide short term credit to agriculture (crop loan) upto Rs.3 lakh at 7% interest to farmers. Further, to incentivise prompt repayment, in the Union Budget for 2009-10, Government of India announced an additional interest subvention of 1% to those farmers who repay their short term crop loans promptly and on or before due date. This was subsequently raised to 2% in 2010-11 and 3% in 2011-12 and 2012-13 also. Thus, farmers, who promptly repay their crop loans, are now extended loans at an effective interest rate of 4% p.a. As proposed in the Union Budget 2013-14, Interest subvention scheme for short-term crop loans to be continued scheme extended for crop loans borrowed from private sector scheduled commercial banks

(iii). Extension of interest subvention scheme to post harvest loans: In order to discourage distress sale by farmers and to encourage them to store their produce in warehousing against warehouse receipts, the benefit of interest subvention scheme has been extended to small and marginal farmers having Kisan Credit Card for a further period of upto six month post harvest on the same rate as available to crop loan against negotiable warehouse receipt for keeping their produce in warehouses.

(iv) Collateral free loans: The limit of collateral free farm loan has been increased from Rs.50,000 to Rs.1,00,000.

(v).Guidelines for providing relief in event of occurrence of natural calamities: Reserve Bank has put in place a mechanism to address situations arising out of natural calamities. The banks have been issued necessary guidelines for undertaking necessary credit relief measures in event of occurrence of natural calamities. The guidelines, inter alia, contain directions to banks to ensure that the meetings of District Consultative Committees or State Level Bankers' Committees are convened at the earliest to evolve a co-ordinated action plan for implementation of the relief programme in collaboration with the State/ district authorities. Banks have been advised to provide conversion/ reschedulement of loans and consider moratorium period of at least one year in all cases of restructuring. To enhance awareness, the banks are also required to give adequate publicity to their disaster management arrangements, including the helpline numbers. Further, the banks have been advised not to insist for additional collateral security for such restructured loans. Asset classification for restructured loans will remain the same as prevalent at the time of restructuring for a period of one year as per extant guidelines. The relief measures initiated and undertaken are required to be reviewed periodically in the weekly/fortnightly meetings of specially constituted Task Forces or sub Committees of the SLBC till such time as conditions are normalized.

(vi) Interest subvention for loan restructured in the drought affected states in 2012: The standing guidelines of Reserve Bank of India (RBI) provide for rescheduling of short term crop loans upon declaration of natural calamity including drought. Such rescheduling of crop loans converts them into term loans for which normal rate of interest are applicable. Due to deficient rainfall this year in some parts of the country, the matter of providing relief to the farmers of the drought affected areas has been under the consideration of the Government. In order to provide relief to drought affected farmers, it has been decided that in cases where such loan are restructured due to drought, the interest subvention of 2% which is already available for short term crop loans to Public Sector Banks, Cooperative Banks and Regional Rural Banks will continue to be available for the current financial year on the full restructured amount.

(vii). Kisan Credit Card Scheme : In order to ensure that all eligible farmers are provided with hassle free and timely credit for their agricultural operation, Kisan Credit Card Scheme for farmers was introduced in 1998-99 to enable the farmers to purchase agricultural inputs such as seeds, fertilisers, pesticides, etc. The Kisan Credit Card Scheme is in operation throughout the country and is implemented by Commercial Banks, Coop. Banks and RRBs. The scheme has facilitated in augmenting credit flow for agricultural activities. The scope of the KCC has been broad-based to include term credit and consumption needs. All farmers including Small farmers, Marginal farmers, Share croppers, oral lessee and tenant farmers are eligible to be covered under the Scheme. The card holders are covered under Personal Accident Insurance Scheme (PAIS) against accidental death/permanent disability. Further, GoI has recently accepted suggestions made by a Working Group (Bhasin Working Group) on Kisan

Credit Card Scheme to convert it **into a Smart Card cum Debit Card and revised guidelines have been issued by NABARD**. Some of the major features are as under :

- Assessment of crop loan component based on the scale of finance for the crop plus insurance premium x Extent of area cultivated + 10% of the limit towards post-harvest / household/consumption requirements + 20% of limit towards maintenance expenses of farm assets.
- Flexi KCC with simple assessment prescribed for marginal farmers.
- Validity of KCC for 5 years.
- For crop loans, no separate margin need to be insisted as the margin is in-built in scale of finance.
- No withdrawal in the account to remain outstanding for more than 12 months; no need to bring the debit balance in the account to zero at any point of time.
- Interest subvention /incentive for prompt repayment to be available as per the Government of India and / or State Government norms.
- No processing fee up to a limit of Rs. 3.00 lakh.
- One time documentation at the time of first availment and thereafter simple declaration (about crops raised/ proposed) by farmer.
- KCC cum SB account instead of farmers having two separate accounts. The credit balance in KCC cum SB account to be allowed to fetch interest at saving bank rate.
- Disbursement through various delivery channels, including ICT driven channels like ATM/ PoS/ Mobile handsets.

The State Governments have been advised to launch an intensive branch/village level campaign to provide Kisan Credit Card to all the eligible and willing farmers in a time bound manner. Upto June, 2012, 11.39 crore KCC have been issued.

(viii). Agriculture Debt Waiver and Debt Relief Scheme, (ADWDRS) 2008: To mitigate the distress of farming community in general and small and marginal farmers in particular and to declog the institutional credit channels and make farmers eligible for fresh credit, the Debt Waiver and Debt Relief Scheme, 2008 was announced in the Union Budget for 2008-09. The scheme covered direct agricultural loans disbursed (i) between 31 March 1997 and 31 March 2007 (ii) overdue as on 31 December 2007 and (iii) remaining unpaid until 29 February 2008. In the case of small and marginal farmers, short term production loans (subject to a ceiling in respect of plantation and horticulture) and installments of investment loans overdue were covered, while in the case of the other farmers, one time settlement was extended under which a rebate of 25% of the eligible amount was given on the condition that the farmer repays the balance 75% in three installments.

The debt waiver exercise was completed by 30th June 2008, whereas the debt relief exercise was closed in June 2010 after granting a few extensions. The Government of India has so far sanctioned Rs.52, 516.86 crore in 5 installments as reimbursement to the banks under the scheme. Out of this Rs.29,275.81 crore was passed on to NABARD for reimbursement to RRBs and Co-operative banks and an amount of Rs.23,159.76 crore has been reimbursed to scheduled commercial banks, Local Area banks and Urban Co-operative banks.

(ix) Bringing Green Revolution in Eastern India (BGREI) : Financing Agricultural Investments in the Eastern Region – Concessional Refinance Support: In order to support the banking system finance such key investments, NABARAD has introduced a concessional refinance scheme in the year 2011-12, with an objective to accelerate investments in agriculture to enhance production and productivity of crops in the Eastern region (Assam, Bihar, Jharkhand, Chhattisgarh, Odisha, West Bengal and Eastern Uttar Pradesh) by incentivising the banks. Under the scheme, NABARD provides 100% refinance to banks at a concessional rate of 7.5% p.a. Provided certain minimum targets are achieved by the bank in financing these key investments. The operative period of scheme is for financial years, 2011-12 and 2012-13. Four activities viz, Water Resources development, Land development, Farm Equipments (including tractor financing on group mode basis) and Seed Production are covered. Concessional refinance is provided subject to condition of minimum 70% lending against credit potential for the identified activities assessed on the basis of projections made in the Potential Linked Plans. The commercial banks are required to achieve the minimum lending level of 70% while the RRBs and Co-operative Banks are required to achieve the minimum lending level of 50% of the Overall lending Target / Potential assessed. The norms were revised during 2011-12 being the first year of the scheme, to 50% in case of Commercial Banks and 25% in case of RRBs and Co-operative Banks. Support to the banks for (a) Forming and linking of Joint Liability Groups (JLGs) (b) Awareness programmes for promoting the scheme (c) Organizing sensitization meets for the branch officials of implementing banks and (d) Training and capacity building of identified entrepreneurs is also offered under the scheme. In partial modification of the Scheme, Tractor Financing under group mode to Self Help Groups (SHGs) / Joint Liability Groups (JLGs) were also considered for concessional refinance by the banks, provided tractors are financed to;

a) An existing Self Help Group (SHG) which is at least two years old
b) A new Joint Liability Group (JLG), provided the number of land owning farmers in the group is not less than five and every member is a Small Farmer (SF) or a Marginal Farmer (MF)

(x) Revival Package for Short Term Cooperative Credit Structure: The Government is implementing a package for revival of Short-term Rural Cooperative Credit Structure in the country. The Revival Package is aimed at reviving/strengthening the Short-term Rural Cooperative Credit Structure (CCS) and make it a well-managed and vibrant medium to serve the credit needs of rural India, especially the small and marginal farmers. It seeks to (a) provide financial assistance to bring the system to an acceptable level of health; (b) introduce legal and institutional reforms necessary for their democratic, self-reliant and efficient functioning; and (c) take measures to improve the quality of management.

Those states choosing to participate in the Revival Package will be entitled for financial assistance under the package through the mechanism of a formal MOU or Exchange of Letters with the Central Government and NABARD to implement (in a phased manner &

within a period of 3 Years), the legal and institutional reforms envisaged. Financial assistance for STCCS under the package which has been estimated at Rs 13596 crore will be available for cleansing of Balance Sheet and increasing the capital to a specified minimum level. In order to ensure that the CCS continues on sound financial, managerial and governance norms, technical assistance will also be provided to upgrade institutional and human resources of the CCS, computerization and building up proper internal control and accounting system. The Package seeks to bring down the interference of the State Govts in the credit cooperatives and suitable amendments to the State Cooperative Societies Act and Banking Regulation Act have been proposed in the package. These form part of the important conditionalities to be complied with under the Package.

Twenty-five State Governments, viz. Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Haryana, J&K, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Rajasthan, Orissa, Punjab, Sikkim, Tamil Nadu, Tripura, Uttarakhand, Uttar Pradesh, and West Bengal have signed the Memorandum of Understanding (MoU) with GoI and NABARD for implementation of the package. This covers more than 96% of the STCCS units in the country. As on September, 2012 an amount of ₹9002.11 crore has been released by NABARD as GoI share for recapitalisation of 53,202 eligible PACS.