

Agricultural Credit : Need for Concern and Commitment

 **Dr Amrit Patel**

*International Consultant
(Rural Credit & Micro - Finance)
Retd. DGM, Bank of Baroda
Mumbai*

Credit is a catalyst that lubricates the process to accelerate farm and non-farm sector development including rural industrialization, business and service segments of the economy. Credit helps farmers invest in creating assets to generate output and income through deploying science, technology and modern methods of business management. Investments in the farm can generate farm income sustainably when credit is simultaneously adequately supported by backward and forward linkages, viz. inputs of production, technology and services. The World Bank in its sector policy paper as back as in 1975 had aptly reiterated “credit is often a key element in the modernization of agriculture. Not only can credit remove financial constraints but it also accelerates the adoption of new technology. Credit facilities are also an integral part of the process of commercialization of the rural economy. However, no amount of credit even at the most reasonable rates can guarantee higher productivity or income among the rural poor, as the success depends upon many factors including the availability of inputs and services, sound credit policies, well-managed institutions and appropriate delivery channels”.

Issues

The credit flow to agriculture, more importantly after introduction of financial sector reforms in early-nineties, increased from Rs.2,85,146 crore during the Ninth Plan [1997-2002] to Rs.6,91,739 crore [243%] during the Tenth Plan [2002-07]. Credit disbursement during the Eleventh Plan [2007-12] further shot up to Rs.19,20,400 crore [277%]. As against annual average disbursement of Rs.57,029 crore, Rs.1,38,348 crore and Rs.3,84,080 crore during previous three plans the disbursement during 2012-13 alone was Rs.6,07,375 crore, exhibiting significantly high growth of credit year after year. However, the pressing issues still continue viz : -

- [i] Impact on improving crop productivity and output has not been so satisfactory, leave alone what was expected
- [ii] Significant disparities in the flow of credit among States, districts, villages and even within the village
- [iii] Significant imbalance between short-term and long term loans, between loans disbursed to agriculture and allied activities as also across components of

agricultural term loans, viz. irrigation development, farm mechanization, land development, plantation and horticulture, hi-tech agriculture, etc.

- [iv] Difficulties experienced in easy and reliable access to institutional credit by small, marginal and tenant farmers, share croppers, oral lessees, landless laborers, households residing in hilly, tribal, desert, drought prone and most backward and vulnerable areas in particular
- [v] Problem of loan repayments leading to building up of huge amount of NPA has become serious and pernicious.

In order to ensure that credit in particular and financial services in general achieve their intended objectives, now the need to create an enabling policy environment and effective credit planning is greater than before.

Government, the RBI and the legislators need to demonstrate a serious concern and commitment to address these issues. Following policy interventions, inter alia, need immediate attention along with formulating a strategic action plan to resolve most of the issues by the end of the 12th FYP [2016-17].

Need for an enabling environment

Policy should address to create an enabling environment that can significantly enhance credit absorption capacity of the geographical areas and farmers in each village. For this, policy should focus on critical areas, namely-

- [i] Investing significantly in rural infrastructure to improve farm fuel/energy, transport, communication, storage, processing and marketing facilities
- [ii] Establishing State of the Art Agri-meteorology in all agro-ecological regions
- [iii] Expanding irrigation and reclamation of wastelands
- [iv] Integrating agricultural education, research and extension services and strengthening capacity-building of farmers to bridge the huge yield gap between the potential yields and actual yields at field level in rain-fed and irrigated farming systems
- [v] Development and use of genetically engineered seeds, micro-irrigation systems, greenhouse technology, integrated nutrients and pest management techniques, computer-based modeling to track diseases and pest incidence
- [vi] Expanding farm mechanization program
- [vii] Promotion of remote sensing technology

Policy and programs involving timely and adequate

...Agricultural Credit : Need for Concern and Commitment

... contd.

investment in agriculture would facilitate farmers' access to frontier technologies for production, food processing and preservation, farm-to-market/fork linkages, agricultural research and extension, weather and crop forecasting, large-scale development of bio-diesel produce, modernization, mechanization and commercialization of agriculture.

Appropriate proportion of public, private and foreign investment should remedy the situation of investment shortage in agriculture and help transform a 'negative subsidy regime' into a 'capital-intensive positive Agricultural Marketing Service regime' and stimulate India's agricultural producers to access global markets.

Drought, flood and weather codes need to be developed and used to seek short and long-term solutions to the recurring problem of floods, drought and cyclones, thereby minimizing damage to rural livelihoods. Government, Agricultural Universities & Indian Council of Agricultural Research institutes along with industrial, business and commercial houses in close coordination should accelerate their efforts to accomplish this task by the end of the 12th Five Year Plan.

The Government has restricted individual banks' lending to indirect agriculture not to exceed 4.5% of their net credit; as a result banks do not consider lending beyond this prescribed limit for financing entrepreneurs who can provide contractual services to farmers, more particularly small & medium ones in respect of facilities/services, such as input dealers & suppliers [seeds, fertilizers, pesticides, farm equipment & machinery] cold chain, refrigerated vans, cold storage, warehousing, drilling of irrigation wells, tractors, power tillers, combine harvesters, transport vans, trucks, etc. that have tremendous impact on significantly improving the crop productivity & output and return on investment.

Implementation of RIDF became a significant instrument to unlock stuck investments already made by the State Governments, create additional irrigation potential, improve connectivity between villages and marketing centers, generate additional employment for rural households, contribute to the economic wealth of the rural economy and enhance quality of life through provision of facilities in education, health, drinking water supply, among others. RIDF supported projects facilitated creation of critical infrastructure, expansion of the production base, increased credit disbursement and generated additional employment opportunities [recurring and non-recurring]. Thus, RIDF directly contributed to creation of physical infrastructure and capital formation in rural areas. As on March-end, 2012 at

national level RIDF created impact in areas, viz. :-

- [i] Irrigation potential on an area of 2,04,06,829 hectares with non-recurring employment of 30,098 lakh person days
- [ii] Construction of rural bridges of 7,96,899 meters & rural roads of 3, 54,344 km length with non-recurring employment of 41,099 lakh person- days and
- [iii] Non-recurring employment of 24,228 lakh person-days in other sectors
- [iv] Recurring employment generation of 85,43,283 persons
- [v] 3,25,270 rural market yards and godowns
- [vi] Gross domestic product valuing Rs. 24,580 crore
- [vii] Hydel power of 212.83 MW & 22,315 lakh units/year of system improvement to minimize transmission and distribution losses
- [viii] Health centers benefitting 615.83 lakh persons
- [ix] Primary & secondary schools benefitting 100.06 lakh students and
- [x] Rural drinking water supply benefitting 1250.60 lakh persons.

This, therefore, justifies that funds deposited by commercial banks with NABARD for lending to State Governments to supplement their efforts to develop rural infrastructure including social and power sector should carry interest rate at least to cover the cost of their borrowing, if not market price.

Experience suggests that banks have been since 1969 till date, receiving Government's mandates, which have to be strictly complied with from time to time. This has impacted seriously on banks' having lost initiatives for developing business from commercial view point in rural areas that have unfathomable reservoir of unexploited resources, which can be developed with the aid of science, technology & financial services. It is, therefore, an opportune time now for the Government to hold regular dialogues and consultations with banks on every issue rather than intervening in banks' affairs in the nature of mandatory requirements. This would facilitate banks to productively & profitably use their organizational, professional, managerial & financial resources to design loans & other financial products to match farmers' needs in each of the 127 agro-ecological regions of the country [rather than one-fits-all], recruit farmer-friendly staff & train them to design, market & deliver the financial products. Flow of indirect credit to agriculture has as much significance as direct credit to agriculture.

...Agricultural Credit : Need for Concern and Commitment

... contd.

Improvement in rural infrastructure, education in all rural households, training them to improve their inherited skills and to acquire new skills, provision of modern tools and equipment will enhance productive use of bank credit and facilitate banks to introduce new banking technology to minimize cost of lending. Accordingly, State Governments must invest on an annual basis significant amount in creating/improving rural infrastructure, post-harvest technology, markets, agricultural research and extension to make farming profitable and increase rural income and also invest in creating training facilities for households in agriculture, rural/cottage industries, service and business segments for sustainable development of farming and non-farming enterprises.

Cooperative credit structure [short-term & long-term] as a whole has been, since the 1980s, manifest with financial, organizational & managerial weaknesses. It needs significant amount of resources for its financial revival & developing managerial competence. There has been a plethora of expert committee reports, of which the latest has been the Vaidyanathan Committee report for its financial revival. The revival process accompanied by efforts to capacity building of the staff and redesigning human resources development & training policy should be completed immediately so that impact of its implementation can be felt by the end of the Twelfth Five Year Plan [2012-17]. Simultaneously commercial banks & RRBs may consider financing financially weak 50 DCBs and 45869 PACS through mutual dialogue & consultations. The Integrated Agricultural Credit Approach linking credit with supplies [inputs] and services [technology, transport, storage, processing & marketing] to improve productivity and add value to the farm products need to be operationalized in public-private-partnership mode.

National Commission for Farmers has made a number of policy recommendations to find long-term solutions to the problems faced by farmers in rain-fed and drought-prone areas in its report submitted in October 2006. Effectiveness of their implementation and commitments made in the Parliament in November 2007 need to be evaluated in light of accelerating the credit flow.

Credit Planning

Objectives of credit planning and management are to

- [i] Improve the quality and productivity of banks' lending and to minimize costs both at the bank's and borrower's level as well as to mitigate credit risks to an extent possible
- [ii] Bring an orderly and planned development of all

villages and thereby increase the production, productivity and income levels of the rural people.

Experience and expertise of qualified and trained bankers at the branch level should, therefore, enable them to identify all those hitherto financially excluded households and assess their banking, credit and other non-financial service needs through field studies of village economy and households' economic profiles.

To improve the credit planning exercise at the grass-root level, effective involvement of concerned bank's staff and cooperation of State Government is necessary in such a way that progressively all those "financially excluded" rural households in a village are brought within the banking fold.

Loan products should be designed through studies of rural households' economic needs and their cash flow. Credit should not be restricted to agriculture only since a large number of landless labourers with no land and marginal farmers with limited land holdings can be provided credit for diversified and multiple purposes viz. income generating activities in agriculture, animal husbandry, poultry, fisheries, sericulture, non-farm sector [rural/cottage industries, handloom, handicrafts, coir industries, service and business segments], for housing, consumer durables, social, religious, health, education and debt swapping purposes etc. taking into account their credit history, willingness and capacity to repay the loan. This approach would increase per capita credit too. As rural and semi-urban branches have been operating for over four decades they must have by now reliable and authentic data on credit history of existing clients, which should facilitate them to widen and deepen the rural finance business with confidence.

Branch should properly identify households presently depending upon non-institutional sources of credit partially or fully, and help them switch over to banks for their credit needs. NABARD may need to operationalize the concept and procedure of debt swapping and provide proper guidelines to banks for implementation at field level as households, according to NSSO, in 18 States depended heavily on non-institutional sources of credit and pay exorbitant interest rates, which have significant economic and social costs.

Banks on merits of individual loan cases should take decision to restructure loans or write-off the uncollectible loans on a regular continuing basis rather than awaiting Government's intervention for wholesale write-offs vitiating the credit discipline & culture.

Massive publicity efforts are needed to create

...Agricultural Credit : Need for Concern and Commitment

“awareness” among all categories of households in villages on the availability of bank's financial services and procedures to avail them. For this purpose, village level seminars and meetings can be organized, details be released in all local print media, regular and frequent advertisements can be given on electronic media, leaflets can be distributed, success stories be featured on a regular basis.

Improving farmer's income

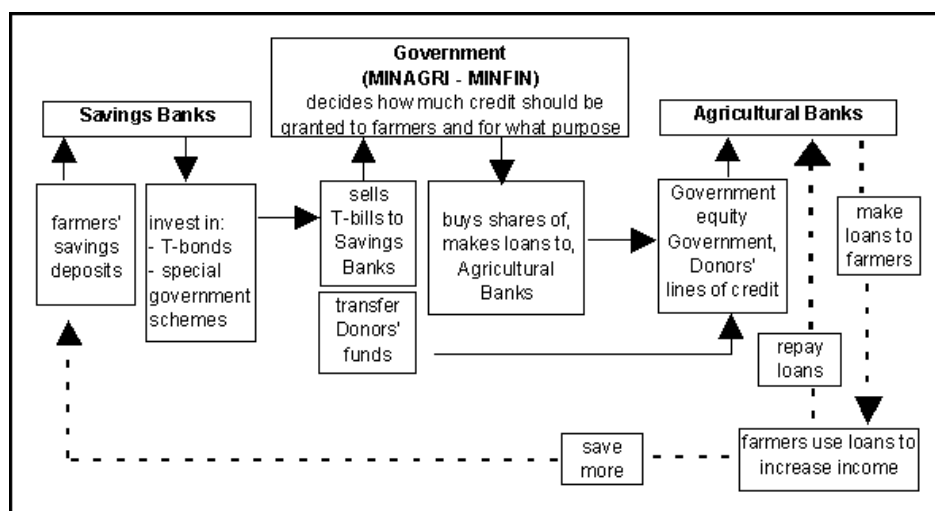
Role of credit to agriculture cannot be viewed just as a support to food-producing activity but it should focus on “need to improve the overall income and economic well being of the farmers” as agriculture has been the basic requisite for national sovereignty. The extensive literature analyzing the relationship between agricultural and non-agricultural growth in India confirms that farm & non-farm sector in rural areas are complimentary to each other and risks mitigating. Rural credit policy and programs need to focus on farm & rural non-farm sector development to alleviate rural poverty, deprivation and suffering.

Reaching the unreachable

IT has been fast changing the shape of the world and as newer technologies are ushered in, banking services become more affordable and accessible to all. Harnessing the power of technology presents significant opportunities to financial institutions to reach dispersed and hitherto hard-to-reach clients for providing them financial services in rural hinterland of developing economies. More importantly, the resourceful commercial banks in the developing economies can

profitably make use of these technologies to automate agricultural, rural & micro-finance [ARMF] systems to reach a large number of hitherto unreached rural households. The technology can yield significant benefits to ARMF service providers and their customers. Banks may consider implementing the technology in a customer-friendly and cost-efficient manner so that automation can certainly facilitate ARMF systems to reach dispersed and hitherto hard-to-reach clients, work smoothly and efficiently to deliver new financial products and services. ARMF service providers to increase the outreach and improve the competitiveness can adopt ways and means of cost savings associated with automatic ARMF operations, such as [i] Personal Digital Assistants [PDAs] relieve loan officers from carrying bulky client files to the field, improve data quality and reduce transaction time by automating transactions and record keeping. All of these help loan officers serve more customers [ii] Credit scoring efficiently and reliably categorizes customers according to risk that helps loan officers exclude ineligible & risky applicants from borrowing. This directly saves costs and improves allocation of loan loss provisions [iii] Installation of ATMs that can handle multiple transactions can reduce the cost of opening branch offices and providing staff in a remote rural area [iv] Technologies such as smart cards, ATMs & m-banking services enhance security and flexibility, which customers value much and help increase customer loyalty. Automating processes enable banks to conduct transactions faster, at lower cost per transaction, and in more dispersed locations than branch staff can do. ♦

dramritpatel@yahoo.com



Source : www.fao.org