Agriculture Credit, Farm Productivity and Farm Distress*

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Agriculture is the most important sector in India in terms of the population dependent on it. With more than two-thirds of the population engaged in agriculture related activities, it is imperative to study the constraints faced by them. There are various physical, institutional, infrastructural and technological factors affecting agriculture in India, viz., climate, soil, topography, market, transport facilities, labour, irrigation facilities, adequate availability of quality seeds and other inputs, electrification, capital and Government policies etc. Among these factors, 'capital' implies the credit required for the purchase of inputs and machinery. In a poor agricultural country like India where savings are negligible among the small farmers, agricultural credit appears to be a critical factor affecting agricultural productivity.

Objectives:

This study was taken up with the following objectives:

1. To analyse the trends in credit disbursed to agriculture and allied activities in India
2. To examine farm size category wise credit availability from various sources (institutional and non-institutional) in selected states.
3. To find out the credit related problems of farmers in areas where there is high incidence of suicides by farmers.

Methodology:

The study is based on secondary and primary data in the States of Maharashtra and Punjab. For the purpose of preliminary farm level data, a household survey was conducted in the two states. Ludhiana and Sangrur in Punjab and Buldhana and Yavatmal in Maharashtra were selected for the purpose of primary survey. These districts have shown relatively high incidence of suicides by the farmers and thus were specifically selected to help understand the credit related problems of farmers.

One block/cluster of villages was selected from each of the four districts in consultation with local district level officers. 100 farm households of different size groups from each of the selected block/cluster were chosen forming a sample of around 400 farm households for the study. Further, farming households in each block was divided into three categories based on their net cultivated area (NCA) into small (less than 2 hectares), medium (between 2 and 4 hectares) and large (above 4 hectares). A detailed questionnaire schedule was prepared for the collection of primary data. Information was also gathered from banks and agricultural credit institutions where majority of the farmers in a selected block took credit from. Results of analysis of both secondary and primary data were used to arrive at conclusions.

All-India Trends in Credit Disbursed to Agriculture and Allied Activities

Globally, directed credit programmes involving loans on preferential terms and conditions to priority sectors were considered a major tool of development policy in both developed and developing countries in the 1960s, 1970s and mid-1980s. In India, the Credit Policy for the year 1967-68, recognized, for the first time, the need of increased involvement of commercial banks in financing of the priority sectors, viz., agriculture, exports and small-scale industries. In July 1969, 14 major commercial banks were nationalized with the objective that lack of credit support should not be an obstacle to any viable productive endeavor, irrespective of the fact whether the borrower was big or small. In effect it further pressed for the concept of priority sector lending. A formal description of the priority sector was done in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by Reserve Bank in May 1971. Since then, several changes with new areas and sectors have been brought within the purview of the priority sector.

Institutional and Non-Institutional Sources of Credit

The agricultural credit system of India consists of informal and formal sources or institutional sources of credit supply. The informal sources include commission agents, traders, private moneylenders, friends, relatives, etc. Three major channels for disbursement of formal credit include commercial banks, cooperatives and micro-finance institutions (MFI) covering the whole length and breadth of the country.

Shares in Total Debt of Farmer Households

The transition from 1951 when more than 90 percent of the total debt taken by farmers came from informal sources, especially money lenders, to 2002, the last round of AIDIS Survey, where the situation has almost reversed. But 2002 has again witnessed an increase in the percentage accruing to debt from money lenders to a level greater than that in 1981. Thus the condition ten years hence still remains to be seen from the next round of AIDIS Survey. It is noted that even with increasing outreach of banks and other financial institutions in rural areas, offering attractive interest rates; the farmers' dependence on informal sources like arhtias, friends/ relatives does not seem to get replaced. It is thus imperative to look at the trends in institutional credit disbursed to agriculture sector in the recent years.

Targets and Achievements in Institutional Credit Disbursed

Within the institutional credit disbursed to agriculture, when we look at the targets and achievements for the last twenty years period from 1990-91 till 2010-11, it is seen that the targeted disbursement of agriculture credit has increased at a compound growth rate of more than 18 percent while the actual credit disbursed to agriculture grew at a compound growth rate of nearly 22 percent. During this period, the percentage of target achieved increased from 69 percent to almost 120 percent in these two decades.

At the outset, the increase in credit disbursed to agriculture, by almost Rs. 5,50,000 crore, in thirteen years and mainly since 2005-06 looks very encouraging and pro farm sector. The RBI categorizes agriculture sector lending under priority sector along with Small Scale Industries, Small Businesses/ Service Enterprises, Micro Credit, Education Loans and Housing Loans. Agriculture sector lending has been classified as **direct finance** and **indirect finance** for agriculture and allied activities. The RBI issues regular notifications and circulars revising the definition, credit limit, targets etc under direct and indirect credit to agriculture. In March 1980, the scheduled commercial banks were advised to raise their proportion of priority sector advances from 33.3 percent to 40 percent of aggregate advances by 1985. Of this 40 percent, the commercial banks were mandated to earmark 18 per cent of total annual lending to agricultural sector as part of priority sector lending. Earlier only direct finance to farmers was considered in the 18 percent target, but was expanded to include indirect finance in 1993.

Trends in Direct and Indirect Agricultural Credit

RBI defines agriculture credit as direct finance and indirect finance. Direct finance to agriculture comprises loans to individuals, corporate and institutions. This includes crop loans for raising crops, advances against hypothecation of agricultural produce for a period less than a year, loans to small and marginal farmers for purchase of land for agricultural purposes, loans to distressed farmers indebted to non-institutional lenders, loans granted for pre-harvest and post-harvest activities, etc. Finance up to an aggregate amount of Rs. one crore per borrower can be granted as direct loan by Scheduled Commercial Banks.

Indirect finances for agriculture and allied activities comprises of loans to food and agro-based processing units with investments in plant and machinery, credit for purchase and distribution of fertilisers, pesticides, seeds and other inputs such a s cattle feed, Finance for setting up of Agriclinics and Agribusiness Centres, finance to dealers in agricultural machinery, loans for construction and running of storage facilities, loans to *Arthias* (commission agents) for extending credit to farmers, loans sanctioned to NGOs which are SHG promoting institutions, for on-lending to members of SHGs, loans granted to RRBs for on-lending to agriculture and allied activities sector, etc.

The credit limits for each of the categories under direct and indirect finances has been revised from time to time, as also newer additions have been made to widen the scope of direct as well as indirect institutional credit.

The figure below gives us an idea about the changes in the proportion of total direct loans issued and total indirect loans issued by various financial institutions in the past two decades. Total direct credit includes direct credit from Co-operatives, State Governments, Scheduled Commercial Banks and Regional rural Banks. Total indirect credit includes indirect finances from Co-operatives, Scheduled Commercial Banks, Regional Rural Banks and Rural Electrification Corporation.

It is observed that direct credit outstanding constituted around 80 per cent of the total agricultural loans issued up till 1992-93 and then experienced a dip in 1993-94 to linger at around 60 per cent till 1999-00. This coincides with the RBI notification in 1993 which stated that direct and indirect finances be considered together to meet the priority sector target of 18 per cent. Since 1993, the proportion of indirect finances increased and exceeded the share of direct finances in 1998-99. The share of indirect finances peaked in 2000-01 to reach 55 per cent of the total agricultural finance. In 2008-09 and 2009-10, direct finance has again accounted for more than 70 per cent of total credit issued to agriculture sector, again falling sharply and making way for indirect finance to constitute more than 73 per cent of the total agriculture credit outstanding.

Direct Credit Disbursed According to Size of Land Holding

To look at how the marginal and the small farmers have responded vis-à-vis the increases in credit limits and the over-all sharp increase in agriculture credit disbursed, we would observe the pattern of credit disbursement according to farm size class.

Direct finance to farmers has picked up since 2000-01 for all the farming household categories, and increased at an average compound rate of 35 percent between 2000-01 and 2005-06. Over the years, the increase in amount disbursed under direct finance from the schedules commercial banks has been uniform for the marginal, small and other classes of farming households. However, on comparing the number of households according to operational holdings to the amount disbursed, we see that the pattern has been similar since 1995-96, with more than 60 percent of households that fall under the category of marginal farming households have a claim to only about 25 per cent of the finances disbursed, while less than 20 percent households have more than 5 acre operational holding and account for close to 50 per cent of the credit disbursed by the commercial banks.

Trends in Direct and Indirect Credit Finances According to Size of Credit Limit

The Reserve Bank of India revises the credit limits vide its regular notifications to banks. To analyse the trend in changes in the direct and indirect finances according to size of credit limit, we look at the changes in the number of accounts and amount outstanding in different credit limit categories in the last decade. The table below gives the trend growth rates of direct and indirect finances for different credit limits.

It is observed that in case of direct finances, the growth rate has been maximum for the credit limit between Rs. 5-10 Lakh and above Rs. 25 crore. The number of accounts has increased at a trend growth rate of around 43 per cent for both classes of credit limit and amount outstanding has grown by 43 percent and 52 per cent for the respective classes.

Scheduled commercial banks' outstanding advances to agriculture has shown a high rate of growth of 59.2 percent in case of loans to NBFCs and 29.5 percent in case of NGOs for on-lending to individual farmers or SHGs and also for loans to agriclinics and agri-business centres. Loans to corporates, partnership firms, credit limit upto Rs. 1 cr, which constitutes direct credit has actually seen a negative growth of 7 percent in the period 2008 to 2011.

Primary Survey Analysis

For the purpose of the study, a detailed primary survey was done in two districts each in the states Punjab and Maharashtra. Ludhiana and Sangrur in Punjab and Yavatmal and Buldhana in Maharashtra were purposively chosen due to high incidence of credit related farm distress and farmer suicides. 100 farming households were surveyed from a cluster of five villages in each of the four *tehsils/* blocks, viz., Pakhowal in Ludhiana, Lehragaga in Sangrur, Pusad in Yavatmal and Buldhana in Buldhana. The distribution of sample households was as follows:

The number of households in each land class was chosen as a proportion of the actual distribution of households in each of the villages. The average annual income includes income of the household from crop cultivation, livestock rearing, fisheries, hiring out labour/ agricultural machinery and implements, renting out land as well as lending money. It was observed that many small farmers substituted their income from crop cultivation by hiring out land and also by working as wage labourers.

On being asked if the farmers had Kisan Credit Cards, on an average only 30 percent of the farmers replied in affirmative, while Buldhana district of Maharashtra fared best amongst the four districts where around 44 per cent of the farmers held kisan credit card. Punjab, the supposedly more developed and forward state had only around 20 per cent of their small farmers holding KCC.

It was observed that loans from institutional sources like commercial banks, co-operatives etc have not been able to replace the existence of money lenders. An average of 86 percent of the farmers surveyed in Maharashtra and 90 percent surveyed in Punjab had applied for loan from a financial institution and 99 percent of the applications were successful. But it is noted that it has only become an additional source of credit along with the traditional sources like *Arhtias,* friends and relatives, money lenders. Money lenders serve as easy and comfortable source of credit to farmers especially marginal and small farmers, due to its easy access and very often non-requirement of collateral. It was seen that a single farmer had taken loan from 8 to 10 money lenders at the same time as a single loan does not help cover expenses of a single year activities. Since these money lenders are generally from the same village and known to farmers, it is much easier to get loan from them even if it means a much higher rate of interest (5 per cent per month in many cases).

There are schemes by the financial institutions that provide attractive rates of interest on loans for agricultural activities. For instance, in Yavatmal districts it was seen that for a financial year that is from April to March, zero rate of interest was charged on crop loans and only in case of failure to repay the loan in an year, rate of interest would be charged.

Farmers' lack of knowledge was observed especially in Maharashtra, where the farmer did not know the rate of interest charged and the date of repayment of loan taken from bank. Not much provision is there to cover the farmer in case of natural calamity or crop failure due to some reason. To repay loan from one source, farmers seek loans from other sources and the spiral keeps building up.

It is also observed that credit taken from financial institutions in the name of agriculture and related activities, was not always spent on crop cultivation. Rather more than 50 percent of the farmers accepted to having used it for other reasons such as health or for social functions like marriage. It implies that having no alternate employment option, the farmers are dependent on the risky and not so conducive choice of source of income that is agriculture.

In the course of the survey of farmers as well as banks serving in the blocks under study, we did not come across a single loanee for setting up agri-business or agri-clinics, or distributor of inputs such as fertilizers, seed etc. This implies what a farmer in an under developed area needs is a simple crop loan which is a direct short term loan as defined by RBI. Thus the pictures showing agriculture credit booming in the last decade does not seem to find corroboration with the ground reality of the actual needy farmers.

Way Ahead

The situation on the field is still very grim which fails to validate the overall picture of perennially increasing disbursement of agriculture credit from institutional sources. The farmer is still in the same situation as he was 60 years back, or may be much worse owing to the rising retail prices and falling returns to farmers. The only possible solution to take out the farmer from the ever increasing debt trap is by offering him remunerative prices for his produce and keeping him secure from the fluctuations in the prices in the open market. Secondly, farmer must be insured against the natural calamities that leave his crop destroyed, in turn leaving no source of income to run his household. Thirdly, there should be alternate employment opportunities for the farmers to complement his earnings from the field.

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