Performance Evaluation Of Agricultural Credit Schemes For Strengthening Indian Agriculture Sector

Vivekanand A. Mane*
* Assistant Professor, Department of Commerce,
Government First Grade College, Athani-591 304, Dist. Belgaum, Karnataka State.

Abstract

India is predominantly an agrarian society. Agriculture is a way of life, a tradition, which, for centuries, has shaped the thought, the outlook, the culture and the economic life of the people of India. Indian Agriculture making rapid strides in Agricultural Sector since Independence, particularly after the Green Revolution of the 1960s and the country achieving an overall food security to its population of more than 1 billion, inadequacies of serious long-term concern are now obvious. The 11th Five Year Plan also indicates that agricultural development is an important component of inclusive growth approach. The growth has not been inclusive. In a similar vein, the growth in Credit Flow to Agriculture has been impressive over the years in absolute terms and yet there are many serious issues in flow of agricultural credit and evaluation of agricultural credit schemes for strengthening Indian agriculture that need to be addressed.

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. 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 annual budgets, Government of India announces 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 crores in 2003-04 to Rs. 468291 crores in 2010-11. The target for the 2011-12 was fixed at Rs.475000 crore and achievement is Rs.511029 crore 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 September, 2012 is Rs. 239629 crores. The present study makes an attempt to analyse the performance evaluation of agricultural credit schemes for strengthening Indian agriculture sector.

Keywords: Agricultural Credit, Institutional Credit, Agricultural loan and Rural Development

Introduction:

India is predominantly an agrarian society. Agriculture is a way of life, a tradition, which, for centuries, has shaped the thought, the outlook, the culture and the economic life of the people of India. Agriculture, therefore, is and will continue to be central to all strategies for planned socioeconomic development of the country. Rapid growth of agriculture is essential not only to achieve self-reliance at national level but also for household food security and to bring about equity in distribution of income and wealth resulting in rapid reduction in poverty levels. Indian Agriculture making rapid strides in Agricultural Sector since Independence, particularly after the Green Revolution of the 1960s and the country achieving an overall food security to its population of more than 1 billion, inadequacies of serious long-term concern are now obvious. The performance of Agriculture in India is important as the sector not only contributes to overall growth of the economy but also provides employment and food security to majority of the population in the country. The 11th Five Year Plan also indicates that agricultural development is an important component of inclusive growth approach. The growth has not been inclusive. In a similar vein, the growth in Credit Flow to Agriculture has been impressive over the years in absolute terms and yet there are many serious issues in flow of agricultural credit and evaluation of agricultural credit schemes for strengthening Indian agriculture that need to be addressed.

Objectives:

1. To study the performance evaluation of agricultural credit schemes.
2. To study the major initiatives to increasing flow of credit farm credit packages.
3. To study the agricultural credit schemes and Revival Packages for Short Term Cooperative Credit Structure

Hypothesis:

Agricultural credit schemes have its pivotal role in strengthening Indian agricultural sector and socioeconomic development of state is concerned. It has no alternative in the era of economic reforms also.

Area of the study:

The study is based on the agricultural credit schemes implemented in India for strengthening agricultural sector. Therefore, study covers the flow of agricultural credit for the fulfilment of objectives of the study.

Review of literature / Committee reports:

Credit is a crucial input process of development. For historical reasons, Indian farming community failed to make huge investments in agriculture. There is an adage which says that **"Indian farmer is born in debt, lives in debt and dies in debt".** In order to mitigate the problems of the farming community, the agricultural credit schemes were framed for strengthening agricultural sector. They provided institutional support to farmers for short, medium and long term purposes. Subsequently, tiers at state and district levels were too conceived to strength these credits schemes. Apart from these schemes by the institutions, nationalization of commercial banks and introduction of regional rural banks also helped in increasing credit supply to farmers. As mentioned before, by now the Indian credit cooperatives have a century long history. During this period these institutional financing agencies failed to a large extend, to meet the requirements (consumption and production) of the farmers. Some of the factors responsible for their failure are inadequate supply of credit, poor recovery, demand-supply gaps, interference by politicians, and lack of monitoring, mutualisation of credit, problems in identification of target groups, high transaction costs, and lags in time, natural calamities and competition from informal credit agencies.

A number of committees such as the Rural Banking Inquiry Committee (1949), the All India Rural Credit Survey Committee (1954), the Committee on Cooperative Credit (1960), the All India Rural Debt and Investment Survey (1962), the All India Rural Credit Review Committee (1969), the Working Group on Rural Banks (1975), the Committee to Review Arrangement for Institutional Credit for Agriculture and Rural Development (1981), the Agricultural Review Committee (1989) and the Narasimhan Committee (1991 and 1998) were constituted by the Government of India to look into their working and made several recommendations to improve their health and functioning. Of the total credit provided by these institutions 44 per cent was met by the cooperative banks and 48 per cent by the commercial banks leaving a paltry amount by the regional rural banks.

Research methodology and data collection:

The present study is based on the secondary data published by the Ministry of Agriculture, Department of Agriculture and Cooperation, Credit Division, Government of India, the required data and literature for the study purpose were collected from the number of reference books, Journals and Internet.

Scope and limitations of study:

1. Study is limited to concept of agricultural credit schemes
2. The information collected from secondary sources and the impact of these schemes on financial institution is not covered.
3. The study is applicable only to the area of agricultural finance.

Agricultural credit:

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. 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.

Table 1

Flow of Institutional Credit to Agriculture Sector

(Rs. in Crore)

Year	Target	Short Term credit	Long Term Credit	Total Credit
2004-05	105000	74064	51245	125309
2005-06	141000	105350	75136	180486
2006-07	175000	138455	90945	229400
2007-08	225000	183519	66066	254658
2008-09	280000	210461	91447	287149
2009-10	325000	276656	107858	384514
2010-11	375000	335550	132741	468291
2011-12	475000	396158	114871	511029

Major initiatives to increasing flow of credit 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 annual budgets, Government of India announces 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 crores in 2003-04 to Rs. 468291 crores in 2010-11. The target for the 2011-12 was fixed at Rs.475000 crore and achievement is Rs.511029 crore 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 September, 2012 is Rs. 239629 crores.

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) up to Rs.3 lakhs 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 extended loans at an effective interest rate of 4% p.a.

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 up to six-month post-harvest on the same rate as available to crop loan against negotiable warehouse receipt for keeping their produce in warehouses.

Collateral free loans:

The limit of collateral free farm loan has been increased from Rs. 50,000 to Rs.1,00,000.

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.

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 Government has decided that in cases where such loan is restructured due to drought, the interest subvention of 2% which is already available for short term crop loans will continue to be available for the current financial year on the full restructured amount.

Kisan Credit Card Scheme:

Kisan Credit Card Scheme for farmers was introduced in 1998- 99 to enable the farmers to purchase agricultural inputs such as seeds, fertilizers, 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 also covered under Personal Accident Insurance Scheme (PAIS) against accidental death/ permanent disability. Further, KCC scheme has been refined on the basis of suggestions made by a Working Group (Bhasin Working Group) and it has been decided to convert Kisan Credit Card **into a Smart Card cum Debit Card and revised guidelines have been issued by NABARD**.

Some of the major features of the revised guidelines are as under:

- 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.

Table 2
State-wise Number of Kisan Credit Cards issued up to 31st March 2012

Sr. No.	State/UT	Cooperative Banks	Regional Rural Banks	Commercial Banks	Total
1	Andhra Pradesh	4174481	2492510	11975335	18642326
2	Assam	21555	276559	601327	899441
3	Arunachal Pradesh	980	3368	27215	31563
4	Bihar	867574	1576268	2418418	4862260
5	Gujarat	1380880	296685	1885499	3563064
6	Goa	5661		14731	20392
7	Haryana	1298501	450755	1050678	2799934
8	Himachal Pradesh	216528	86379	309506	612413
9	Jammu & Kashmir	54619	42267	25126	122012
10	Karnataka	2098737	1508086	3259689	6866512
11	Kerala	1713377	544295	1815367	4073039
12	Madhya Pradesh	4174101	729573	2215845	7119519
13	Maharashtra	5719704	384068	4192079	10295851
14	Meghalaya	12116	23095	60270	95481
15	Mizoram	2255	10018	22685	34958
16	Manipur	13532	2082	32095	47709
17	Nagaland	3470	1841	33828	39139
18	Orissa	4182847	824902	1622269	6630018
19	Punjab	958837	187976	1634445	2781258
20	Rajasthan	3528806	674592	2392440	6595838
21	Sikkim	3476		10542	14018
22	Tamil Nadu	1936258	395691	5259695	7591644
23	Tripura	30087	109090	98541	237718
24	Uttar Pradesh	6987941	4805204	8341164	20134309
25	West Bengal	1693611	719307	1946905	4359823
26	A & N island	4258		3821	8079
27	Chandigarh			8302	8302
28	Daman & Diu			1790	1790
29	New Delhi	2303		27186	29489
30	D & N Haveli			3413	3413
31	Lakshadweep			1331	1331
32	Pondicherry	7781	133	78312	86226
33	Jharkhand	281079	488978	714272	1484329

34	Chhattisgarh	1418490	427263	379184	2224937
35	Uttarakhand	383388	62838	413514	859740
36	Other States			47	47
Breakup not available for CBs (1998-99)				188005	188005
	Total	**43177233**	**17123823**	**53064871**	**113365927**

Source: Department of Agriculture and Cooperation, Credit Division.

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 key investments, NABARD 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. Four activities viz, Water Resources development, Land development, Farm Equipment's (including tractor financing on group mode basis) and Seed Production are covered.

Revival package for short term cooperative credit structure:

The Government is implementing a package for revival of Short-term Rural Cooperative Credit Structure with financial outlay of Rs. 13,596 crores 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.

SHG Bank Linkage:

SHG-Bank Linkage model, continues to be the dominant model in the Indian micro finance context with nearly 7.96 million SHGs catering to 100 million households saving with the formal banking system to the tune of Rs. 6,551 crores. Over the years, the SHG Bank Linkage programme has emerged as a viable model for financial inclusion of hitherto un reached poor households particularly in rural hinterlands. Despite the achievements, there are issues like skewed growth, intra state variations in implementation, credit widening and deepening, role of Micro Finance Institute (MFIs), etc.

Joint Liability Groups:

The JLG mode of financing serves as collateral substitute for loans to be provided to the target group i.e. small, marginal, tenant farmers, oral lessees, share croppers, etc. It builds mutual trust and confidence between the bank and the target group and minimizes the risks in the loan portfolio for the banks through group dynamics, cluster approach, peer education and credit discipline. The objective of the JLG mode of financing is to provide food security to vulnerable section by enhanced agriculture production, productivity and livelihood promotion. JLGs can also easily serve as a conduit for technology transfer, facilitating common access to market information, training and technology dissemination in activities like soil testing, training and assessing input requirements, etc. During the year 2011-12, various banks had disbursed a loan of Rs.1700.39 crore to 1,91,662 JLGs taking the cumulative loans disbursed to Rs. 2,845.68 crores for 3,32,707 JLGs. 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)

Table 3

Sources of credit to Agriculture Sector

(Figures in per cent)

Sources of Credit	**1951**	**1961**	**1971**	**1981**	**1991**	**2002**
Non-Institutional	92.7	81.3	68.3	36.8	30.6	38.9
Money Lenders	69.7	49.2	36.1	16.1	17.5	26.8
Institutional	7.3	18.7	31.7	63.2	66.3	61.1
Cooperatives Societies/Banks	3.3	2.6	22	29.8	30	30.2
Commercial Banks	0.9	0.6	2.4	28.8	35.2	26.3
Unspecified	-	-	-	-	3.1	-
Total	**100**	**100**	**100**	**100**	**100**	**100**

Over the years, there has been a significant increase in the share of formal financial institutions (commercial banks, RRBs and cooperatives) in the total credit availed by cultivator households. The formal financial institutions accounted for about 66 per cent of the total credit to cultivator households by the early 1990s [Table 3]. However, the share of formal institutional credit to agriculture witnessed some reversal during the period between 1991 and 2002 which was partly due to a contraction in rural branch network in the 1990s, and partly due to the general rigidities in procedures and systems of institutional sources of credit. The regional distribution of agricultural credit by commercial banks, both in terms of quantum of credit and the number of accounts, has been skewed. There is a significant concentration in the southern states (Andhra Pradesh, Karnataka, Kerala, Tamil Nadu) followed by the northern and western states. In contrast, the share of the eastern (Bihar, Jharkhand, Odisha and West Bengal) and the north-eastern states has been low. Further, nearly three quarters of the farmer households still do not have access to the formal credit system and have no means to insure themselves against income shocks. This leaves them vulnerable to the informal money lenders.

Findings:

From the above study it is clear that various agricultural credit schemes are serving in the field of flow of agricultural credit and rural development. Progressive institutionalization of rural and farm credit is promoted for providing timely and adequate credit to farmers. Micro-credit is also an effective tool for alleviating poverty.

Suggestions and recommendations:

1. Need for a new Credit Flow strategy that encompasses inclusive strategy as well, with particular focus on agricultural credit schemes
2. Each rural and semi urban Branch to finance 100 new farmers–the No. Of Kisan Credit Cards to be issued to new farmers by each of rural and semi urban branches may be indexed state wise.
3. Enhancement of disbursements @ 30% p.a. targets may focus on Investment credit only.
4. Flexibility in extending credit over Scale of Finance.
5. Each semi urban and rural branch financing 2-3 area specific projects–targets for financing small/marginal farmers.

Conclusion:

The need of the hour is to leverage the existing finance resources through existing agricultural credit schemes and make banks more participative through policy implementation and create a conducive environment so that the agriculture sector can be cared for like any other sector. Even the existing and conducive policies are enough if they are properly implemented. Both private and public sectors are contributing to agriculture in a big way. However, there are many things that have to be implemented for accelerating the flow of financial credits to the farmers.

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