THE AGRICULTURAL CREDIT: TRUTH AND FOLEYS

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INTRODUCTION

The case of agriculture as an economic activity remains weak due to crashing level of water, weakening soil, rising cost of labour and agricultural inputs. It continues to be risky, high-cost, low return proposal for the commercial banks.

The loans extended by the commercial banks in the country grew by 17% in the financial year 2012, at the same level as projected by the RBI in its policy statement. However, the growth this year is lower than the 20.6% growth achieved in the previous year, according to RBI release on sectoral deployment of bank credit.

OBJECTIVE OF THE RESEARCH PAPER

- To study the pattern of Bank Credit to agriculture
- To understand relation of Farm inputs to output.
- To study the direction of the flow of banks credit to agricultural sector.
- To know the status of small and marginal Farmers
- To understand the institutional credit to the agriculture.

Sources of Data

This paper is based on secondary data secondary data collected from authentic sources RBI Report, Magazines and newspaper like Economic Times.

Farm Loan Lending:

The slowdown in loan was seen across sectors, including industry, services commercial real estate, NBFCs and retail sector. However credit to the agriculture sector increased by 13.5% in financial year 12, up from 10.6% in financial year 11. Each year the government lends more to agriculture in the name of small farmers. For instance, between the period 2000-2010, according to the RBI, farm loan increased 755% to Rs.3,90,000 crores. The greatest anomalies were found that most of such loans neither reaching to small farmers nor causing a corresponding jump in agricultural output. During 2001-10 the growth in farm loan was 755% as against 18% growth in farm yield.

Table 1. Farm Loan Lending

Year	Amount (Rs. Crores)
2000-10	3,90,000
2011-12	4,75,000
2012-13	5,75000

Source: compiled by researcher

The budget 2012 has increased agriculture lending target for 2012-13 to Rs.5,75,000 ,crores. According to RBI sources every unit of nominal GDP growth there is 1.3-1.5 unit of credit growth. As compared to growth in lending, there is no proportionate growth in farm yield as well as growth in sale of agriculture inputs like seeds, fertilizers and tractors. The three fold rise in agricultural credit should double the output. The following table gives the idea of the rise in the output is not commensurate with rise in agricultural inputs.

Table 2. Growth in farm input to output

Particulars (inputs)	% cent Growth
Sales of Fertilizers	61
Sales of Seeds	221
Sales of Tractors	90
Growth in Yields(output)	18

Source: compiled by researcher

While, banks which had sizeably withdrawn from agri credit in the nineties are lending again. However, large quantum of this money is not flowing into the sector. Because of the worsening economics of Indian agriculture, both banks and farmers seems to be putting this money, outside farming.

Banks, today, see agriculture as inconvenient necessity. Senior rural banker quoted, “Not only are bad loans in the sector higher, pricing of these loans is also abnormally lower”. The risks of waiver are very high. Yet, banks want to meet RBI rules on priority-sector lending, which mandates giving at least 18% of their total loans, to agriculture. Failure to do so invites RBIs displeasure, and locks the shortfall for five years in a fund that returns just 4-5% a year. Therefore banks end up doing three things:

Indirect financing: Rather than lending directly to farmers, they lend up to the entities connected with agriculture. Like non banking finance companies that lend to farmers and warehousing or companies that make farm inputs. According to the report of steering group advising to the Planning Commission for 12th plan, the share of indirect credit in agri lending has increased from 16% in 2000 to 24% in 2010. The substantial amounts of credit have gone into indirect finance that is why its productivity impact is very low.

Table 3. Break up of Agricultural Lending

Year	Direct Credit	Indirect Credit
2000	84%	16%
2010	76%	24%

Source: RBI Report

The Nair committee on priority sector lending has recommended the distinction between direct and indirect credit be done away with. Further, 50% of priority sector target (i.e. 18% of total banks deposits), should go directly to small and marginal farmers; and that number of small and marginal farmers accounts should increase 15% every year. The table below gives the detailed break up of farm loan accounts as per land holding.

Table 4. Breakup of Number of Account and Land Holding

Land Holding	2008-09 (No. of Accounts)	2009-10 (No. of Accounts)
Up to 2.5 Acres	38.3%	24.4%
2.2 to 5 Acres	30.2%	23.7%
Above 5 Acres	31.0%	51.9%

Source: Research Bureau Economic Times

The table given above shows the case of misdirected agricultural credit, due to which not all the money is going to farmers, especially not to the small and marginal farmers. The basic purpose of agriculture and farm loans under the priority sector lending suffers a setback.

The banks resort window dressing practices: To make up lending target during the month of March, they lend for a short period, with recovery in April.

Lending to farmers with lower risks profile: Banks lend to farmers with lower risks profile and large land holding and are in affluent states as against RBIs definition of small and marginal farmers with land holding below 2.5 hectares.

Table 5. Status of Marginal Farmers

Particulars	% cent
Number of Small & Marginal Farmers	83
Total land holding	43.5
Flow of banks credit	24

Source: compiled by researcher from RBI reports

There are wide disparities found in region wise cropping areas and flow of banks credit. Rich areas received credit that is disproportionate to their cropping areas. The following table shows the agricultural credit during 11th five year plan period, 2007-12.

Table 6. Region wise Flow of Banks Credit plan period, 2007-12

Region	% cent Cropping area	% Flow Agri Banks Credit
South	18.7	37.5
Central	28	13.2
Eastern	15	7.3

Source: Economic and Political Weekly

The banks are disbursing an increasing amount of credit from urban and metro branches. It is also not clear whether it is direct or indirect credit. One thing which is very clear is that the small farmer is excluded. According to the planning commission report, nearly 80 millions of farmers are still outside the institutional fold.

Table 7. Area wise Disbursement of Agricultural Credit

Area	1995	2010
Rural & Semi Urban Branches	83.7 %	66.3 %
Urban & Metro Branches	16.3 %	33.7 %

Source: RBI Report

Misuse of the farm loans

Misuse of the farm loans by the farmers is another foley of the agricultural loans. The farmers in the institutional fold are thinking beyond agriculture. They pay 7% interest on agricultural crop loan, 4% if they pay in time. This has enabled interest arbitrage which means either they lend this money on higher rate to others or investing in non- farm enterprises, fixed deposits and land.

Small farmers' indebtedness

The interest subvention is only for crop loan, farmers are finding ingenious ways of making investments using crop loan. They take an informal loan to pay previously borrowed crop loan and immediately take fresh crop loan. This is pushing smaller farmers into indebtedness. According task force committee report on credit related issues of farmers, small and marginal farmers, who are worst placed to diversify beyond agriculture, are again borrowing from non institutional sources. These loans are costly: about 36% was borrowed at 20-25% interest and another 38% at an interest of 30% and more.

The table below shows the flow of institutional credit to agriculture.

Table 8. Institutional credits to agriculture

Institutions	1991	2010
Co-operative Banks	51%	16%
Commercial Banks	43%	74%
Regional Rural Banks	5%	10%

Source: Economic Times Research Bureau

The co-operatives banks were doing better. The co-operative sector has largest outreach at the grassroots level, with close to 1 lakhs retail touch points.

CONCLUSION AND FINDINGS

However, the cooperatives are slowly get eroded due certain inherent causes which has weaken small and marginal farmers access to institutional finance. The rural presence of commercial banks is not large enough to service these customers. They are not interested to cater to small and marginal farmers due to their commercial outlook. The commercial banks resort window dressing practices which have shown swallowed figures of their lending to the crop loans. They are interested in lending to farmers with lower risks profile and large land holdings.

The case of agriculture as an economic activity remains weak due to crashing level of water, weakening soil, rising cost of labour and agricultural inputs. It continues to be risky, high-cost, low return proposal for the commercial banks.

REFERENCES

- RBI Report
- Economic and Political Weekly
- Economic Times