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Impact of Banking Industry on Agriculture and Farmers

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Abstract: **Agriculture is an important engine for economic growth of the country as agriculture provides largest employer of the country's population and the financial inclusion as one of the crucial obstacles in ensuring equitable agricultural growth of the nation. Financial inclusion refers to delivery banking services to masses including privileged and disadvantaged people at an affordable terms and conditions. It not only enhances overall financial intensity of agriculture but also help in increasing rural nonfarm activities which lead to development of rural economy and improve economic condition of people. The launch of the Pradhan Mantri Jan Dhan Yojana (PMJDY) provided an added impetus to the various initiatives undertaken by the Reserve Bank towards furthering financial inclusion and financial literacy. The aim of research article to highlight the credit flow to agriculture, farmers and to deal with innovation and experiment that reduces gap between farmers and banking sector.**

Keywords: **Financial Inclusion, Credit delivery, Priority sector lending, Agricultural credit.**

1. INTRODUCTION

Indian is known as country of villages and the agriculture and allied activities are the backbone for the economic development of the country. Agriculture Sector assumes vital importance since it provides livelihood to 3/4 th of the country's population besides becoming significant source for raw material for many industries. Thus, agriculture is an important engine for economic growth of the country. After the nationalization of commercial banks in 1969, "social and development banking" was declared to be an official policy objective of rural banking. Formal institutions of credit provision, mainly commercial banks, emerged as important sources of finance to agriculture, countervailing usurious moneylenders and landlords. The policy of social and development banking was supply-led; it aimed at augmenting the supply of credit to rural areas and providing credit at affordable interest rates.

Financial inclusion plays a major role in driving a way the poverty from the country. Suggesting that India, home to the largest number of poor in 2012, may have been overestimating the number of its poor, the World Bank has detailed how a shift in the way consumption expenditure is recorded alters the country's poverty rate from 21.2 % to 12.4 % for 2011-12. Financial inclusion efforts received a big fillip with the launch of the *Pradhan Mantri Jan Dhan Yojana (PMJDY)* coupled with synchronized efforts by the Reserve Bank. To simplify credit dispensation, the need to submit 'no due certificates' to scheduled commercial banks by individual borrowers, including self help groups (SHGs) and joint liability groups (JLGs) for all types of loans, irrespective of the amount involved, was discontinued.

Pradhan Mantri Jan Dhan Yojana:

Pradhan Mantri Jan Dhan Yojana is a scheme for comprehensive financial inclusion launched by the Prime Minister of India, Narendra Modi, in 2014. Run by Department of Financial Services, Ministry of Finance, on the inauguration day, 1.5 Crore (15 million) bank accounts were opened under this scheme. By 15 July 2015, 16.92 crore accounts were opened, with around Rs 20288.37 crore (US$3.0 billion) were deposited under the scheme, which also has an option for opening new bank accounts with zero balance.

2. CREDIT DELIVERY

Priority Sector Lending:

Priority sector refers to those sectors of the economy which, though viable and creditworthy, may not get timely and adequate credit in the absence of a special dispensation. Typically, priority sector loans are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education, other low income groups and weaker sections. Such sectors are spread across the length and breadth of the country and especially prevalent in the hilly and coastal regions.

Table 1: Performance in Achievement of Priority Sector Lending Targets

(Amount in Rs billion)

Outstanding as on March 31	Public Sector Banks	Private Sector Banks	Foreign Banks
1	**2**	**3**	**4**
2014	16,190 (39.4)	4,645 (43.9)	907 (35.8)
2015	17,512 (37.3)	5,303 (42.8)	970 (35.9)

Source: RBI Annual report (2014-2015)

3. FLOW OF CREDIT TO AGRICULTURE

The target for agricultural credit is fixed by the Government every year. Led by the performance

Of scheduled commercial banks (SCBs), the actual flow of credit to the agriculture sector has been consistently higher than the target in recent years. Co-operative banks and regional rural banks (RRBs), however, could not achieve their targets for 2013-14 and 2014-15.

Table 2: Targets and Achievements for Agricultural Credit

(Rs billion)

End March	Scheduled Commercial Bank		Cooperative Banks		RRBs		Total	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
1	2	3	4	5	6	7	8	9
2013-14	4,750	5,090	1,250	1,199	1,000	927	7,000	7,116
2014-15*	5,400	5,997	1,400	1,384	1,200	1,025	8,000	8,406

**: Provisional.*

Source: RBI Annual Report (2014-2015)

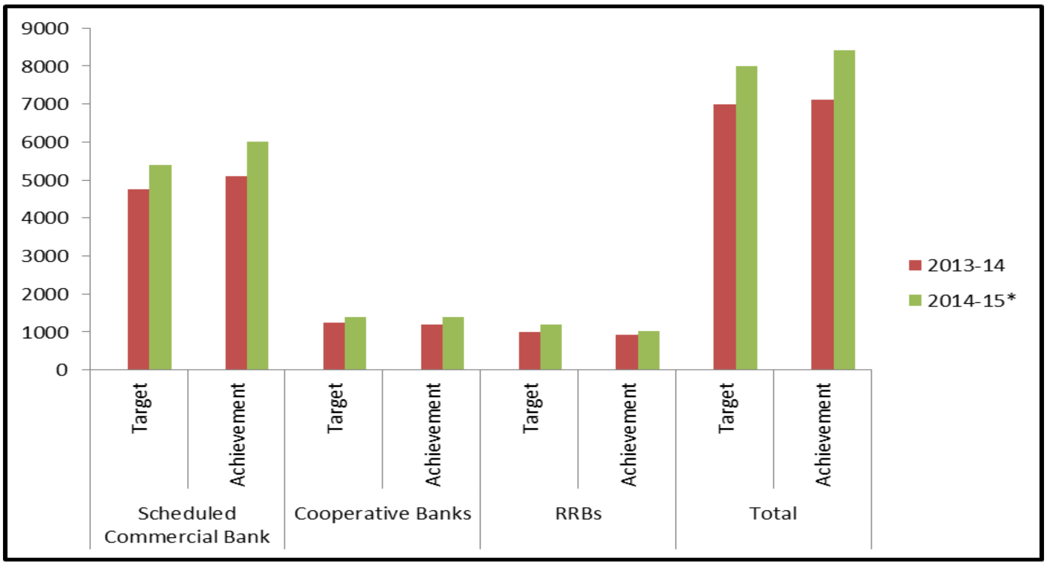

Fig 1: Targets and Achievements for Agricultural Credit

4. STRESSED ASSETS IN AGRICULTURE

SCBs' non-performing assets (NPAs) in the agriculture sector have been rising steadily since 2010, reflecting, *inter alia*, a decline in the recovery of agriculture advances. Although the Government has been incentivizing repayment of agricultural loans through the interest subvention scheme, this has not helped in improving the asset quality. The Government has been examining various measures to improve the efficacy of the scheme.

Table 3: NPAs in the Agriculture Sector

End-March	Agriculture Loans Outstanding (Rs billion)	Gross NPAs in Agriculture* (Rs billion)	Ratio of Gross NPAs (Agriculture) to Agriculture Loans Outstanding (per cent)
1	2	3	4
2010	4636	104	2.2
2011	5072	167	3.3
2012	5802	249	4.3
2013	6428	302	4.7
2014	7698	340	4.4
2015	8295	391	4.7

**Only SCBs.*

Source RBI Annual report (2014-2015)

5. INCREASING FLOW OF CREDIT TO FARMERS

A number of innovations and experiments have been initiated to bridge the gap between the rural population and the formal retail banking system.

Local area banks (LABs) an initiative that attempted to mobilize rural savings by local institutions and make them available for investment locally. As of 2005, only four LABs were functioning in the country. The major handicap in their business model was the lack of a refinancing facility that hindered their ability to lend at better rates.

1. Self-help groups (SHGs):

SHG with bank linkages was another indigenously developed banking model. Being a savings - first model, credit discipline is a norm of the group; Besides joint liability and social collateral make such groups bankable in the eyes of bankers. The linkages are achieved through nongovernmental organizations (NGOs) and other intermediaries, and this has formed the basis of the micro-finance movement in India. The alternative to the above model has been the NGO/MFI bulk-lending model where funds were placed at the disposal of NGOs or MFIs for lending to SHGs or other groups and even to individuals. However, this model was not able to scale-up due to the low capitalization of the NGO/MFIs and their inability to undertake financial intermediation. Also, this meant that the formal banks had a two-level exposure and this further reduced the potential for scaling-up.

2. Partnership Model:

In the partnership model, the MFI evaluates, recommends, originates the loans, helps in disbursal and subsequently tracks and collects the loans. However, the loans sit on the books of the bank and not of the MFI. This model has overcome the constraints of capitalization of the MFI and the double exposure that the banks were subjected to.

3. Kisan Credit Card (KCC):

KCC that enables the farmer to get loans over a three to five year period as a revolving credit entitlement, thus, providing them control over their cash flows and reduced transaction costs for both the banks and the farmers. However, the biggest roadblock has been the creation of point of sale (POS) kiosks and acceptance of the cards.

4. The business facilitator and the business correspondent model:

Both have been other innovations in this field. Institutions or persons, who interface between the rural poor and banks, are leveraged to provide support services under well-defined terms and conditions by way of contractual arrangements. In the case of the business facilitator model, as per the law, these agencies provide basic support services such as customer identification, collection of information/applications, credit appraisal, marketing etc. Under the business correspondent model, specific agencies e.g. MFIs, NBFCs etc. also provide disbursal of small value credit as "pass through" agents for the parent bank.

5. Joint Liability Groups (JLGs) of farmers:

It encourages the farmers through the process of counseling and persuasion.

6. Credit Guarantee Fund:

Constitution of Credit Guarantee Risk Fund by contribution from all stake holders viz., Central Government, State Government, NABARD, Commercial Banks, etc.

7. Crop Insurance Scheme:

Bringing all crops in all areas under insurance cover, low premium rates, simplified procedure for settlement of claims, village as the base unit for assessment of crop damage, providing cover to farmers for all types of risks including weather insurance etc.

8. Health Insurance Scheme:

Health hazards affect the activities of the farmers, as they are not in a position to bear with the unexpected financial shocks. If the cultivator himself falls ill, the situation not only leads to starvation of the family but also have a negative impact on crop yield. Therefore, health insurance is very essential to protect the farmers and save their families**.** Implementing a separate health insurance scheme through GIC for the entire family of farmers with subsidized premium (par with the BPL families).

9. Scale of finance:

Assessment based on Crop production, Consumption and Lease amount in case fixed lease contracts with advance payment of lease amount.

10. Diversified income generating activity:

To take up alternative income generating activities-such as Dairy, mini Poultry units, sheep rearing, Nonfarm enterprises as an avenue of additional disposable income and as a risk mitigant against the failure of land based agriculture.

11. Financial literacy:

The lack of financial advice is one of the barriers for economic independence through appropriate savings / credit / other financial services and investment decisions. The Bank's voluntarism can focus on opening Knowledge/Credit counseling centers for education on financial services of the Bank, credit and repayment planning and facilitate interface between the poorer sections of the farmers and the Research /Agricultural Institutes.

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