

CREDIT TO AGRICULTURE

Rural credit delivery system:

5.26 With a view to strengthen the rural credit delivery system for facilitating smooth credit flow to the rural sector in general and to agriculture in particular, a number of steps were taken by the Reserve Bank and the Government of India.

Special Agricultural Credit Plan

5.27 The public sector banks have been formulating Special Agricultural Credit Plans (SACP) since 1994-95 with a view to achieving distinct and marked improvement in the flow of credit to

agriculture. Under SACP, the banks are required to fix self-set targets for achievement during the financial year. The targets fixed by banks show an increase of about 20 to 25 per cent over the disbursements made in the previous year. During the financial year 2007-2008, against the target of Rs. 1,52,133 crore, disbursements to agriculture by public sector banks under the plan aggregated at Rs. 1,33,226 crore were only 87.6 per cent of the target. This contrasts with 2005-06 and 2006-07 when the target set was exceeded. Disbursements under the SACP by public sector banks during the last three years may be seen in Table 5.4.

Table 5.4 : Credit to agriculture from public sector banks under SACP

| Year | Target | Disbursements | Achievement of target (per cent) | (Rs. crore) |
|---------|----------|---------------|----------------------------------|---|
| | | | | Year-on-Year growth in disbursements (per cent) |
| 2005-06 | 85,024 | 94,278 | 110.9 | 44.6 |
| 2006-07 | 1,18,160 | 1,22,443 | 103.6 | 29.9 |
| 2007-08 | 1,52,133 | 1,33,226 | 87.6 | 8.81 |

Source : RBI

5.28 The SACP mechanism was also made applicable to private sector banks from the year 2005-06. The disbursements to agriculture by private sector banks under the plan aggregated Rs. 47,862 crore against the projection of Rs. 41,427 crore during the year 2007-08, thus constituting 115.53 per cent of the target.

Doubling of agriculture credit within three years

5.29 The Union Finance Minister had on June 18, 2004 announced certain measures for doubling of flow of credit to agriculture sector within a period of three years. The actual disbursement by banks exceeded the targets in each of the three years. For the years 2007-08, a target was fixed for Rs. 2,25,000 crore disbursement by banks, while adding 5 million farmers to their portfolio. As against this, all banks (including cooperative banks and RRBs) disbursed Rs. 2,54,657 crore forming 113 per cent of the target. During 2007-08, 75.36 lakh new farmers were financed by commercial banks and RRBs. The Union Finance Minister, in his budget speech for the year 2008-09 had also impressed on the banks to increase the level of credit to Rs. 2,80,000 crore during the year 2008-09. The amount disbursed by all banks (including cooperative banks and RRBs) during 2008-09 is placed at Rs. 2,64,455 crore (provisional) (Table 5.5).

Kisan credit cards

5.30 The Kisan Credit Card (KCC) Scheme was introduced in 1998-99 to enable the farmers to purchase agricultural inputs and draw cash for their production needs. During 2007-08, 84.7 lakh KCCs amounting with limits aggregating Rs. 88,264 crore were issued. During 2008-09 (till February 2009), a total of 47.26 lakh KCCs amounting with limits aggregating Rs. 26,828 crore were issued. (Table 5.6).

Table 5.6 : Agency-wise KCCs issued

| (Lakhs) | | | | |
|----------|--------------------|--------|--------------------------------|--------|
| Year | Co-operative Banks | RRBs | Public Sector Commercial Banks | Total |
| 1998-99 | 1.56 | 0.06 | 6.22 | 7.84 |
| 1999-00 | 35.95 | 1.73 | 13.66 | 51.34 |
| 2000-01 | 56.14 | 6.48 | 23.90 | 86.52 |
| 2001-02 | 54.36 | 8.34 | 30.71 | 93.41 |
| 2002-03 | 45.79 | 9.64 | 27.00 | 82.43 |
| 2003-04 | 48.78 | 12.75 | 30.94 | 92.47 |
| 2004-05 | 35.56 | 17.29 | 43.95 | 96.8 |
| 2005-06 | 25.98 | 12.49 | 41.65 | 80.12 |
| 2006-07 | 22.97 | 14.06 | 48.08 | 85.11 |
| 2007-08 | 20.91 | 17.73 | 46.06 | 84.7 |
| 2008-09# | 10.63 | 12.06 | 24.57 | 47.26 |
| Total | 358.63 | 112.63 | 336.74 | 808.00 |

Source : NABARD # Up to February 28, 2009.

Interest subvention relief to farmers

5.31 Pursuant to the announcement made by the Union Finance Minister in the Budget Speech for the year 2006-07, commercial banks were advised to grant relief of two percentage points in the interest rate on the principal amount up to Rs.1 lakh on each crop loan granted by banks during kharif and rabi of 2005-06, and credit the relief so granted to the borrower's account before March 31, 2006. Public sector banks, Regional Rural Banks and rural cooperative credit institutions were advised that with effect from kharif 2006-07, the Government would provide interest rate subvention of 2 per cent per annum to them in respect of short-term production credit up to Rs. 3 lakh provided to farmers. Government of India had provided Rs. 1,100 crore for reimbursing the claims submitted by banks in

Table 5.5 : Flow of institutional credit to agriculture and allied activities

| (Rs. crore) | | | | | | | |
|---------------------------|---------|---------|---------|---------|---------|---------|----------|
| Institutional credit from | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09* |
| Cooperative banks | 23716 | 26959 | 31424 | 39786 | 42480 | 48258 | 35747 |
| RRBs | 6070 | 7581 | 12404 | 15223 | 20435 | 25312 | 25852 |
| Commercial banks | 39774 | 52441 | 81481 | 125477 | 166485 | 181087 | 202856 |
| Grand Total | 69560 | 86981 | 125309 | 180486 | 229400 | 254657 | 264455 |

Source : NABARD

* Provisional

this regard. This subvention is available to public sector banks, Regional Rural Banks and rural cooperatives on the condition that they make available short-term credit at ground level at 7 per cent per annum. In case of RRBs and rural cooperatives, this is applicable only to short-term production credit disbursed out of their own funds and will exclude such credit supported by NABARD refinance.

5.32 The Government also decided to provide additional subvention, as a one-time extension, for the period April 1, 2007 to June 30, 2007 in respect of those farmers/ borrowers in the Vidarbha region, who could not pay on the due date, i.e. March 31, 2007 but repaid/ would repay before June 30, 2007. The extended subvention up to June 30, 2007 covered repayment of kharif loans.

5.33 The Government had announced at the time of presentation of the Union Budget for the years 2007-08 and 2008-09 that the 2 per cent subvention scheme for short-term crop loans would continue for the years 2007-08 and 2008-09. The Interim Budget 2009-10 announced that the Government of India would continue to provide the interest subvention in 2009-10 to ensure that farmers avail short-term crop loans up to Rs. 3 lakh at 7.0 per cent per annum.

Agricultural debt waiver and debt relief scheme, 2008

5.34 A scheme of agricultural debt waiver and debt relief for farmers with the total value of overdue loans being waived estimated at Rs. 50,000 crore and a one-time settlement (OTS) relief on the overdue loans at Rs. 10,000 crore was announced in the Union Budget, 2008-09, for implementation by all scheduled commercial banks, besides RRBs and cooperative credit institutions. The modalities of the scheme were finalized by the Government of India in consultation with RBI and NABARD, and the same was notified on May 23, 2008. The scheme covered direct agricultural loans extended to "marginal and small farmers" and "other farmers" by SCBs, RRBs, cooperative credit institutions (including urban cooperative banks) and local area banks. Accordingly, the Reserve Bank advised all the concerned banks to take necessary action towards implementation of the scheme at the earliest. NABARD had issued similar guidelines to RRBs and rural cooperatives.

5.35 In the case of a *short-term production loan*, the amount of such loan (together with applicable interest) and in the case of an *investment loan*, the instalments of such loan that are overdue (together

with applicable interest on such instalments), were made eligible for debt waiver or debt relief, as the case may be, if the loan was:

- Disbursed up to March 31, 2007 and overdue as on December 31, 2007 and remaining unpaid until February 29, 2008;
- Restructured and rescheduled by banks in 2004 and in 2006 through the special packages announced by the Central Government, whether overdue or not; and
- Restructured and rescheduled in the normal course up to March 31, 2007 as per applicable RBI guidelines on account of natural calamities, whether overdue or not.

5.36 This entailed the entire "eligible amount" being waived in the case of a small or marginal farmer; in the case of "other farmers," it would be a one time settlement scheme (OTS) under which the farmer would be given a rebate of 25 per cent of the "eligible amount" subject to the condition that the farmer repays the balance of 75 per cent of the "eligible amount.". In the case of 237 revenue districts covering Drought Prone Area Programme (DPAP), Desert Development Programme (DDP) areas and PM's Special Relief Package districts, "other farmers" would be given OTS rebate of 25 per cent of the "eligible amount" or Rs. 20,000, *whichever is higher*, subject to the condition that the farmer pays the balance of the "eligible amount."

5.37 A farmer classified as "small farmer" or "marginal farmer" will be eligible for fresh agricultural loans upon the eligible amount being waived. In the case of a short-term production loan, the "other farmer" will be eligible for fresh short-term production loan upon paying one-third of his share. In the case of an investment loan (for direct agricultural activities or allied activities), the "other farmer" will be eligible for fresh investment loan upon paying his share in full.

5.38 While RBI is the nodal agency for the implementation of the scheme in respect of SCBs, urban cooperative banks and local area banks, the nodal agency in respect of RRBs and rural cooperative credit institutions is NABARD. Accordingly, the arrangement envisages the Government of India reimbursing, through RBI and NABARD, the lending institutions for waiving off of the amounts of the "small and marginal farmers" and "other farmers" dues respectively. The reimbursements are envisaged in four instalments on the basis of duly certified and audited claims

submitted through the respective nodal agencies. Government of India had also decided to pay interest on the second, third and fourth instalments.

5.39 Under the Agricultural Debt Waiver and Debt Relief Scheme, the Government had agreed to provide to commercial banks, RRBs and cooperative credit institutions a sum of Rs. 25,000 crore as the first instalment. At the request of the Government and with a view to ensuring adequate financing of agricultural operations by banks, the Reserve Bank had provided temporary liquidity support aggregating Rs. 17,500 crore to RRBs and cooperatives through NABARD besides Rs. 7,500 crore to commercial banks. The limits in this regard were related to the quantum of debt waived by banks under the Agricultural Debt Waiver and Debt Relief Scheme, 2008. This liquidity support had been provided by the Reserve Bank of India under Section 17(3-B) and Section 17(4E) of RBI Act to scheduled banks and NABARD respectively. This envisaged interest is the prevailing fixed repo rate under liquid adjustment facility (LAF), repayable within a period of three weeks but not later than November 3, 2008. This facility was extended for a period up to December 5, 2008. Subsequently, the Reserve Bank revised the limits of the liquidity support availed by scheduled banks under Section 17 (3-B) of RBI Act, 1934 and by NABARD under Section 17 (4-E) of RBI Act, 1934 to Rs. 7,500 crore and Rs. 2,500 crore respectively with effect from December 6, 2008 for an extended period up to December 15, 2008 in the case of commercial banks and up to December 16, 2008 in the case of NABARD.

Agriculture insurance

5.40 Critical agro-climatic variations such as erratic rainfall distribution over time and space and increase in the frequency and severity of droughts, floods and cyclones and rising temperatures, have been causes of uncertainty and risk resulting in losses in agricultural production and of livestock population in India. The National Agricultural Insurance Scheme (NAIS) for crops was implemented from rabi 1999-2000 season with the objective of providing a comprehensive insurance solution to the farmers in the event of failure of any of the notified crops as a result of natural calamities, pests and diseases. The scheme is available to all the farmers (both loanee and non-loanee) irrespective of their size of holding and operates on the basis of "Area Approach," wherein a particular area, viz., tehsil or block or nyaya panchayat or gram panchayat etc is treated as unit of insurance instead of individual

farm holdings. It envisages coverage of all the food crops (cereals, millets and pulses), oilseeds and other annual commercial/horticultural crops in respect of which past yield data are available for an adequate number of years. At present, 10 per cent subsidy in premium is available to small and marginal farmers, which is to be shared equally by the Centre and State Governments. The scheme at present is being implemented by 24 states and 2 Union Territories. Since the inception of the scheme and until rabi 2007-08 about 1,155 lakh farmers have been covered. The coverage area is 184 million hectares and the sum insured is Rs.1,21,606 crore. Claims to the tune of about Rs.11,607 crore have been reported against the premium income of about Rs. 3,626 crore benefiting nearly 302 lakh farmers.

5.41 Despite high claims ratio (1:3.2) and low premium rates, particularly for food and oilseeds crops, farmers (particularly non-loanee farmers) do not come forward to avail of crop insurance in a big way. To overcome some of the limitations and to make the scheme more farmer-friendly, a joint group was constituted to study the improvements required in the existing crop insurance schemes. The group made an in-depth study and made important recommendations like reduction in the unit area of insurance to gram panchayat for major crops, improving the basis of calculation of threshold yield, higher indemnity level, coverage of pre-sowing/planting risks and post-harvest losses, personal accident insurance cover, etc.

Pilot scheme for weather-based crop insurance

5.42 As announced in the Union Budget for 2007-08, the Weather Based Crop Insurance Scheme (WBCIS) is being implemented in the selected areas for selected crops on a pilot basis w.e.f. kharif 2007. WBCIS intends to provide insurance protection to farmers against adverse weather incidence, such as deficit and excess rainfall which are deemed to impact adversely the crop production. It has the advantage to settle the claims within the shortest possible time. The WBCIS is based on actuarial rates of premium but to make the scheme attractive, premium actually charged from farmers has been restricted to "at par" with NAIS. The Agriculture Insurance Company of India Ltd. (AIC) has implemented the pilot WBCIS in Karnataka during kharif 2007 season, covering eight rain-fed crops, insuring 43,790 farmers and crops on nearly 50,000 ha for a sum insured of Rs. 53 crore. The total premium including the Government

subsidy amounting to Rs. 7.03 crore (farmers' share of premium was Rs.1.42 crore) was collected and the claims of Rs.5.24 crore were settled to the farmers within the stipulated time. WBCIS was implemented in 2007-08 on a larger scale in selected areas of four States viz., Bihar, Chhattisgarh, Madhya Pradesh and Rajasthan, for rabi 2007-08 season. AIC insured 6.71 lakh farmers covering an area of 10.35 lakh ha for a sum insured of Rs.1,758 crore against the premium of Rs.145.5 crore (farmers' share of premium was Rs.39.23 crore). The claim amounting to Rs.106 crore has been reported for the season and paid. During kharif 2008, AIC implemented this pilot in 10 states covering 1.4 lakh farmers with 1.87 lakh ha of cropped area covered for a sum insured of Rs. 309 crore generating a premium of Rs. 31.5 crore (including subsidy, farmers' share of premium is Rs. 11.82 crore). This pilot is also being continued during rabi 2008-09. In addition to AIC, private insurers like ICICI-LOMBARD General Insurance Company and IFFCO-TOKIO General Insurance Company have also been included for implementation of the scheme in selected areas.

Micro finance

5.43 RBI issued comprehensive guidelines to banks in February 2000 for mainstreaming micro credit and enhancing the outreach of micro credit providers. The guidelines, inter alia, stipulated that micro credit extended by banks to individual borrowers directly or through any intermediary would henceforth be reckoned as part of their priority sector lending. However, no particular model was prescribed for micro finance and banks were given freedom to formulate their own model[s] or choose any conduit/intermediary for extending micro credit.

5.44 Though there are different modes for purveying micro finance, the self help group (SHG) Bank Linkage Programme has emerged as the major micro finance programme in the country. It is being implemented by the commercial banks, RRBs and cooperative banks.

5.45 Under the SHG Bank Linkage Programme, as on March 31, 2008, 50,09,794 SHGs held saving bank accounts with total savings of Rs. 3,785.39 crore as against 41,60,584 SHGs with savings of Rs. 3,512.71 crore as on March 31, 2007 indicating growth of 20.4 per cent and 7.8 per cent respectively. Thus, more than 7.01 crore poor households were associated with banking agencies under SHG Bank Linkage Programme. As on March 31, 2008, the commercial banks had the maximum share of SHGs'

savings with 28,10,750 SHGs (56 per cent) and savings amount of Rs. 2,077.73 crore (55 per cent) followed by RRBs with saving bank accounts of 13,86,838 SHGs (27.7 per cent) and savings amount of Rs.1,166.48 crore (31 per cent) and cooperative banks with saving bank accounts of 8,12,206 SHGs (16.2 per cent) and saving amount of Rs. 541.17 crore (14.3 per cent). The share under the Swarnajayanti Gram Swarozgar Yojana (SGSY) in the total savings accounts was 12,03,070 SHGs forming 24 per cent of the total SHGs having savings accounts in the banks. During the year under review, the average savings per SHG with all banks decreased from Rs.8,469 as on March 31, 2007, to Rs. 7,556 as on March 31, 2008. It varied from high of Rs.8,411 per SHG with RRBs to low of Rs.6,663 per SHG with cooperative banks. As on March 31, 2008, the share of women SHGs in the total SHGs with saving bank account was 39,86,093 forming 79.56 per cent as compared to last year's share of 78.63 per cent.

5.46 During the year 2007-08, the banks financed, 12,27,770 SHGs, including repeat loans to existing SHGs, with bank loans of Rs.8,849.26 crore as against 11,05,749 SHGs with bank loans of Rs.6,570.39 crore during 2006-07 with a growth of 11.03 per cent (number of SHG) and 34.7 per cent (bank loan disbursed) (Table 5.7).

5.47 As on March 31, 2008, 36,25,941 SHGs had outstanding bank loans of Rs.16,999.90 crore as against 28,94,505 SHGs with bank loans of Rs.12,366.49 crore as on March 31, 2007 with a growth of 25.3 per cent. It included 9,16,978 SHGs (25.3 per cent) with outstanding bank loans of Rs. 4,816.87 crore (28 per cent) under SGSY as against 6,87,312 groups (23.7 per cent) with outstanding bank loan of Rs.3,273.03 crore (26.5 per cent) as on March 31, 2007. Commercial banks had the maximum share of outstanding bank loans to SHGs with a share of 67.5 per cent followed by RRBs with a share of 26 per cent and cooperative banks with 6.5 per cent. As on March 31, 2008, average bank loan outstanding per SHG was Rs. 46,884 as against Rs. 42,724 as on March 31, 2007. It varied from a high of Rs. 50,485 per SHG in case of RRBs and a low of Rs. 29,711 in case of cooperative banks.

5.48 On the basis of the data received from banks by NABARD, the gross NPAs in respect of bank loans to SHGs were 2.9 per cent of the bank loans outstanding to SHG on the basis of the data from banks which reported NPA figures. Gross non-

Table 5.7 : Progress under SHG-Bank Linkage

| Year | New SHGs financed by banks | | | | Bank loan ^{**} (Rs. crore) | |
|----------|----------------------------|------------|----------------------------|----------|-------------------------------------|-------------------|
| | During the year | | Cumulative During the year | | Growth (%) | Cumulative Amount |
| | No. | Growth (%) | No. | Amount | | |
| 2002-03 | 2,55,882 | 29 | 7,17,360 | 1,022.34 | 87 | 2,048.68 |
| 2003-04 | 3,61,731 | 41 | 10,79,091 | 1,855.53 | 81 | 3,904.21 |
| 2004-05 | 5,39,365 | 49 | 16,18,456 | 2,994.25 | 62 | 6,898.46 |
| 2005-06 | 6,20,109 | 15 | 22,38,565 | 4,499.09 | 50 | 11,397.55 |
| 2006-07 | 11,05,749* | — | 28,94,505@ | 6,570.39 | — | 12,366.49 |
| 2007-08 | 12,27,770 | 11 | 36,25,941 | 8,849.26 | 35 | 16,999.90 |
| 2008-09# | 6,42,636 | | @@ | 6,471.77 | | @@ |

Source : NABARD

** Includes repeat loans to existing SHGs.

Provisional

· Included existing SHGs also, which were provided repeat bank loan.

@ from 2006-07 onwards, data in respect of number of SHGs financed by banks and bank loans are inclusive of SHGs financed under the Swarnajayanti Gram Swarozgar Yojana (SGSY) and the existing groups receiving repeat loans. Owing to this change, NABARD discontinued compilation of data on cumulative basis from 2006-07. As such data from 2006-07 onwards are not comparable with the data of the previous years.

@@ Not available

performing assets (NPAs) for bank loans to SHGs under SGSY were 5.72 per cent of the total outstanding loans to SHGs.

5.49 During the year 2008-09, 6.43 lakh SHGs were provided with bank loans of Rs. 6,471.77 crore (excluding SGSY groups), out of which repeat loans of Rs. 4,294.62 crore were provided to 3.68 lakh existing groups.

5.50 Banks were earlier advised that micro credit should cover not only consumption and production loans for various farm and non-farm activities of the poor, but also include their other credit needs such as housing and shelter improvements. Consequent upon the announcement made at the time of presentation of budget for the year 2008-09, banks have been advised in April 2008, to meet the entire credit requirements of SHG members, namely, (i) income generation activities, (ii) social needs like housing, education, marriage, etc. and (iii) debt swapping.

Evaluation of self-help groups

5.51 Pursuant to the announcement made in the annual policy statement of the RBI, for the year 2007-08, all regional offices (ROs) of the Reserve Bank were advised to undertake an evaluation of the SHG-Bank Linkage Programme. This was intended to ascertain the degree of transparency in maintaining the accounts by the SHGs and their adherence to well accepted best practices. The evaluation of SHGs carried out by the ROs is reported to be completed.

5.52 The gathering momentum in the micro finance sector has brought into focus the issue of regulating the sector. A draft Micro-Financial Sector (Development and Regulation) Bill, 2007 which envisages regulation of the sector, was tabled in the Lok Sabha on March 20, 2007. The Bill provides for registration of micro finance organizations desirous of accepting thrift deposits with NABARD.