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Study on Access to Farm Credit by the Small and Marginal Farmers in India under the Policy on Priority Sector Lending (PSL)

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ABSTRACT

This study attempts to review quantitatively on the present scenario of access to farm credit by small and marginal farmers and its performances under the policy of priority sectors lending (PSL) in India from different secondary sources of information w.e.f. 2001. The aim of PSL program is to ensure adequate credit to vulnerable sectors of the economy like agriculture. Farm credit, in India, has increased by 15.78 per cent from FY10 to FY15. Despite various policy attempts at priority lending to poor farmers, very little progress has been made. Nearly, 51.9 per cent of Indian farmers and 85 per cent of marginal and small farmers are under debt but formal credit facilities extended to them is very poor (30%). Only 40 per cent of the total farmers have received Kishan Credit Card. Most of the PSL programmes are related to interest rate subvention. As per RBI policy, 40 per cent of loans should go to PSL sector of which 18 per cent were to go to agriculture. But, it was just 13 per cent in 2015. Due to changes in norms and regulations, scope of PSL has been. The share of direct agricultural loans to marginal farmers has fallen sharply from almost 23 per cent in 2005 to just 4.3 per cent in 2013. They are 85.03 per cent in no. of holdings and 44.5 per cent in area operated. But, the present shares are only 7 per cent and 8 per cent respectively. India's agricultural production and extent of credit have shown a positive growth rate. But loans to farmers are not driving the rise in agricultural credit but are agri-businesses and corporate sectors involved in agriculture. So, delivery and access of farm credit to poor farmers under PSL is not yet satisfactory. Various experts emphasized Govt.'s proactive role and suggested for appropriate design and innovation in implementation of PSL policy effectively. It is, thus, suggested that more effort can be *inter alia* alternative livelihood, poverty alleviation, mainstreaming marginalized groups and promotion for appropriate technologies/inputs for higher production, income and quality of lives of small and marginal farmers.

Keywords : Priority sector lending, farm credit, small farmers, crop loan, Govt. roles & policies

The policies of priority sector lending (PSL) were first introduced in 1970s accorded significant priority to agriculture, export, small and micro enterprise. In 1967 the issue was first placed in the parliament and PSL and was properly defined and implemented in 1972 as per the recommendation of the National Credit. The aim of PSL program is to ensure that adequate credit is available to some of the vulnerable sectors of the economy like agriculture. The Govt. has taken many initiatives to provide credit in a continuous manner to needy sectors of the economy. Since then, priority sector, social inclusion, etc. became an integral part of monetary policy of Reserve Bank of India (RBI).

Being a very important part of Indian economy, agriculture and allied sectors contribute nearly 18 per cent towards India GDP in 2014-15 (with new estimating base year 2011-12). Access to finance is very important for the growth of agricultural sector. International Finance Corporation (IFC) in 2013 reported that agriculture was the source of livelihood of nearly 86 per cent of rural people in developing countries, but financing for agriculture was very scarce, even for large investors (Ruete, 2015).

While analysing the effectiveness of PSL advances, it is seen that the incidence of poverty in India declined from 37.2 per cent in 2004– 05 to 21.9 per cent in 2011–12, with a sharper decline in the number of rural poor. The rural poverty ratio (25.7 per cent) has been much higher than urban poverty ratio (13.7 per cent) in 2011–12 (NABARD, 2014-15). India's ranking in Human Development Index (HDI) slightly improved from 135 (2013) to 130 (2014) out of 188 countries. Besides, India's ranking in the Global Hunger Index (GHI) (IFPRI, 2014) has been improving over the years. It ranked the 55th in 2014 with GHI of 17.8 compared to 24.2 in 2005. This could be attributed to different Govt. programmes like MGNREGA, NFSA (2013), etc.

On the other hand, nearly 51.9 per cent of Indian farmers in general, and 85 per cent of marginal and small farmers are under debt (*NABARD, 2015*) but formal credit facilities extended to them is very poor (30%) but they contribute nearly 52 per cent of total produce.

Govt. has been allocating substantial amount of fund for agricultural credit/farm credit and its achievements are also encouraging. The targets during the last three years have been fulfilled and the target for 2015-16 of ₹ 8.5 lac crore is also expected to fulfil (Rao, 2015).

Despite various policy attempts at priority lending to poor farmers, very little progress has been made on the ground. Most rural poor are excluded from the ambit of the formal financial system. This causes financial distress, besides limiting their ability to raise productivity, grow high-value crops and improve their own living standards (Lahiri & Mookherjee, 2015). Meenakshi *et al.* (2011) has also reported the same scenarios. Rao (2015) observed that the recent changes in PSL norms have paved the way for sanctioning more loans to big farmers and the corporates in the name of agriculture. The above observations, thus, show that extending credit facilities to agricultural remains much more importance under the policy of priority sector lending (PSL) in India.

In view of above, the objective of this study is to review quantitatively on the present scenario of access to farm credit by small and marginal farmers and its performances under the policy of priority sectors lending (PSL) in India.

DATABASE AND METHODOLOGY

This study has been done based on thematic review on the existing Govt. policies, programmes and performances of farm credit under policy of priority sector lending (PSL) in India. Data relating to diverse years starting from the year 2000-01 and onward (based on the availability) have been scrutinized to review the scenario of farm credit till date. Mainly secondary sources of information have been employed. Apart from this, documents of policies and their implantations both from the Govt. and private lending agencies have been consulted. Simple tabular form of analysis has been exercised to acquire a holistic view on the performance of the entire system. To study the growth/trend of the performance of various aspects, compound annual growth rate (CAGR) has also been estimated with the following method of exponential production function like :

Y = axb, where Y = time frame, a = constant, b = exponential co-efficient and x = variable.

Now, taking log, we get, Log Y = Log a + x Log b, which can be expressed as Y=A+BX (a linear model). Ordinary Least Square (OLS) method has been followed to derive the value of "b". Lastly, CAGR is obtained with the formula i.e. CAGR= (b-1)×100 (Das, 1989).

RESULTS AND DISCUSSION

Genesis of Priority Sector Lending (PSL)

Despite commercial banks' lending to agriculture under (a) direct financing and (b) indirect financing, the lending did not exceed two per cent of the total credit. Thus, nationalization of bank was done in 1969. After nationalization of banks, the broad categories under priority sectors were agriculture, small scale industries and exports. This is the genesis of priority sector lending (PSL), and was known as "social control" of banking sector. In 2015, RBI has issued a notification and following categories of priority sector with target have been earmarked as •Agriculture •Micro, small and medium enterprise •Export credit •Education •Housing •Social infrastructure • Renewable energy and •Others.

According to its guidelines, the scheduled commercial banks and foreign banks with more than 20 branches have a target of 40 per cent of adjusted net bank credit (ANBC) for total priority sector. In case of agriculture, the share is 18 per cent of ANBC. Within the 18 per cent target for agriculture, a target of 8 per cent of ANBC is prescribed (excluding foreign banks) for small and marginal farmers. The 18 per cent credit to agriculture was further categorized into direct credit (13.5%) and indirect credit (4.5%). Presently, the lending to agriculture sector has been re-defined to include (i) farm credit (short-term crop loans and medium/long-term credit to farmers), (ii) agriculture infrastructure and (iii) ancillary activities (RBI, 2015).

Status of Small and Marginal Farmers and their Access to Farm Credit

The percentage share number of holding for the small and marginal farmers jointly was 69.9 per cent in 1970-71 and it increased to 82.7 per cent in 2010-11, respectively. Thus, average size of holdings has come down to only 0.39 ha. for marginal and 1.42 ha for small farmers in 2010-11 (Agricultural Census, 2011) implying real picture of fragmentation of holding of these categories of farmers into an uneconomic size.

The area operated by small farmers (3.59 crore hectares) and marginal farmers (3.52 crore hectares) accounts for 44.55 per cent of the total operated area of 15.96 crore hectares (RBI, 2013). So, the small and marginal farmers' share in the credit should be determined keeping in view of their 85.03 per cent in terms of number of holdings and 44.5 per cent in terms of area operated. The present share, or the targeted 7 and 8 per cent are nowhere near these numbers. In fact, the overall bank credit to agriculture has been much below the 18 per cent norms. It was just 10.52 per cent by March 2013. Of this, the rural agriculture got only 4.49 per cent and the remaining went to the semi-urban, urban and metropolitan agricultural segments (Rao, 2015).

Progress of Institutional Farm Credit

In 2014-15, institutional arrangements (commercial banks, regional rural banks and cooperative banks) have collectively provided ground level farm credit of total ₹ 840643 Crores. Among them, commercial banks has highest share (71%) (IBA, 2014-15).

The Table 1 shows that short term loans are increasing over the years from 2011-12 to 2015-16 implying rising demand for institutional crop loan for small farmers.

Table 1: Ground Level Disbursement to Agricultural Sector (Amount : ₹ in Crore)

Category	2011-12	2012-13	2013-14	2014-15	2015-16
Crop Loan	396158	473500	548435	635412	705443
Term Loan	114871	133875	181688	209916	171780
Total	511029	607375	730123	845328	877224

Source : *NABARD (2016)*

Table 2: Share of Small/Marginal Farmers in Ground Level Farm Credit (2007-08 & 2014-15)

(Unit : ₹ in crore)

Agency	2007-08					2014-15				
	No. of A/c (lakhs)		Loan Disbursed		Av. Loan Amt to SF/MF	No. of A/c (lakhs)		Loan Disbursed		Av. Loan Amt to SF/MF
	Total	SF/MF	Total	SF/MF		Total	SF/MF	Total	SF/MF	
Commercial Banks	174.8	97.4 (55.8)	81008	52231 (28.8)	53625	426.2	195.4 (45.9)	604376	197540 (32.7)	101075
Cooperative Banks	201.8	117.9 (58.4)	48258	22609 (46.9)	19176	306.9	202.8 (66.1)	138470	78736 (56.9)	38830
RRBs	62.7	42.2 (67.3)	25312	15019 (59.3)	35590	120.5	87.8 (72.9)	102483	70390 (68.7)	80153
Total	439.3	257.5 (58.6)	154658	89859 (35.3)	34897	853.6	486.0 (56.9)	845328	346666 (41.0)	71326

Source : *NABARD (2015-16), *Figures in the parentheses refer to share in total of that agency.*

We also examine the extent of shares of small and marginal farmers in ground level credit. Data for the year 2014-15 have been compared 2007-08. Total loan disbursed in favour of small and marginal farmers has increased from 35.3 per cent to 41 per cent but percentage accounts declines from 58.6 per cent to 56.9 per cent in the same period (Table 2).

Effect on Crop Production and Productivity

The contribution of small and marginal farmers in India's total agricultural production (food production) is 52 per cent (approx.) (Dev, 2012). The progress of production of principal crops is presented in Table 3. The average annual growth rates of production and productivity have been positive for all food crops (rice, wheat, coarse cereal and pulses) except wheat.

Jain (2015) estimated that the yield growth (compound annual growth rate or CAGR) of rice was of 1.71 per cent during the period 1983 to 2013 and wheat by 1.80 per cent, whereas credit to agriculture has increased with a CAGR of 15 per cent during the same period. Narayanamoorthy *et al.* 2015 opined that enhanced farm credit was very much needed to boost the farm productivity, but ii should be coupled with affordable farm inputs and a viable MSP (minimum support price).

Sources of Farm Credit to Small and Marginal Farmers

Farmers with higher holding sizes could get as high as 78.9 per cent loans from institutional sources. In comparison, shares of small and marginal farmers' were 14.9 to 54.8 per cent. Agricultural money lenders were the major source agricultural credit for small and marginal farmers (46-85%) (Agriculture at a glance, 2014).

Agricultural-households having less than one hectare of land have negative net income, and, thus, their net investment in productive assets were very low (NABARD, 2014-15). It can be interpreted in otherwise that their access to credit was very low. Agriculture alone cannot generate enough income for small and marginal farmers, and, thus, they obtain their source of livelihood from multiple sources. Bhanwala (2016) estimated that for marginal farmers, the main source of income is wage (48%) and for small farmers, 57 per cent of income comes from agriculture. For all farmers, income from cultivation accounted for only 48 per cent. So, livelihood security from other alternative sources is the main concern for small and marginal farmers.

Table 3: Agricultural Production : 2010-11 to 2014-15 (Food grain Production in Million Tonnes)

Crop	2010-11	2011-12	2012-13	2013-14	2014-15	Average Annual Growth Rate ((%) : 2000-01 to 2013-14	
						Production	Yield
Rice	95.08	105.30	105.24	106.65	105.48	1.82	1.74
Wheat	86.87	94.88	93.51	95.85	86.53	1.83	0.79
Coarse Cereals	43.40	42.01	40.04	43.29	42.86	3.84	4.28
Pulses	18.24	17.09	18.34	19.25	17.15	3.59	1.73
Total Foodgrain	244.49	259.28	257.13	265.04	252.02	2.11	1.70
Oilseeds*	324.79	297.99	309.43	327.50	273.80	1.2%	4.9%

Source : *NABARD Annual Report (2014-15) *IIM, Ahmedabad (2014)*

Table 4: Poverty in India

Year	Poverty line per Capita Income per Month (₹)		Number of Poor (No. in Million)			Poverty Ratio (%)		
	Rural	Urban	Rural	Urban	Total	Rural	Urban	Total
2004-05	446.7	578.8	326.3	80.8	407.1	41.8	25.7	37.2
2011-12	816.0	1000.0	216.5	52.8	269.3	25.7	13.7	21.9

Source : *NABARD (2014-15)*

Upliftment of Poor Farmers - Extent of Poverty in Rural India

Due to various Govt initiatives, incidence of poverty in India has declined from 37.2 per cent in 2004-5 to 21.9 per cent in 2011-12 with a sharper decline in the number of rural poor. Pace of development in rural areas is much lower as reflected by higher value of poverty ratio in rural (25.7%) compared to poverty ratio in urban (13.7%) (Table 4).

Performances of Banks

Many banks fall short on their PSL target every year and the targets have come under criticism as the banking sector's non-performing assets (NPA) have been a challenge. Table 5 shows that NPA in PSL lending advances is increasing for public, nationalized and all schedule commercial banks (except private banks) w.e.f. 2013 to 2015. This has largely inhibited advances under PSL.

Table 5: Proportion of Non-Performing Assets in Priority Sector Lending Advances (%)

Year	Public Sector Banks	Nationalized Banks	Private Banks	All Schedule Commercial Banks
2013	5.2	4.6	1.6	4.5
2014	5.2	5.0	1.6	4.5
2015	5.8	5.8	1.6	4.9

Source : *Jain (2015)*

However, during 2011, rural population per branch was 15153 in rural areas and in aggregate level, it was 13139 (Ramakumar & Chavan, 2013) implying lack of financial infrastructural facilities.

Policy Shift in Agricultural Credit

Banks can now lend to agriculture in its entirety to either direct/indirect agriculture activities. With removal of distinction between direct/indirect lending to agriculture sector, it will be pertinent to identify defined activities in the two categories.

(a) Direct Lending to Agriculture

Govt. decided to give direct loans to individual farmers including Self-help Groups (SHGs) or Joint Liability Groups (JLGs), corporate including farmers' producer companies (limit of ₹ 2 crore/ borrower) for agriculture and allied activities, small and marginal farmers for purchase of land for agricultural purposes, distressed farmers indebted to non-institutional lenders, etc. (NABARD, 2015-16).

(b) Indirect Lending to Agriculture

If the aggregate loan limit per borrower is more than ₹ 2 crore, the entire loan will be treated as indirect finance to agriculture. Besides, it includes loan up to ₹ 5 crore to producer companies set up exclusively by only small and marginal farmers for agricultural and allied activities.

Ramakumar and Chavan (2013) have shown that share of direct credit has increased from 76.1 per cent in 2005 to 82 per cent in 2011. In comparison, share of indirect credit has declined from 23.9 per cent to 18 per cent in the same period (Table 6).

Table 6: Direct and Indirect Agricultural Credit from Scheduled Commercial Banks : 1985 to 2011

Year	Share in Total Agricultural Credit (%)		Total
	Direct	Indirect	100
1985	83.2	16.8	100
2000	84.5	15.5	100
2011	82.0	18.0	100
CAGR (%)	-0.15	0.69	—

Source : Ramakumar & Chavan (2013).

The share of credit to small and marginal farmers has dropped dramatically across the country. The share of direct agricultural loans worth less than ₹ 25,000 to marginal farmers has fallen sharply-from almost 23 per cent in 2005 to just 4.3 per cent in 2013. On the other hand, the share of direct agricultural loans worth over ₹ 1 crore has risen from 7.5 per cent in 2005 to per cent in 2013 (Kakodkar, 2015). Narayanamoorthy (2015) showed that about 20 per cent by indirect finance went to companies in the form of farm inputs, state electricity boards, agribusiness companies, etc. And 80 per cent of this spending was on subsidies on fertilizer, electricity and irrigation (Seetha, 2015).

Changes in the Volume of Short Term and Long Term Credit to Agriculture

Due to risks, high demand, policy of subvention, political reasons, etc. volume of short term credit has been rising year after year compared to long term loan. The CAGR of short term credit was 22.89 per cent from 2004-05 to 2013-14 and CAGR of long/ medium term loan was 10.90 per cent and for total credit, it was 18.97 per cent (Table 7). This tendency will reduce investment in agriculture.

Table 7: Short Term and Medium/Long Term Institutional Agricultural Credit (Unit : ₹ in Crore)

Year	Production / Short Term Credit	Others / Medium or Long Term Credit	Total Credit
2004-05	76062	49247	125309
2013-14	573001	138620	711621
CAGR (%)	22.89	10.90	18.97

Source : *Economic Survey (2015)*

Assessment of Benefit-Cost of Priority Sector Lending

The Table 8 shows that PSL advances have incurred high costs compared to the resulting returns. This may largely discourage the lending agencies for more advances to PSL.

Table 8: Bank Group-wise Costs and Return on Priority Sector Lending Advances (%)

Bank Group	Cost of Credit	Return on Advances
Public Bank	15.87	9.69
Private Bank	18.91	11.24
Foreign Bank	16.99	9.38

Source : *Jain et al. (2014-15)*

However, Indian Banking Association (IBA) has demanded for review the policy of PSL.

Upgrading the Farmers' Status - Recent Holistic Approaches of the Govt.

- Under t*he strategy for doubling income of farmers (2014)*, emphasis is given to raise agricultural productivity with investments in agricultural R&D, inputs, marketing, credit, insurance etc. The MGNREGS can also be utilized (NABARD, 2014-15).
- Attention has been given to *drought- prone and distress areas* under the Deen Dayal Antyodaya Mission. Self-help Groups and MGNREGA will support this effort on priority under Pradhan Mantri Krishi Sinchai Yojana (NABARD, 2014-15).
- *Climate-Smart Agriculture (CSA)* will be actively propagated for sustainable development, viz. (a) economic, (b) social and c) environmental (NABARD, 2014-15).
- *Legalisation and liberalisation of land leasing* will help promote agricultural efficiency, equity, occupational diversification and rapid rural transformation (NITI, 2016).

CONCLUSION

The study shows that infrastructural facilities are quite inadequate to address the need of farm credit by small and marginal farmers under PSL. Govt. has taken up many policies and initiatives to focus this issue. But due to recent policies of RBI, major benefits go to big and corporate agri-business sector. The priority sector targeting as per the present framework has left a major part of small and marginal farmers untouched. This has led to the parallel development of new policy initiatives in the arena of financial inclusion (Jain *et al.*, 2014-15). These trends of declining cheap and easy credit to small and marginal farmers have put Indian agriculture into transitional phase of the agrarian crisis. Thus, the government is left with no choice but to strengthen the lending institutions to increase, not weaken, the support to the farmer in the country (Rao, 2015). Hence, more efforts may be initiated to ensure the reach of targeted farm credit to the small and marginal farmers which ultimately will upgrade production, income and quality of their lives.

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