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Directing the Credit for Agricultural Growth in Jammu & Kashmir

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Abstract

Jammu and Kashmir is a hill state having majority of farmers falling under marginal and small holding categories. Diffusion of modern agricultural techniques and practices to the farmers by way of strengthening and activating the extension machinery can go a long way in improving the situation. This adoption of new technologies depends largely on the state of infrastructure and resources available with the farmers. Therefore credit is an important input for maintaining resources to improve agriculture at local level.

However, both the Government and the financial institutions are taking several steps to enhance the credit flow to agriculture. During the past few years significant progressive changes have taken place in banking and financial structure of Jammu and Kashmir. The growth of commercial banks and co-operative credit societies has been really spectacular. The Banks have played a crucial role in the mobilization of savings and Investment. Bank credit to productive sectors of the economy has a critical role in sustaining the growth process. Banking structure in J&K consists of Commercial Banks, Regional Rural Banks and Cooperative Banks. At the end of December 2008, the state was served by 944 bank branches of all Scheduled Commercial Banks.

Average population per bank is 13 thousand in J&K state compared to average 15 thousand in the country. The biggest challenge in respect of credit is the smooth flow of credit in the beginning of the cropping season for the farming community with a guaranteed minimum price support. Kissan Credit Card scheme is implemented in the state with that objective and the number of farmers cover under the scheme is increasing (1,24,365 distributed in 2012). Future reforms in credit availability of farmers of state would require for agro-economic development at both micro and macro level, to strengthen the farm business in hills and remote districts of the state for achieving overall well being of the farming society.

Keywords: Capital formation, Institutional sources, Kissan Credit Card, Credit gap

Development of agriculture like development of any other sector depends upon the amount of capital invested. Indian farmers which are traditionally having low resource base could not able to invest in their agriculture of their own. Credit played an important role by facilitating technological up-gradation and commercialization of agriculture. The success of Green Revolution in Indian agriculture to a large extent laid on institutional credit support to agricultural sector in terms of expansion in inputs like fertilizers, irrigation, private capital formation, etc. So accessibility to an easy and cheap institutional credit is an important component of agricultural development.

Agriculture also plays a very prominent role for development of economy of J&K State. Around 65 per cent of the population in the State gets livelihood directly or indirectly from the Agriculture and allied Sectors. The State comprises of three regions namely Jammu, Kashmir and Ladakh having distinct geographical outlook and agro climatic zones. Each zone having its own characteristics that largely determines the cropping pattern and productivity of crops. The estimated percentage contribution of Agriculture and allied sector was 21.19% in 2011-12, against, the corresponding share of 28.06%, registered in 2004-05 at constant prices. The present paper highlighted some of the issues regarding credit need, its disbursement and perception of clients for its efficient use in the state of Jammu and Kashmir.

Research Methodology

The present paper tries to identify the status of credit need and expectations of farmers from institutional sources. Secondary data from different sources have been used to obtain a clear picture of perception of farmers regarding institutional credit. Several limitations and high points of institutional credit delivery mechanism have been collected and necessary recommendations, thus been made to effectively meet the future demands of farmers in the state.

Structure of Institutional credit

Credit is one of the critical inputs for agricultural development. It capitalizes farmers to undertake new investments and/or adopt new technologies. A large number of formal institutional agencies like Co-operatives, Regional Rural Banks (RRBs), Scheduled Commercial Banks (SCBs), Non– Banking Financial Institutions (NBFIs), and Self-help Groups (SHGs), etc. are involved in meeting the short- and long-term needs of the farmers. National Bank for Agriculture and Rural Development (NABARD) is the apex institute dealing in rural and agricultural credit in India (Kumar *et al,* 2010).

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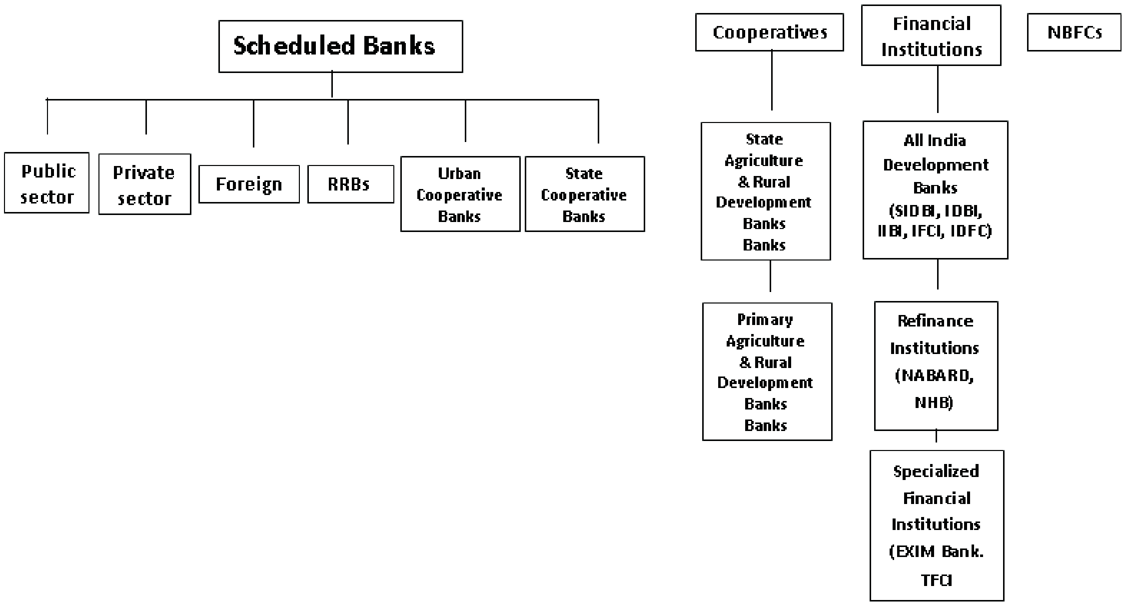

Figure 1. Structure of India's Financial System

The institutional sources of credit meet 51 per cent of the credit requirements of the farm sector (Rao, 2003). Farmers heavily depend on non institutional sources of credit due to frequent needs, inadequate availability of institutional credit, unnecessary delays, cumbersome procedure and improper practices adopted by institutional lending agencies (Singh, 1971; Sharma, 1978; Nahatkar *et al.,* 2002; Rao, C.H.H., 2003). Due to high cost of credit from the non-institutional sources the productive capacity of the borrower farmer is deteriorated. The small borrowers are also interested in adequate supply of credit rather than lower rates of interest (Rao, C.H.H.; 2009). Even the institutional credit taken for agricultural purposes is quite iniquitous. The 9.50% of marginal and 17.64% of small farmers have availed 26.39%, 21.30% respectively of the total institutional credit taken by all categories of farmers for agricultural purposes. Realizing the importance of enhancement of flow of credit to the rural sector and reduction of the dependence of farmers on non-institutional sources of credit, NABARD introduced Kisan Credit Card (KCC) scheme in August, 1998 for short term (S.T.) loans i.e., production credit with the objective of providing adequate, timely or without any delay, cost effective and hassle free credit support to farmers. The scheme was implemented across the country by the public sector commercial banks, RRBs and cooperative banks. Subsequently the scope of the KCC scheme was extended to term loans for agriculture and allied activities and reasonable component for consumption loan. The scheme has also been extended to cover the customers of State Cooperative Agriculture and Rural Development Banks.

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Agriculture in Jammu and Kashmir

Jammu and Kashmir is a hill state having majority of farmers falling under marginal and small holding categories. Diffusion of modern agricultural techniques and practices to the farmers by way of strengthening and activating the extension machinery can go a long way in improving the situation. This adoption of new technologies depends largely on the state of infrastructure and resources available with the farmers. Therefore credit is an important input for maintaining resources to improve agriculture at local level.

Status of credit disbursement in Jammu and Kashmir

Government and the financial institutions are taking several steps to enhance the credit flow to agriculture. During the past few years significant progressive changes have taken place in banking and financial structure of Jammu and Kashmir. The growth of commercial banks and co-operative credit societies has been really spectacular. The Banks have played a crucial role in the mobilization of savings and Investment. Bank credit to productive sectors of the economy has a critical role in sustaining the growth process. Banking structure in J&K consists of Commercial Banks, Regional Rural Banks and Cooperative Banks. At the end of December 2008, the state was served by 944 bank branches of all Scheduled Commercial Banks. Average population per bank is 13 thousand in J&K state compared to average 15 thousand in the country.

As per the census, 2011, the total population of the state is 12548926 out of which 73% is the rural population. Although the banking sector expanded the branch network significantly but the inequalities in the banking services still exist. Some districts are historically better served by banks however; the banking development in some other districts is lagging far behind in the district-wise comparison. The inequalities in the availability of banking services can be found by applying some indicators (i) Dependence of population per branch varied from 5000 to 17000. The top five ranks regarding average population coverage per bank branch are occupied by Jammu, Leh, Samba/ Srinagar, Baramulla and Kathua districts (Economic Survey, 2012-13).

Sector wise credit potential for Jammu and Kashmir

Sector-wise credit potential for Jammu and Kashmir is given in table 1 and clearly indicates that the targets set for disbursement of institutional credit to agriculture in the state for the year 2011-12 were achieved by 109.82%. This however does not clarify the sections of population to which this credit has been disbursed.

Table 1. Sector wise credit potential for J&K (` in lakh)

Sector	Potential link Credit Plan Estimates	Ground level credit Targets	Achievements 2011-12	Percentage achievement
Agriculture	79217.81	84606.24	92915.67	109.82
Non-farm Sector	72161.12	172595.48	138181.30	80.06
Other Priority Sector	169062.02	104767.27	156987.01	149.84
Total	320440.95	361968.99	388083.98	107.21

Source: Economic Survey 2011-12

Performance of Kisan Credit Card Scheme in Jammu and Kashmir

Since the inception of KCC and up to December 2000, the coverage of the scheme in J&K state was very poor, as the number of KCCs issued to the farmers was only 0.4% of the total holdings of the state. But, now with the government intervention, the scheme is growing and covering the large number of farmers, even in the remote districts of the state. The farmers are being encouraged by the Department of Agriculture to apply for KCC to get benefits of loan and other associated provisions.

It was observed that Kisan credit card within short span of time has established itself as a fairly popular credit among the farming community. The farmers in Rajouri and Poonch districts reacted very positively to the scheme and believed that it would help them in easy and timely access to much desired institutional credit. They were found to be more attractive to the scheme because of associated benefits like life insurance of ₹ 50,000/- for card holder against death or permanent disability up to the age of 70 years. Besides, the crop loans disbursed under KCC Scheme for notified crops are covered under crop insurance scheme against loss of crop yield caused by natural calamities, pest attacks etc.

The scheme of KCC is also helpful to the banks in achieving their targets to lend the priority area as it reduces the work load for branch staff by avoidance of repeat appraisal and processing of loan papers and improves the recycling of funds and recovery of loans. Because of the worsening economics of Indian agriculture and increase in default cases, both banks and farmers seem to be putting their money outside farming. KCC provides a 2% interest subvention or rebate to farmers who make timely repayments and thus reduces the interest rate further along with an incentive for timely deposit of installments and adjustment of loans.

Table 2. Kisan Credit Cards issued and amount sanctioned

Agency	KCC issued (No.)	Share(%)	Amount Sanctioned (` Crore)	Share(%)
Commercial banks	63824	51.32	604.50	62.94
Regional rural banks	57165	45.97	344.49	35.87
Co-operative Banks	3376	2.71	11.47	1.19
Total	124365	100.00	960.46	100.00

Source: Economic Survey 2011-12

Financial Inclusion in villages of Jammu and Kashmir

The Expert Committee Report on financial inclusion setup under the chairmanship of Dr. C. Rangarajan categorized Jammu and Kashmir in 51-75% exclusion category. The committee defines financial inclusion as “the process of access to financial services, timely and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”. As on March, 2012, Banking infrastructure of the state consisted of 1449 branches comprising of 358 branches of 21 nationalized banks, 543 branches of 5-private sector commercial banks, 304 branches of 2 regional rural banks and 244 branches of 10 central/ state Co-operative banks. Table shows bank-wise financial inclusion in the state of Jammu and Kashmir. It can be seen that the coverage of each bank falls short of the allocated targets in regard to coverage of villages.

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Table 3. Financial Inclusion in state of J&K

	Number of Villages		
Name of the Bank	**Allocated**	**Covered**	**Coverage (%)**
J&K bank limited	1093	504	46.11
State bank of India	112	30	26.79
Punjab National bank	82	-	-
J&K Grameen bank	66	41	62.12
Ellaquai Dehati bank	40	25	62.50
Total	1393	600	43.07

Source: Economic Survey 2011-12

The biggest challenge in respect of credit is the smooth flow of credit in the beginning of the cropping season for the farming community with a guaranteed minimum price support. Kissan Credit Card scheme is implemented in the state with that objective and the number of farmers cover under the scheme is increasing (1,24,365 distributed in 2012).

Future reforms in credit availability of farmers

An easy accessibility of institutional credit is the primary objective of credit policy at both center as well as state level. There is always a need to make reforms in credit structure so as to fulfill the needs of ultimate clients and some of these reforms which are required in Jammu and Kashmir state for

- Agro-economic development at both micro and macro level.
- Strengthening the farm business in hills and remote districts of the state
- Enhancing the adoption of modern technology in agriculture.
- Strengthening the farm asset structure of relatively poor farmers.
- Strengthening the input and output markets at far flung areas of the state and
- Achieving overall well being of the farming society.

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