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DOCUMENTATION

In this section on DOCUMENTATION, it is proposed to print summaries of important reports of ad hoc committees, set up by the Central or State Government, relating to agriculture, forestry and fishery economy of Indian Union as well as the individual states. Obviously, this section will appear only when such reports are summarised. Readers are requested to bring to the notice of the Editor such reports, as and when they become available.

Report of the Internal Working Group to Review Agricultural Credit

(Chairman: Shri Mahesh Kumar Jain), Reserve Bank of India, Central Office, Mumbai, 2019. Pp. 94.

[This Report includes five chapters and 7 Annexures. The summary presented here consists of extracts of the passages from the chapters and summary of recommendations of the Report]. Full text of the Report of HLC is available on https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx_English_1.pdf .

The Reserve Bank of India vide its Sixth Bi-Monthly Monetary Policy Committee (MPC) meeting held during February 05-07, 2019 announced the setting up of an 'Internal Working Group to Review Agricultural Credit' to understand the reasons for regional disparity and other agricultural credit related aspects and suggest workable solutions to address the constraints in accessing institutional agricultural credit under the Chairmanship of Shri Mahesh Kumar Jain. The Working Group submitted its full Report in September 2019.

CHAPTER I: CREDIT REACH

1.1 *Evolution of Agricultural Finance in India and Policy Milestones*

The institutional framework of agricultural finance was shaped by the overarching demands of the nation. The evolution of agricultural credit policies and milestones can be broadly categorised into three distinctive phases.

1.1.1 Phase 1 (1951 – 1969)

The Government of India (GOI) initiated the first five-year plan in 1951 with the thrust on developing the primary sector. In 1969, when the first phase of nationalisation of banks took place, there were 6955 public sector bank branches. The

Reserve Bank of India had then prescribed 1:3 ratio for opening of branches in urban and rural/semi-urban for boosting agricultural credit.

1.1.2 Phase 2 (1970-1990)

This period saw the introduction of the Lead Bank Scheme and regulatory prescription of Priority Sector Lending – two landmark development policies. The Regional Rural Bank Act, 1976 was enacted and The National Bank for Agriculture and Rural Development (NABARD) came into existence in 1982 and introduced the Self-Help Group (SHG) model for furthering financial inclusion in 1992. In terms of rural outreach, in 1989 the Reserve Bank introduced the service area approach (SAA) and Annual Credit Plan (ACP) system.

1.1.3 Phase 3 (1991 onwards)

The economic reforms of the 1990s, started with the implementation of the first Narasimham Committee Report of 1991 and the first major nationwide farm loan waiver was announced in 1990 and the cost to the national exchequer was around ₹100 billion. Pursuant to the 1995 Union Budget announcement, GoI established the Rural Infrastructure Development Fund (RIDF) with NABARD.The Kisan Credit Card (KCC) was introduced as a financial product in 1998 to provide hassle free credit to farmers and the Ground Level Credit (GLC) policy was introduced during the year 2003-04.

The year 2006 saw a host of developments. The GOI introduced the interest sub-vention scheme to provide short term loans to farmers. The Business Correspondents (BCs) and Business Facilitators (BFs) were rolled out for the first time by the Reserve Bank of India to further the cause of financial inclusion. NABARD introduced the Joint Liability Group (JLG) model to reach out to tenant farmers and share-croppers with access to credit. Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS), was announced in 2008 by the Union Government which involved waiving institutional debt for small farmers.

CHAPTER 2: INCLUSIVENESS AND INNOVATION

2.1 Agricultural Credit under Priority Sector Lending

2.1.1 Priority Sector Lending is a major policy intervention/initiative through which credit is directed to sectors of national priority. It has resulted in improved credit flow by banks to the agriculture sector and particularly to small and marginal farmers (SMFs).

2.1.2 Under the revised PSL guidelines of 2015, direct and indirect agricultural lending has been dispensed with. As per the new guidelines, the approach of agriculture under priority sector is to focus on 'credit for agriculture' instead of 'credit in agriculture' in order to give impetus to financing of supply value chain in the sector.

2.1.3 Banks have been able to achieve the overall PSL target of 40 per cent at the aggregate level, but have failed to achieve the agriculture target of 18 per cent at system-wide level.

CHAPTER 3. IMPACT OF FARM LOAN WAIVER

3.1 Genesis of Farm Loan Waivers

3.1.1 The first major program on farm loan waiver, viz., Agriculture and Rural Debt Relief Scheme, 1990 (ARDRS), was undertaken in 1990 at the nationwide level, followed by another nationwide loan waiver in 2008, viz., Agricultural Debt Waiver and Debt Relief Scheme, 2008 (ADWDRS). As per the ARDRS programme which came into force in May 1990 the maximum relief amount under the program was ₹10,000 per farmer and there was no differential treatment for farmers based on the size of their landholding. While the most significant feature in 2008 ADWDRS program was the differential treatment of farmers for waiver eligibility based on their landholding size.

3.2 Is farm loan waiver an appropriate response to farm distress?

3.2.1 State governments under various political dispensations have cited drought and/or price collapse of agriculture produce, as the reasons for undertaking loan waivers.

3.2.2 At the national level, rainfall performance in the years leading up to the ADWDRS program was normal, with no significant deviation from Long Impact of Farm Loan Waiver Period Average (LPA) between 2003-04 to 2007-08.

3.2.3 As regards prices, agricultural prices and margins remained elevated between 2007-08 and 2013-14.

3.2.4 Notwithstanding the evidence of deficit rainfall conditions and downswing in agriculture produce prices, the nationwide loan waiver programs of 1990 and 2008 were announced by the Union Government in the run up to the parliamentary elections of 1991 and 2009, respectively.

3.3 Impact of Farm Loan Waivers on Agricultural Credit

3.3.1 The economic rationale for loan waivers comes from alleviating the debt overhang of beneficiaries thus enabling them to undertake productive investment and boost real economic activity (investment, production and consumption).

3.3.2 There was a deceleration in agricultural credit outstanding and an immediate decline in disbursements because the beneficiary farmers were unable to avail fresh loans from banks till the time the waiver program is implemented.

3.3.3 In terms of loan performance of PSBs NPA level has increased sharply, possibly indicating strategic default arising from the state-level loan waiver announcements.

3.4 Impact of Farm Loan Waivers on State Finances

3.4.1 Farm loan waivers are a mechanism of settlement of private debt contract by the government and therefore have a fiscal impact, both on deficit and debt. The ADWDRS program resulted in expenditure for the Union Government to the tune of ₹525 billion (lower than the amount announced which was ₹600 billion in the 2008-09 budget and subsequently raised to ₹720 billion when the scheme was enlarged to include large farmers) which was provided for in four years from 2008-09 to 2011-12 in Union budgets.

3.5 Policy Alternatives

While the risk to farmers income, viz., nature's risk as well as market risk, materialise from time to time causing distress to the agrarian community, loan waivers, which often happen at the time of elections, are not the panacea to address the underlying risks. Cognizant of the need to address the long-term challenges of agriculture, various policy instruments like crop insurance, income support scheme, ECA, APMC reforms and e-NAM, etc have been undertaken at various levels of the government.

CHAPTER4. INTERNATIONAL EXPERIENCE – CHINA

4.1. Agricultural Policy in China

4.1.1 Structural initiatives Beginning at very low levels when it joined the WTO in 2001, China has used a mix of policies that were driven by three major factors, *i.e.* modernisation of its agriculture, addressing rural-urban income inequality and maintaining food security and self-reliance. In 2004, the Chinese government announced a national program to phase-out the agricultural tax and eliminated it

nationwide in 2006. It also instituted direct payments to grain producers, first in limited areas and finally nationwide in 2007. To cover increasing input costs, the Chinese government instituted a general-input subsidy that is increased yearly as costs for petroleum and fertilizers have increased.

4.1.2 Consolidation of Farm Lands

China has brought about consolidation of small and fragmented farm operations into large-scale units or 'new-style' farms of various types such as large family farms, co-operatives, and farms run by agribusiness companies to bring about economies of scale in farming. This has been enabled by institutional reform in the 1980s to allocate land contract rights to individual family farms.

4.1.3 Outsourcing of farming operations

Outsourcing major farming operations (e.g. ploughing, planting and harvesting) by small farms to farm service providers allows small farmers to benefit from economies of scale in farm operations, reduces the cost of capital inputs and allows farmers to allocate more time to off-farm activities.

4.1.4 Institutional Support to Agriculture

The People's Bank of China (PBC), the Chinese Central Bank regulates only the Monetary Policy, while the Chinese Banking and Insurance Regulatory Commission (CBIRC) regulates the banking and insurance sector.

4.2 Highlights of the Study Visit to China

The study group had interactions with Agricultural Development Bank of China, an agricultural policy bank; Bank of China, the fourth largest commercial bank of China as also the world; State Agricultural Credit Guarantee Alliance Co. Ltd (SACGA) and Bank of China Fullerton Community (BOCF).

CHAPTER 5. SUMMARY OF RECOMMENDATIONS

5.1 Measures to Improve the Reach of Institutional Credit

(i) GoI should push state governments to complete the digitisation process and updation of land records in a time bound manner.

(ii) State governments should give access to banks to digitised land records in order to verify land title and create charge online. In such states banks should not insist on submission of land title documents.

(iii) State governments having a highly restrictive legal framework should be encouraged to reform their legal framework on the basis of Model Land Leasing Act proposed by NITI Aayog/ Land Licensed Cultivators' Act, 2011 of the state of Andhra Pradesh so that formal lending to tenant farmers can improve.

(iv) GoI should set up a federal institution, on the lines of GST Council, having participation from both the Centre as well as the states to suggest and implement reforms in the field of agriculture.

(v) Aggressive efforts are needed to improve institutional credit delivery through technology driven solutions. Banks should explore collaborations with agri-tech companies/start-ups so as to provide access to credit in an integrated, timely and efficient manner to the farmers.

(vi) IBA should come out with a technology driven portal for the banks to facilitate ease of credit to the farmers for agriculture and allied activities on the lines of PSB Loans in 59 minutes to MSMEs.

(vii) Innovations like movable warehouses/cold storages and mobile based apps providing farm machineries on rental basis have been successfully operating but on a small scale. Hence, the GoI should identify the successful models in these areas which can be scaled up across the country. Further, banks should be encouraged to provide credit to such innovative solutions which support the agriculture sector.

5.2 Addressing Regional Disparity

(i) PSL guidelines should be revisited in order to explore the feasibility of introducing suitable measures for improving the credit off-take in central, eastern and north eastern states.

(ii) NABARD should gradually increase the allocation of RIDF in central, eastern and north eastern states over a period of time.

(iii) Corpus of RIDF should be increased and state governments should be sensitised to allocate a larger portion of their borrowing from RIDF for the purpose of absorbing funds for rural infrastructure development in their state.

5.3 Increasing Credit Flow to Allied Activities

(i) GoI should set separate targets for working capital and term loan towards allied activities under GLC.

(ii) PSL guidelines define SMF based on land holding size. To make it easier for banks to give credit for allied activities PSL guidelines should prescribe a separate definition for SMFs seeking credit for allied activities of upto ₹0.2 million. Accordingly, banks should not insist on land records from borrowers seeking credit of upto ₹0.2 million for allied activities.

5.4 Enhancing the sub-target of SMF under PSL

(i) Revise the sub-target for small and marginal farmers from the existing 8 per cent of ANBC to 10 per cent with a roadmap of two years.

(ii) Step up FI and FL initiatives for SMFs.

5.5 Land Consolidation

State governments should promote and conduct awareness drives for land consolidation so that the farmers can achieve economies of scale and have the incentive to make long term investments.

5.6 Interest Subvention Scheme

(i) The interest subvention scheme should be replaced with DBT to targeted beneficiaries, i.e. small and marginal farmers, tenant farmers, sharecroppers, oral lessees and landless labourers as individual borrowers or through SHG/JLG model with an overall limit of ₹0.3 million per individual farmer.

(ii) In order to curb the mis-utilization of interest subsidy, the banks should provide crop loans, eligible for interest subvention, only through KCC mode.

5.7 Agricultural Loans against Gold as Collateral

There is a need to address the issue of sanctioning of agricultural loans against gold as collateral. Presently such loans are not separately flagged in core banking solution (CBS) platform of banks. Hence, banks should develop an MIS to flag agricultural loans sanctioned against gold as collateral in CBS in order to segregate such loans for effective monitoring of end use of funds.

5.8 Consumption Needs of Agricultural Households

Banks should be allowed to give consumption loans to farmers upto a sanctioned limit of ₹0.1 million under PSL provided banks are able to obtain collateral security and are satisfied with their repayment capacity based on the cash flows of the borrowers. However, such loans will not classify for PSL-Agri.

5.9 Improvement of KCC Scheme

(i) To improve ease of credit, the limit of ₹0.3 million for waiving collateral security by the banks in case of tie-up arrangements should be revised to ₹0.5 million under the existing KCC guidelines subject to the condition that the tie-up arrangements are between the producers and processing units without any intermediaries.

(ii) For better monitoring of branches by banks and easier implementation of KCC there should be uniformity in scale of finance (SoF) for both crops and allied activities. Towards this objective state-wide SoF for crops should be prescribed separately for irrigated and unirrigated areas by the State Level Bankers' Committee (SLBC). IBA in consultation with NABARD should fix a pan-India SoF for allied activities.

5.10 Farmer Producer Organisations

(i) NABARD should design a financing model for credit requirements of FPOs/FPCs across the entire supply and value chain. Further, NABARD should promote women-oriented FPOs by identifying successful women SHGs.

(ii) Bank loans to FPOs/FPCs undertaking farming with assured marketing of their produce at a pre-determined price, having at least 75 per cent SMF, should be eligible for PSL with a credit cap of ₹50 million.