Sowing the seeds of change for enhanced agricultural credit

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By Arjun Shanker.

The ongoing deliberations around the newly introduced farm laws have redrawn the nation's focus on farmer-centric issues. Following suit, Union Finance Minister Nirmala Sitharaman announced a slew of pro-agrarian measures in the Union Budget, including an agri-credit enhancement to the tune of INR 16.5 lakh crore — highest till date. This move is expected to spur better inputs and cutting-edge technology, making farming less labour-intensive.

What ails agri-credit?

India's institutional agri-credit witnessed its watershed moment between 1970 and 1980, post the nationalisation of banks that brought in two significant credit lending schemes — Lead Bank Scheme (for co-ordinating with other banks lending credit) and

Priority Sector Lending (for dedicated sector-specific spending). Both these schemes hold good to the present day. Further, the National Bank for Agriculture and Rural Development (NABARD) — set up in 1982 — introduced the self-help group (SHG) model to promote financial inclusion for small and marginal farmers, who constitute more than 80% of India's farmer base. However, access to institutional credit still continues to be a challenge for farmers, with more than 50% struggling to borrow from any formal source.

Those farmers, who cannot afford to provide collaterals and face uncertain production, find it convenient to approach moneylenders, who provide easy direct access to cash, subject to unregulated higher interest rates. Despite several government interventions, moneylenders continue to form the backbone of the rural economy. Easy loans and higher interests, which come with this territory, lead to the much talked about 'debt trap' and farmer suicides.

Small and marginal farmers cultivating low-value labour-intensive food crops receive a smaller share in credit loans despite higher *loan-to-crop output* ratio. As a result, they find it challenging to buffer the input costs, impacting their economies of scale. Therefore, several of these farmers rely on "bundling their harvest" via farmer producer organisations (FPO) — based on the SHG model — to improve their profit. Only a few of these FPOs are recognised by the Government. The registered FPOs focus more on selling the harvest than pushing for value addition through expanding business or creating market-ready products. Such short-term business goals and limited market access hurt the entrepreneurial potential of these groups, adding to their credit deficit.

However, the recent budgetary allocation of an additional INR 10,000 crore for the Rural Infrastructure Development Fund and additional INR 5000 core for the Micro-irrigation Fund corpus will go a long way in supplementing the banks for states majorly growing low-value crops. Moreover, a broader Operation Green scheme for 22 perishable products instead of just three (onions, potatoes, and tomatoes) is a step towards additional income. This would enhance farmers' credit absorption capacity on a long-term basis for better financial inclusion.

The way forward

Going forward, Regional Rural Banks (RRBs) should play a pivotal role in encouraging FPO agribusiness models/plans, which could include initiatives such as a crop cycle alternating between short and long-term crops (some of which could be commercial), dairy and animal husbandry-based livelihood options, and enabling Food Safety and Standards Authority of India (FSSAI) approval for readymade farm products. Microfinancing companies and newer agricultural start-ups (that engage with FPOs) could engage with farmers to educate them on expected business risks and mitigation strategies.

Further, commercial banks providing agricultural credit could leverage the budgetary announcement of a 25% increase in Foreign Direct Investment (FDI) for the insurance segment. A likely rise in agri-sector insurance could provide the farmer with a better risk coverage and minimise additional expenditure. Moreover, a robust agribusiness plan could serve as an alternative to collaterals when approaching banks, thereby minimising even the banks' probability of future asset risk. Additionally, RRBs could open more branches in credit-deprived regions, including North-Eastern states, enabling easier access to institutional loans for farmers.

Such farmer-friendly measures will sow the seeds for agricultural sustenance, potentially offsetting urban migration. While loan waivers can only provide temporary relief, improving the reach and accessibility of agricultural credit could turn out to be the game-changer in the long run.

The author is Research Analyst at CSTEP and may be contacted on Twitter @shankz510