

REVIEW OF RECENT AGRICULTURAL CREDIT POLICIES IN INDIA

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1. Introduction:

The government of India has been taking many initiatives to increase institutional credit supply to agricultural sector in country. To correct market failure in agricultural credit, they announce various policies and schemes on time to time. These policies and schemes has its own targeted objectives which accomplished within specified period. Its rises many issues and cause of concerns also.

To understand the impact of recent agricultural credit policies on commercial banks in India, we should critically evaluate these policies with available data and information. The policies or schemes has its own objectives but when it implemented, it raises many issues. An attempt has been made in this chapter to evaluate recent important agricultural credit policies or scheme in India. This chapter has two parts, in the initial part recent committees recommendation on agricultural credit has been discuss in detail and in later part recent agricultural credit policies or scheme in India has been evaluated.

2. Institutional Agricultural Credit in India:

The gross capital formation (GCF) which we can call investment in agriculture & allied sectors increased as percentages of GDP from the 14.2 per cent in 2002-03 to 19.8 per cent in 2011-12, but compared to Indian economy, GCF in agriculture is at much lower rate. To increase this rate of investment in agriculture, the institutional credit could play important role. The share of private sector GCF in total investment in agriculture is higher and credit is main determinant of private sector investment in the sector¹. In that also institutional credit supply is crucial one. There are two types of sources of finance in rural area in India:

- i) Institutional Sources: Co-operatives Banks (Co-op), Commercial Banks (CBs) & Regional Rural Banks (RRBs),
- ii) Non-institutional Sources: Moneylenders, Relatives, Friends, Professional moneylenders and others.

Table 1: Share of Debt of Farmers' households from different sources: 1951-2013

(Figures in percentages)

Source of credit	1951	1961	1971	1981	1991	2002	2013
Institutional	7.3	18.7	31.7	63.2	66.3	61.1	64.0
Cooperative Societies/Banks, etc.	3.3	2.6	22.0	29.8	30.0	30.2	33.3
Commercial Banks	0.9	0.6	2.4	28.8	35.2	26.3	30.7
Non-institutional	92.7	81.3	66.3	36.8	30.6	38.9	36.0
Moneylenders	69.7	49.2	36.1	16.8	17.5	26.8	29.6
Unspecified (Relatives, Friends And others)	--	--	--	--	3.1	--	6.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Anwarul Hoda and Purna Terway (June 2015), Page No. 6.

The table 1 shows that, the share changes in the institutional and non-institutional source of credit to farmers' households in the country from 1951 to 2013. The institutional share has been minimal in 1950s and

1960s, but after banks nationalization in 1968 and 1984, it's increased and reached at 66 per cent in 1991 in total share of debt to farming community in the country. The non-institutional sources are exploitative in nature and also charges high rate of interest. So, over the period, by the government initiative, they established multi-agency structure of institutional finance in rural area. The share of non-institutional sources has declined from 92.7 per cent in 1951 to 30.6 per cent in 1991.

Further, after introduction of economic reforms and specifically financial sector reforms the share had changed radically. The institutional agency share declined from 66.3 per cent in 1991 to 61.1 in 2002 and non-institutional agency share increased from 30.6 per cent to 38.9 per cent in the same period. In that, the moneylenders share increased, which charge higher rate of interest and exploitative nature with farmers, create causes of concern. The Many studies (Srijit Mishra-2006, Ministry of Finance-2007) have been pointed out that, increase in the supply of non-institutional credit is the main cause of farmers' suicides in India. Moreover, this trend, due to purposefully policy initiative by the government has changed slightly like institutional agency got back into their share, but still 36 per cent share of debt of farmers' households by the non-institutional agency (Table 1). The period (2002-2013) was an interesting one not only because of the thrust in the flow of agricultural credit by institutional agency and increased policy attention towards the growth of credit like Doubling of Agricultural Credit Scheme (2004), Interest Subvention Scheme (2006-07) and Debt waiver and relief Scheme (2008) but also from the perspective of institutional reform like APMC act (2003), acceptance and implementation of the Vaidyanathan Task Force on Co-operatives etc. In the next point, we will discuss in depth analysis of institutional credit in Ninth, Tenth and Eleventh five year plan periods.

3. Agricultural Credit in 9th, 10th and 11th Five Year Plan:

For the modernization and to create competitiveness in agricultural sector, credit is an important input. Since independence Government of India (GOI) has been taken various measures to institutionalize the agricultural credit. The bank provides two types of credit to agricultural sector: Short Term and Long Term. Table 2 showing that, average growth rate of direct bank credit has comparatively higher growth rate in 1970s than 1980s and 1990s.

Table 2: Average Growth Rate of Direct Bank Credit to Agriculture in India

(Per Cent)

Period	CBs		Co-op.		RRBs		Total	
	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term
1970s	28.2	29.9	10.6	13.9	334.8	426.8	14.5	20.2
1980s	16.3	18.6	12.5	11.0	19.8	18.5	13.9	14.8
1990s	17.8	12.1	11.9	13.1	32.7	10.6	14.6	11.9

Source: NABARD, Mumbai, 2009.

However, growth rate decline in 1990s for all rural financial institution but, more particularly contraction happen about commercial banks on both types of credit i.e. short term and long term.

Table 3: Achievement of Agricultural Credit Flow during Ninth

Five Year Plan in India (Rs. in Crore)

Period	CBs	GR	Co-op.	GR	RRBs	GR	Total	GR
1997-98	15831	23.84	14085	17.93	2040	21.14	31956	21.00
1998-99	18443	16.50	15957	13.29	2460	20.59	36860	15.35
1999-00	24836	34.66	18280	14.56	3172	28.94	46288	25.58
2000-01	27889	12.29	20718	13.34	4220	33.04	52827	14.13
2001-02	33667	20.72	23524	13.54	4854	15.02	62045	17.45

Total	120666	21.60	92564	14.53	16746	23.75	229976	18.70
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Note: CBs: Commercial Banks, Co-op: Co-operatives, RRBs: Regional Rural Banks, GR: Growth Rate

Source: Annual Report of NABARD and Economic Survey (various issues)

During the Ninth FYP period, the actual flow of agricultural credit from the formal Rural Financial Institutions (RFI), however, did not increase substantially. It increased from Rs. 31, 956 crore in 1997-98 to Rs. 62, 045 crore in 2001-02 with an average annual rate of growth of 18.70 per cent (Table 3).

Nevertheless, during the first two years of the Tenth FYP period, however, credit flow to agriculture from all the formal sources amounted to Rs. 69,560 crore in 2002-03 and Rs. 86, 981 crore in 2003-04, which was much less, than that envisaged during the period.

4. Doubling of Agricultural Credit Scheme (DAC):

In light of the above mention situation, the GOI announced a 'Comprehensive Policy on Agricultural Credit (CPAC)' on 18 June 2004. Subsequently, the Union Budget for 2004-05 presented on 8 July 2004 proposed 'Doubling of Agricultural Credit scheme (DAC)' in the remaining period of three years of the Tenth FYP i.e. during 2004-05, 2005-06 and 2006-07 over 2003-04 as the base year.

Additional to this, credit package included some specific **quantitative and qualitative components**, like:

- i) The agricultural credit flow should be at the rate of 30 per cent per year,
- ii) To cover 100 new farmers by each branch of CBs,
- iii) To take up at least three new activities for financing by every bank branch,
- iv) To finance at least 10 Agri-Clinic and Agri-Business Centers (ACABC) in each district during the period of three years. These were quantitative aspects.
- v) On the qualitative side, expanding the coverage of borrowers under Kisan Credit Cards (KCCs),
- vi) Extending the credit to farmers in distress and in arrears, providing more finance to small and marginal farmers, attending their redemption of past debts from informal sources, and above all, ensuring "quality in operation" at every level were also some of the important aspects in implementation of the scheme of doubling of agricultural credit in three years¹².

4.1. Reasons for Doubling of Agricultural Credit Scheme:

The commencement of any new scheme/policy has some background; on the basis of this background the policy makers formulate the targets of the policy. The doubling of agricultural credit scheme/policy also has some reasons. These reasons are as follows:

i) To increase the gross capital formation in Agriculture sector:

Realizing the importance of capital, the previous fall of investment in agriculture is being recovered. Gross Capital Formation in Agriculture (GCF) as a proportion of GDP in agriculture has improved from a low level of 12 per cent in 2003-04 to 15 per cent in 2006-07. It is planned to rise further to more than 18 per cent during the Eleventh FYP period to achieve the targeted growth of more than four per cent in agriculture. To achieve this growth, the GOI is making huge investment in development of irrigation, rural electrification, extension services, rainfed agriculture, plantation and horticulture, degraded land and other rural infrastructure in Public Sector. Whereas in Private Sector, all the financial institutions, viz., CBs, Co-op. banks and RRBs have been directed to increase the credit flow to farmers in general and especially to SF/MF, and farmers in distress and arrears.

ii) Declining institutional credit share:

To providing institutional credit to agricultural sector is the basic necessity to development of agricultural sector. In India also, government has been taken some initiative since independence. In the 1951 institutional share in agricultural credit was only 7.3 per cent and in the same year non-institutional share was nearby 92.7 per cent. This situation had been changed in 1981. Institutional share has increased up to 63.2 per cent and non-institutional share decline 36.8 per cent. This decline share of non-institutional in total credit because dominate role of institutional credit in agricultural sector.

In this period government made fourteen bank nationalization in 1968 and again four in 1984. And also ask to commercial bank to provide more credit to priority sector i.e. agricultural etc. But this scenario has been again changed after introduction of financial and economic reform in 1991. After 1991 institutional credit supply share to agricultural sector decline from 66.3 per cent in 1991 to 61.1 per cent in 2002 (Table 1). At the same time, non-institutional credit share to agricultural increases from 30.6 per cent in 1991 to 38.9 per cent in 2002. This increasing trend of non-institutional credit share in general and moneylender specifically in agricultural sector is concern issues to development of the sector, because normally moneylender charges exorbitant rate of interest on credit. To reverse these trend governments of India introduce this doubling of agricultural credit policy in Tenth FYP.

iii) To Supply of Timely, Adequate and Hassle Free Credit:

The supply of timely, adequate and hassle free credit to more number of farmers on continuous basis at reasonable rates has been a key public policy objective in the country. The banks purvey two types of credit, namely, short-term credit for seasonal agricultural operations and long-term credit for formation of assets. However, it has been witnessed as shown in Table 6 that the growth rate of total short-term credit by all the bank agencies put together persisted constant at around 14 per cent during the three decades since the 1970s, while that of long-term credit slow down from 20 per cent in 1970s to 12 per cent in 1990s.

Despite a well-developed credit delivery structure of rural and semi-urban network of the CBs, Co-op. and RRBs in India, the outreach of banks has remained limited for numerous reasons. So, this is also one of the reasons to introduce this policy in agricultural sector.

iv) Slower Growth of Agricultural Credit in Last FYP Period:

During the Ninth FYP period, i.e. from 1997-98 to 2001-02, the actual flow of agricultural credit from the formal banking institutions, however, did not increase substantially. It is observed from the table that the flow of institutional credit did not increase substantially in this period. During the period of Ninth FYP, it increased from Rs. 31956 crore to Rs. 62045 crore. The average annual growth rates was 18.70 per cent in this FYP but more serious thing were that the declining in the absolute number agricultural loan account and number of rural branches of commercial banks. To revise this, doubling of agricultural credit scheme was announced by government.

v) To Increase Share of Commercial Banks in Agricultural Credit:

Under the directed lending to priority sector, a target of 18 per cent of net bank credit has been specified for the Scheduled Commercial Banks for lending to agriculture and allied activity. Though the target for lending to agriculture has not been achieved by most of the public and private sector banks, the amount of outstanding overdue to agriculture has increased continuously over the years. Many commercial banks has started neglecting credit to agriculture sector.

After introduction of economic and financial reform in the country, commercial banks has lost their market share from 35 per cent in 1991 to 26 per cent in 2002 (table 3.1). There has been trends of declining in the absolute number agricultural loan account and number of rural branches of commercial banks during the above mention period. To increase the share of commercial banks in credit supply to agriculture and reverse the trends of decaling number of account and rural branches, this policy declared by the government.

So at conclusion, to increase credit flow by institutional source of credit in the agricultural sector, this doubling of agricultural credit scheme was introduced by the government of India.

5. Interest Subvention Scheme (ISS):

The non-institutional sources of finance charges exorbitant rate of interest on credit in rural area, which become burden on poor resources farmers in our country. With initiatives of government of India, institutional finance network is on increasing scale. In institutional source of finance cost of credit, i.e. interest rate, is regulated and decided by banks. After introduction of financial reform and implementation of Narasimham Committee-II on banking sector reform report, deregulation of interest rate policy was adopted by all banks in the country. Many committees and study groups were cited that the rate of interest on agriculture credit supply is higher than expected, keeping in mind the nature of income pattern of farming community. In this line, to increase repayment ratio of barrows' farmers and to create 'well credit culture' in rural area government of India announced Interest Subvention Scheme (ISS) in 2006-07.

From *khariif* 2006-07, it was decided that the farmers would receive crop loans up to a principal amount of Rs. 3 lakh at 7 per cent rate of interest and the Government of India would provide necessary interest subvention to NABARD and banks for this purpose. This Interest Subvention Scheme (ISS) has been continued in 2007-08, 2008-09 also. This policy was started with aims of increase repayment ratio of barrows' farmer and to create 'well credit culture' in rural area.

Moreover, in the year 2009-10, government provided an additional 1 per cent interest subvention to those farmers who repaid their short-term crop loans as per schedule. Thus the effective rate of interest for such farmers is 6 per cent for this year. Again, the Government has raised this subvention from 1 per cent to 2 per cent in 2010-11 and further to 3 per cent in 2011-12. Thus the effective rate of interest for such farmers will be 4 per cent per annum in 2011-12.

5.1. Reasons for Interest Subvention Scheme (ISS):

Any scheme announcement has some purposes behind it; on the basis of this background purposes the policy makers put into words the targets of the policy. The interest subvention scheme also have some reasons. These reasons are as follows:

i) To increase repayment ratio of barrows' farmers:

The interest subvention scheme has announced in 2006-07 by policy maker to increase repayment ratio of barrows' farmers in India. Over the period, there has been increase in the 'outstanding loan' amount in agriculture sector. The reasons are many, like crop failure, suddenly prices fall when there was production ready to sell, distress sell, crops washed out, wide-spread drought and others. Due to all these reasons, farmers not able to get optimum amount of income to repay the principle plus interest rate amount or maybe they has less amount with them. But, if farmers are repaying the loan on scheduled date then there will be interest subvention available. So, to take benefits of this interest subvention, more farmer will repay loan on time, which will improve the repayment ratio of barrows' farmers in agriculture. This will improve financial health of rural banking system also.

ii) To create 'well credit culture' in rural area:

In rural area, government of India giving various types of subsidies and others aid for promoting development. At some level it's benefiting to the masses of rural area. But, there is wide spread misconceptions about these development incentives. Many farmers are becoming willful defaulter and specifically 'bad loans' were increased. This behavior of farmers is become headache for the bankers in rural area. To remove this types of behavior and crate 'well credit culture' in rural area, this Interest Subvention Scheme was introduced by government.

iii) To increase share of institutional finance in agriculture sector:

As we know, due to introduction of financial and banking reforms in our country, especially commercial banks got freedom for doing their business. As a fact, institutional sources of finance lost their share in total credit supply from 66.3 per cent in 1991 to 61.1 per cent in 2002. Simultaneously, non-institutional source of credit share to agricultural increases from 30.6 per cent to 38.9 per cent in the same period (Table 1), and later on this trend has showed some improvements also. This increasing trend of non-institutional credit share in general and moneylender specifically in agricultural sector is challenging issues to development of the sector, because generally moneylender charges excessive rate of interest on credit. To reverse these trend governments of India introduce this scheme at the end of Tenth FYP.

Finally, we can conclude with saying that, to increase repayment ratio of barrow's famers and to create 'well credit culture' in rural area this interest subvention scheme was introduced by the government of India.

6. An Evaluation of Doubling of Agricultural Credit Scheme & Interest Subvention Scheme:

In recent time, agricultural credit has got more attention from policy maker due to crisis has been facing by the sector especially after commencement of globalization, privatization and liberalization in the economy. In response to growth crisis in Ninth FYP, government had announced 'Doubling of Agricultural Credit' Scheme in the short period of three years from 2004-05 to 2006-07. Then to increase repayment ratio of farmers, 'Interest Subvention Scheme' has announced in 2006 and this subvention announcement continued till this year. But, many farmers were still out of the reach of institutional credit due to past outstanding amount. They were not eligible to get fresh credit from formal institutions and at the same time informal credit share in

general and moneylenders in particular was on increasing mode. To remove burden of indebtedness and to increase formal credit supply to specially marginal and small famers, government had announced ‘Agricultural Debt Waiver and Debt Relief Scheme’ in 2008.

These three scheme has affected agricultural credit immensely. Not only it has boosted but also changed structure of agricultural credit. As we know, these three scheme has announced in Tenth and Eleventh FYP. *Firstly*, table 4 showing achievement of agricultural credit flow during 9th, 10th and 11th FYP in India, its shows positive picture of agricultural credit in 10th FYP, that it’s increased from lower Rs. 69560 crore in 2002-03 to Rs. 229400 in 2006-07, with compound annual growth rate (CAGR) 34.46 per cent which was lower at 18.04 per cent in 9th FYP. But, this momentum of growth fallen again, and it’s increased by only CAGR with 19.02 per cent in 11th FYP as like slightly more than 9th FYP.

Table 4: Achievement of Agricultural Credit Flow during Ninth, Tenth & Eleventh Five Year Plan in India (Rs. in Crore)

Period	CBs	Co-op.	RRBs	Total	Growth Rate (%)
Ninth FYP					
1997-98	15831	14085	2040	31956	--
1998-99	18443	15957	2460	36860	15.35
1999-00	24836	18280	3172	46288	25.58
2000-01	27889	20718	4220	52827	14.13
2001-02	33667	23524	4854	62045	17.45
Total	120666	92564	16746	229976	
CAGR	20.76	13.68	24.20	18.04	
Tenth FYP					
2002-03	39854	23636	6070	69560	12.11
2003-04	52525	26875	7581	86981	25.04
2004-05	81674	31231	12404	125309	44.06
2005-06	125861	39404	15223	180488	44.03
2006-07	166485	42480	20435	229400	27.10
Total	466399	163626	61713	691738	
CAGR	42.96	15.79	35.46	34.76	
Eleventh FYP					
2007-08	181088	48258	25312	254658	11.01
2008-09	229177	45966	26765	301908	18.55
2009-10	285800	63497	35217	384514	27.36
2010-11	345877	78007	44293	468177	21.76
2011-12	368616	87963	54450	511029	9.15
Total	1410558	323691	186037	1920286	

CAGR	19.45	16.19	21.11	19.02	
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Note: CBs: Commercial Banks, Co-op: Co-operatives, RRBs: Regional Rural Bank

Source: Annual Report of NABARD and Economic Survey (various issues).

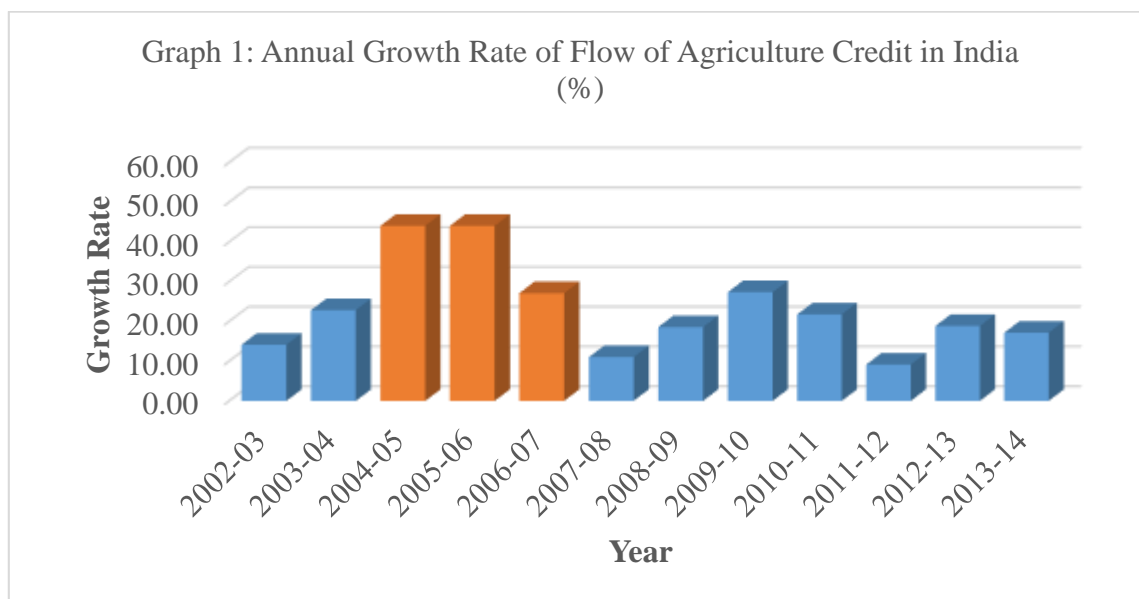
Secondly, in the table 5 illustrate the percentages of achievement to target. This shows that, it was less than target in 2001-02 and 2002-03, but after announcement of ‘Doubling of Credit Scheme’ this ratio has improved remarkably. In the last year of this scheme, the achievement on target was highest ever i.e. 131.09 per cent. This shows that how target has been achieved, which not healthy for sustainable development of agricultural sector. But, after implementation of this scheme achievements are always higher than target, this is positive sign.

Table 5: Flow of Agriculture Credit – Achievement and Target

Year	Target (Rs. Crores)	Achievement		
		Rs. Crores	% of Target	Annual Growth Rate
2001-02	64000	62045	96.95	-
2002-03	82073	70810	86.28	14.13
2003-04	NA	86981	NA	22.84
2004-05	105000	125309	119.06	44.06
2005-06	141500	180486	127.55	44.03
2006-07	175000	229401	131.09	27.10
2007-08	225000	254658	113.18	11.01
2008-09	280000	301908	107.82	18.55
2009-10	325000	384514	118.31	27.36
2010-11	375000	468291	124.87	21.79
2011-12	475000	511029	107.59	9.13
2012-13	575000	607375	105.63	18.85
2013-14	700000	711621	101.66	17.16

Source: Mehrotra Nirupam, (2011) ‘Agriculture Credit: The Truth behind the Aggregate Numbers’, EPW, Page No. 22 and Economic Survey of India (Various issues)

Thirdly, the agricultural credit increased in 10th FYP may be due to Doubling of Agricultural Credit scheme (so called ‘Farm Credit Package’) announced by GOI in 2004 but, when policy implementation period finished, this prosperity type of momentum of increase in agricultural credit was also disappeared. The Graph 1 shows that, the implementation period of this scheme has highest annual growth rate and after that it was sluggish.



Source: Mehrotra Nirupam, (2011) ‘Agriculture Credit: The Truth behind the Aggregate Numbers’, EPW, Page No. 22 and Economic Survey of India (Various issues)

The annual growth rate of agricultural credit is highest during the ‘Doubling of Agricultural Credit’ period like 44.06 per cent, 44.03 per cent and 27.10 per cent in the years 2004-05, 2005-06 and 2006-07 respectively. But, this extraordinary growth rate was not achieved in next five years i.e. in 11th FYP (Table 6). In that, CBs credit supply to agriculture increased with annual growth rate of 55.50 per cent and 54.10 per cent in 2004-05 and 2005-06, which is surprising.

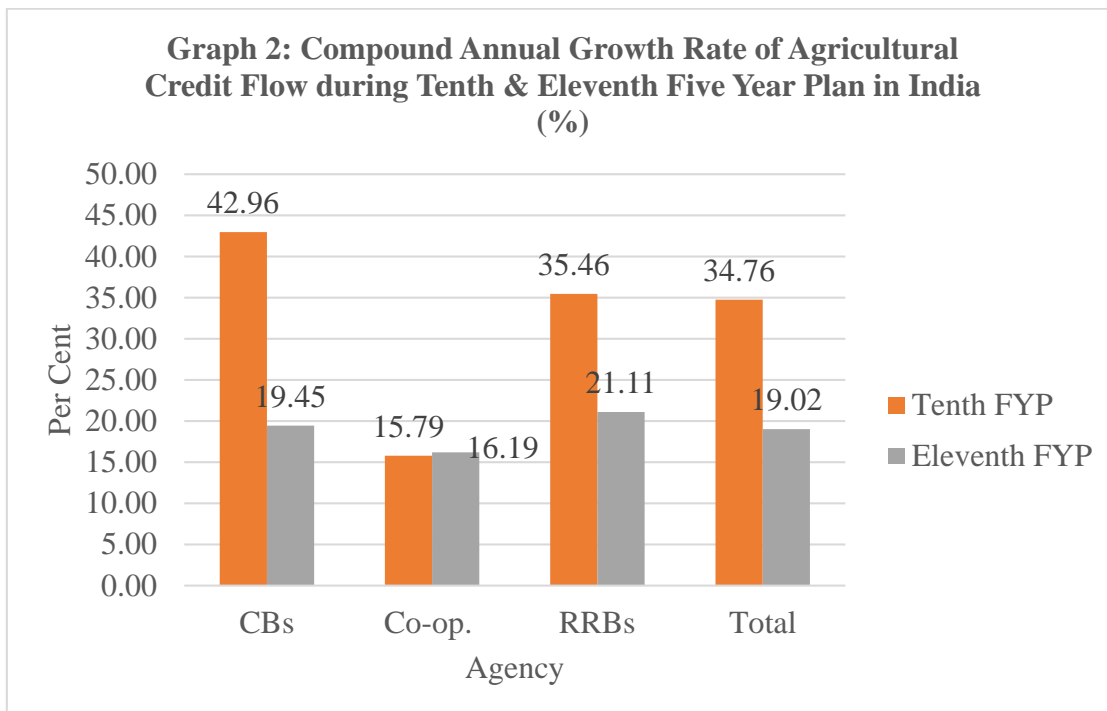
Table 6: Annual Growth Rate in Ground Level Credit Flow for Agriculture & Allied Activities in Tenth & Eleventh FYP in India (%)

Period	CBs	Co-op.	RRBs	Total
Tenth FYP				
2002-03	18.38	0.48	25.05	12.11
2003-04	31.79	13.70	24.89	25.04
2004-05	55.50	16.21	63.62	44.06
2005-06	54.10	26.17	22.73	44.03
2006-07	32.28	7.81	34.24	27.10
Total	38.41	12.87	34.11	30.47
Eleventh FYP				
2007-08	8.77	13.60	23.87	11.01
2008-09	26.56	-4.75	5.74	18.55
2009-10	24.71	38.14	31.58	27.36
2010-11	21.02	22.85	25.77	21.76
2011-12	6.57	12.76	22.93	9.15
Total	17.53	16.52	21.98	17.57

Note: CBs: Commercial Banks, Co-op: Co-operatives, RRBs: Regional Rural Bank

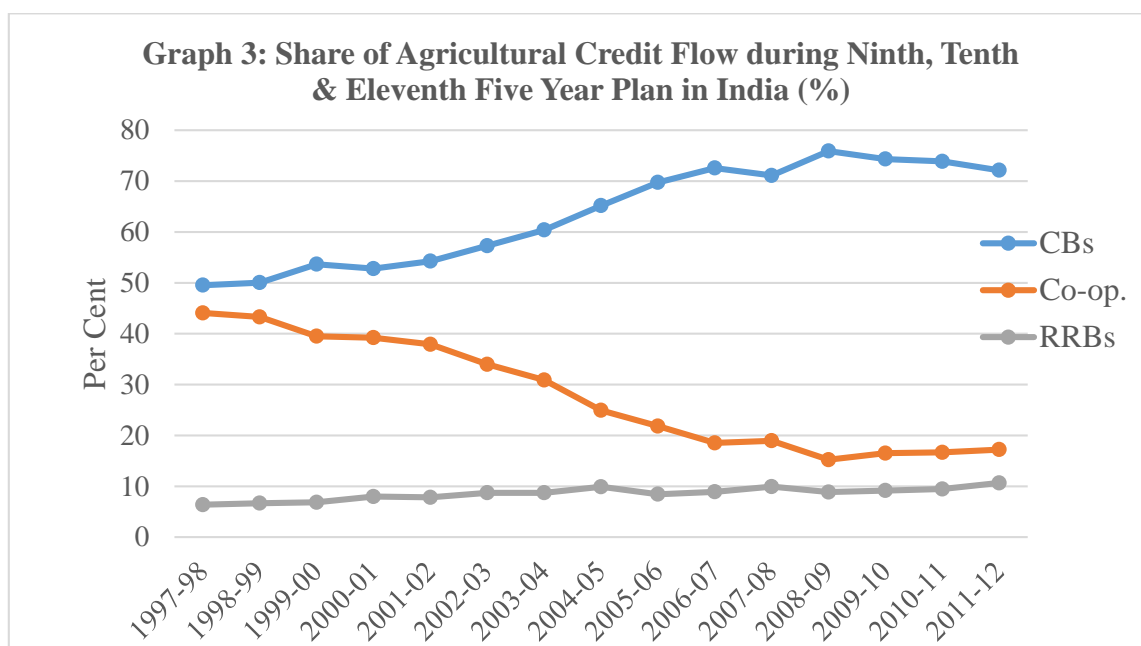
Source: Annual Report of NABARD and Economic Survey (various issues).

Fourthly, moreover, the trends found in supplying credit by commercial banks (CBs) in the country to agricultural sector is more uncertain, because it's declined to with CAGR 19.45 per cent in 11th FYP from impressive CAGR 42.96 per cent in 10th FYP (Graph 2) and addition to this, we should not forget that, CBs has major share in the institutional credit supply to agricultural sector. The share of CBs in total credit supply to agricultural sector increased from 49.54 per cent in 1997-98 to 76 per cent in 2008-09, then its decline marginally but remains highest among others (Graph 3).



Source: Annual Report of NABARD and Economic Survey (various issues).

Fifthly, another one interesting point we have observed that, CBs share in total credit increased on contrast with decrees in share of co-operative bank. That means, CBs has been taking share of co-operative banks in agriculture sector in recent years. The share of RRBs has been increased insignificantly and reached at 10.65 per cent in 2011-12 from 6.38 per cent in 1997-98.



Source: Annual Report of NABARD and Economic Survey (various issues).

Finally, this 'Doubling of Agricultural Credit' scheme has boosted credit supply to agricultural sector in 2000s, but also has changed the way and structure of institutional credit system in the country. The NABARD had conducted one evaluation study on this scheme. The NABARD report has concluded in these words:

"The studies revealed that there were notable inter-agency and inter-district variations with regard to year of achievement of the doubling of agriculture credit as well as in terms of 'number of times' the target was achieved. In all the States, the commercial banks fared better than the RRBs and Cooperatives. The implementation of the programme resulted in a change in the share of various agencies in the agriculture credit flow between 2003-04 and 2006-07" (Page No. iii) (NABARD-2009).

Some studies had found that there were huge credit amount went to indirect lending's, dominance of Urban and Metropolitan bank branches in agricultural credit reduced, remarkable increase in large-size loans etc.. Despite of the successfully implementation of this scheme, the problem of reaching out to marginal and small farmers still remained unsolved and it's also helped to increases in regional disparities in terms of credit supply to agricultural, which will be challenges before the policy makers.

7. Agricultural Debt Waiver and Debt Relief Scheme (ADWDR)-2008:

The period during 1997 to 2007 has been called as an 'Agriculture Crisis' in Indian agriculture sector, which sector we often describe as a backbone of the Indian economy. The symptom of this was that, many farmers had committed suicides due to distress. According to some government study reports on this issue, increased in indebtedness and lack of support system to farming community were the major reasons for farmer's suicides.

Nevertheless, there are a number of factors behind the agrarian crisis; it is the growing indebtedness, which urges attention. It is declining earnings that results in the incapability to pay back debt that prompts farmers' decision to commit suicide. Hence, indebtedness of farmers becomes a central issue to be addressed. It is in this context that the Government of India (GOI) had appointed 'Expert Group Agricultural Indebtedness' under the chairmanship of Dr. R. Radhakrishna to examine the indebtedness of farmers in its totality with a view to designing and implementing effective policies, programmes and instruments of intervention. The Expert Group found, the agriculture sector is under crisis and increased in farmers' indebtedness is one of the aspects of that, particularly marginal and small farmers' indebtedness.

In light of this, in the Union Budget 2008-09, the Government announced a scheme of Agricultural Debt Waiver and Debt Relief Scheme (ADWDR-2008) 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 for implementation by all scheduled commercial banks, besides RRBs and cooperative credit institutions¹⁶.

The scheme covered direct agricultural loans extended to "marginal and small farmers" (land holding up to 5 acres) waiver of loans to over 3.69 crore and a One-Time Settlement (OTS) of loans or debt relief for another 0.6 crore "other farmers" (land holding more than 5 acres) by Public Sector Banks, Private Sector Banks, Cooperative Banks (including urban cooperative banks), Local Area Banks and Regional Rural Banks. Direct agricultural loans disbursed by these credit institutions between 1 April, 1997 to 31 March, 2007 to farmers, overdue as on 31 December, 2007 and remaining unpaid up to 28 February, 2008 were eligible for Debt Waiver and Debt Relief scheme as the case may be.

Moreover, in understanding of the recent famine in some States and the major floods in some other portions of the country, the Government of India, as declared in the Union Budget 2010-11, decided to extend the last date of payment of 75 per cent of unpaid share by the category of the 'other farmer' under Debt Relief Scheme (under ADWDRS-2008) for another six months beyond December 31, 2009 i.e. up to June 30, 2010. The eligible category of the 'other farmers' might be permitted to repay this amount in one or more installments up to June 30, 2010.

The main features of the ADWDR scheme were the following:

- a) 'Marginal farmers' (land holding up to 2.5 acres) and 'small farmers' (land holding between 2.5 and 5 acres) would receive a full waiver of all loans overdue as on December 31, 2007 and outstanding as on February 28, 2008.

- b) All 'other farmers' would be provided a one-time settlement (OTS), by which each borrower was eligible for a discount of 25 per cent against payment of the balance 75 per cent.
- c) After the full waiver or the one-time settlement (OTS), farmers would be eligible to fresh agricultural loans from the banks.

7.1. Reasons for Agricultural Debt Waiver and Debt Relief Scheme (ADWDR)-2008:

This announcement of agricultural debt waiver and debt relief scheme (ADWDR) has some background behind it. The genesis of ADWDR scheme are as follows:

i) To reduce farmer's indebtedness in India:

The Malcolm Lyall Darling (1925) in his influential work had said about farmer's indebtedness in India; "Indian farmer is born in debt, lives in debt and dies in debt" The simple meaning of this, indebtedness is a chronic problem in Indian farming community. When farmer running out with shortage of capital, he takes credit from banks. In normal condition he repay that loan on scheduled date but if some causes happened like heavy rainfall, drought, flood, suddenly fall in crop prices etc. then fail to repay the loan amount. If this kind of situation happened more than continuously two or three years then that loan amount become big 'outstanding' and this situation is called indebtedness.

The Situation Assessment Survey (SAS) in 2003 has estimated that of the 89.33 million farmer households, 43.42 million farmer household or 48.6 per cent were indebted. In that, a state-wise analysis revealed that in 2003 incidence of indebtedness was higher in those states which had more developed agriculture practices and uses more modern inputs or diversified agriculture. The heavy burden of indebtedness was the highest in Andhra Pradesh (82%) followed by Tamil Nadu (75 %), Punjab (65 %), Kerala (64 %), Karnataka (62%), Maharashtra (55 %) and Haryana (53 %). The Assam has lowest (18 %) incidence of indebtedness. In that, nearly 80 per cent marginal and small farmers were indebted. To decrease the indebtedness of farmer's in India, this scheme was announced in 2008.

ii) To reduce rate of farmers suicides in India:

The farmer's suicides have become focal point in India among the policy makers as well as social activist. After introduction of 'green revolution' in Indian agriculture, sector has become more input intensive. Over the period, cost of inputs increased but due to imperfection in agriculture goods market, farmers are not in profit. When farmer is taking loan from banks and purchasing high price inputs but at the end of season, due to several reasons if crops not recover its cost then he will be in problem or in the distress situation. This will decrease his status in the society. In this line of thinking, as found by Srijit Mishra, between 1995 and 2012, the National Crime Records Bureau (NCRB) has reported 284,673 farmers' suicides, which is 13.9 per cent of all reported suicides deaths.

The farmer's suicides is a symptoms of distress in agriculture in India. Many studies found, increase in indebtedness is one of cause of famer's suicides. So, to reduce incidence of indebtedness on famers and also to reduce rate of famer's suicides in India this scheme was introduced.

iii) To increase institutional finance to marginal and small farmers:

The Indian agriculture has a predominance of marginal and small size of land holding. The share of marginal and small famers taken together (below 2.00 ha.) in the total operational holdings constitute 85 per cent in 2010-11 as against 83.29 per cent in 2005-06 and correspondingly, their share in the operated area increased from 41.14 per cent in 2005-06 to 44.31 per cent in 2010-11. These category of farmers does not have more resources as like large farmers. Form this stance, government of India has been taking various initiatives to increase credit to marginal and small farmers like policy of priority lending, establishment of Regional Rural Banks (RRBs) etc.

Over the period, these category of famers are not getting credit as per their requirement. There is more exclusion of this category of famers from formal credit supply sources. As Mehrotra Nirupam (2011), found the share of agriculture credit supply to marginal and small famers has decreased from 53.66 per cent in 1991-92 to 47.61 per cent in 2006-07, and addition to this the number of accounts also declined from 78.85 per cent to 53.66 per cent during the same period. The simple conclusion of this is that the exclusion of these famers may be leads to increase in non-institutional sources of credit in agriculture sector. In this connection, to increase credit supply to marginal and small famers by institutional sources of credit this scheme was announced in 2008.

iv) To remove bottleneck in the lines of credit:

When farmer take loans from any bank, they use to offer land document as a mortgage. If that loan not recover from crop production, may be due to various reasons like crop failure and others, then that farmer become indebted. Over the years if he could not able to repay that loan, then outstanding amount will increase and it's become more difficult to come out from this indebted situation.

In addition to this, if that farmer who is already taken loan from other bank, is unable to take fresh loan from banking institution for two reasons; i) he doesn't have any assets for mortgage because he submitted all land document to earlier bank, ii) while sectioning any loan, bank demand to their customer 'No Objection Certificate' (NOC), which he might not be able to produce because of outstanding amount with earlier bank. In this situation, amount of old debt become blockage in the line of fresh loan. To remove this and entitle these farmers fresh loan this scheme announced.

In conclusion, this scheme was announced by government to reduce the bourdon of incidence of indebtedness on farming community and to entitle fresh credit to them which would be increase inclusiveness in agriculture credit supply.

7.2. An Evaluation of Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS) in 2008:

After successfully implementation of 'Doubling of Agricultural Credit Scheme' government has announced 'Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS) in 2008'. This scheme was announced to decrease indebtedness of marginal and small farmers in the country. After implementation of this scheme, many questions has been raised like it has limited impact on productivity, credit alone is not enough, it raises burden on banks, informal lending has been un-addressed and people institutions will destroy etc.

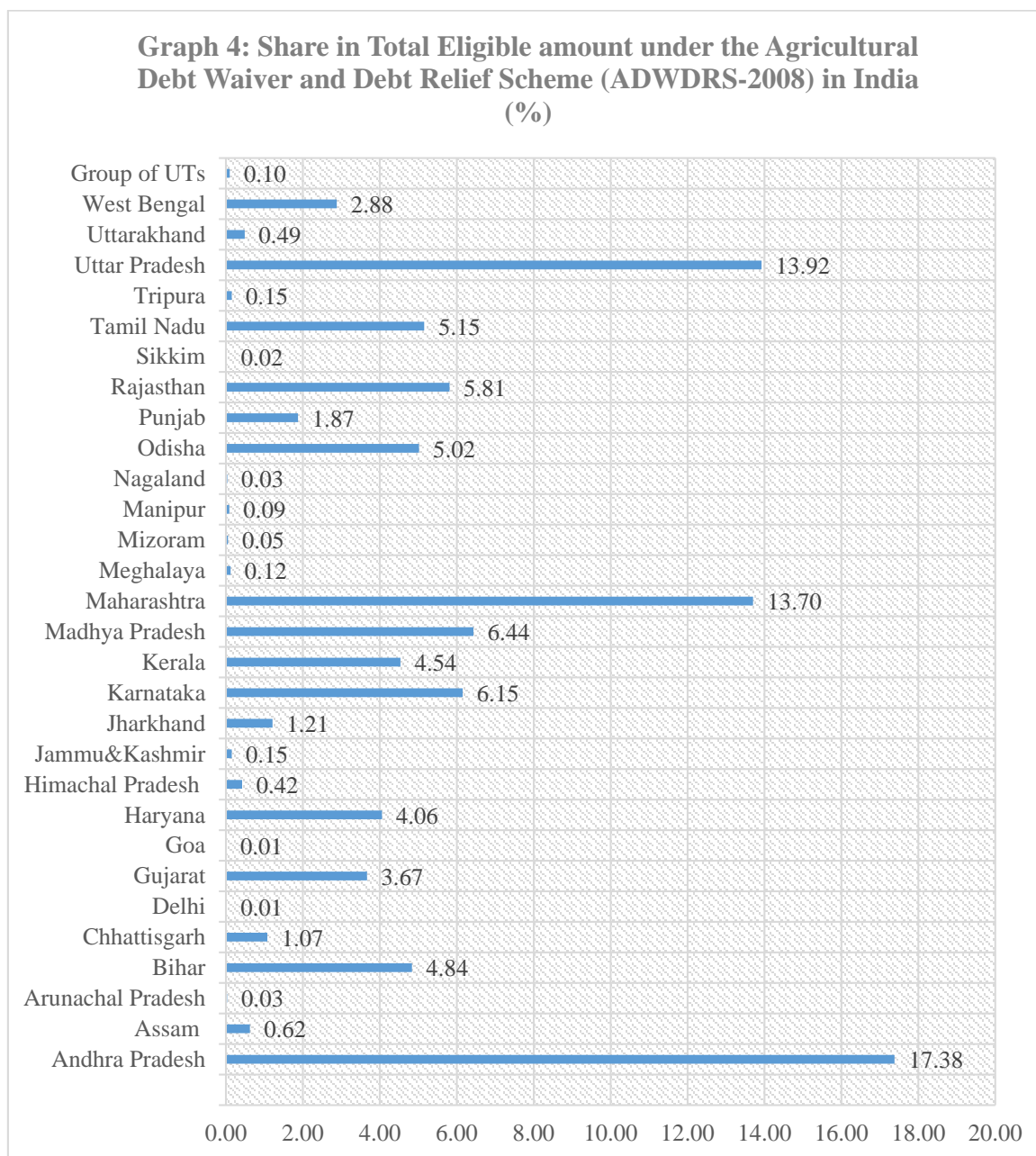
Firstly, the benefits from this scheme were unequal in India. In table 7, illustrate the coverage under this scheme in India. In the scheme, comprising both the waiver (Marginal & Small Farmers who got 100 per cent waiver) and relief (Other farmers who got 25 per cent relief) category, benefited an estimated 3.68 crore farmers, amounting to over Rs. 65,000 crore. In that total eligible amount of waiver and relief, share of Andhra Pradesh (17.38 per cent) is highest among all states followed by that Uttar Pradesh (13.92 per cent) and Maharashtra (13.70 per cent) has been benefited from this scheme (Graph 4).

Table 7: Coverage under the Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS) in 2008

Sr. No.	Name of State	Number of Farmers Covered Under			Total Eligible amount of Waiver/Relief (Rs. in crore)
		Debt Waiver (SF/MF)	Debt Relief (Other Farmers)	Total	
1	Andhra Pradesh	6646198	1109029	7755227	11353.71
2	Assam	319546	18146	337692	405.51
3	Arunachal Pradesh	10775	1241	12016	20.47
4	Bihar	1662971	94548	1757519	3158.9
5	Chhattisgarh	493828	201119	694947	701.28
6	Delhi	1324	388	1712	7.36
7	Gujarat	576137	410605	986742	2395.32
8	Goa	1592	768	2360	5.58
9	Haryana	527490	357612	885102	2648.73
10	Himachal Pradesh	114997	4794	119791	273.82
11	Jammu & Kashmir	47449	3081	50530	97.06
12	Jharkhand	639187	27239	666426	789.6

13	Karnataka	1171983	555360	1727343	4020.29
14	Kerala	1390546	40192	1430738	2962.97
15	Madhya Pradesh	1715624	659202	2374826	4203.25
16	Maharashtra	3023000	1225000	4248000	8951.33
17	Meghalaya	40885	2129	43014	77.94
18	Mizoram	18699	1641	20340	34.22
19	Manipur	56670	1393	58063	57.49
20	Nagaland	12623	2290	14913	22.39
21	Odisha	2377022	135935	2512957	3277.75
22	Punjab	227416	193862	421278	1222.91
23	Rajasthan	1111821	732765	1844586	3795.78
24	Sikkim	7140	651	7791	13.309
25	Tamil Nadu	1427280	328206	1755486	3365.39
26	Tripura	60502	1101	61603	97.09
27	Uttar Pradesh	4794348	621693	5416041	9095.11
28	Uttarakhand	154962	18733	173695	317.65
29	West Bengal	1445743	16590	1462333	1882.27
30	Group of UTs	28478	6269	34747	63.77
Total		30106236	6772582	36877818	65318.33

Source: Report of the Comptroller and Auditor General of India on Implementation of ADWDR Scheme (2008), 2013, page no. 8.



Source: Report of the Comptroller and Auditor General of India on Implementation of ADWDR Scheme (2008), 2013, page no. 8.

Table 8 showing share of regional distribution of benefit of ADWDR Scheme in India, it's give you an idea about unequal distribution of benefits of the scheme across the various regions in India. The benefit of ADWDR scheme to 'marginal and small famers' in Northern, North-Eastern, Eastern and Central regions is not commensurate with their share e.g. the eastern region has 24.23 per cent number of marginal and small farmers but they got benefit only 20.35 per cent under this scheme. This reality is applicable to 'Other Farmers' category also in these regions e.g. the north-eastern region has 3.42 per cent number of 'Other Farmers' category but they obtained benefit merely 0.42 per cent under this scheme.

Table 8: Regional Distribution of benefit of ADWDR Scheme-2008 All India

(In Per Cent)

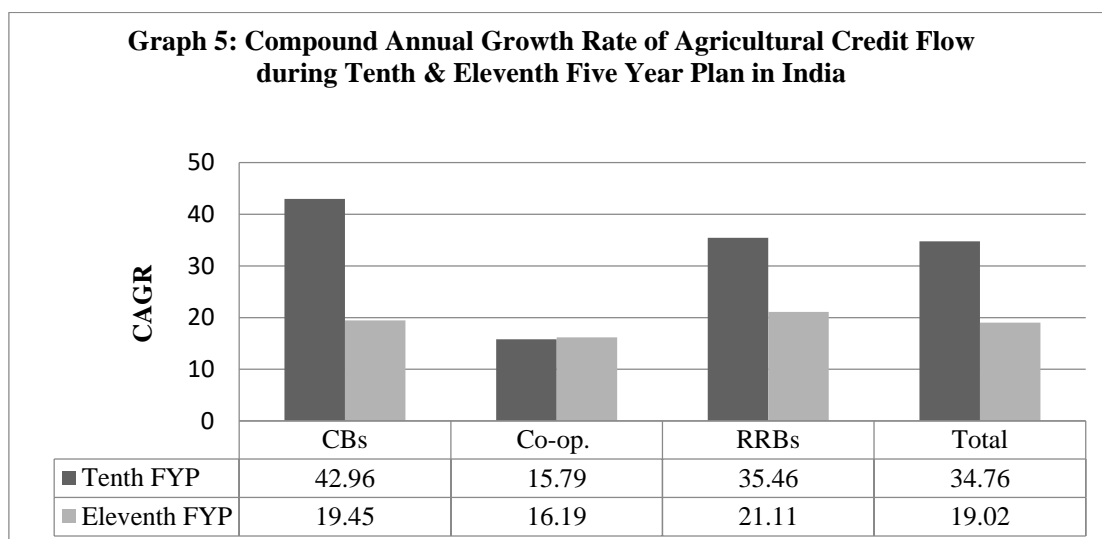
Sr. No	Regions	Number of Marginal & Small Farmers		Number of Other Farmers		Number of Total Farmers	
		Agriculture Census 2010-11	ADWDR Scheme	Agriculture Census 2010-11	ADWDR Scheme	Agriculture Census 2010-11	DWDR Scheme
I	Northern	8.93	6.74	23.38	19.09	11.12	9.01
II	North-Eastern	2.79	1.75	3.42	0.42	2.89	1.51
III	Eastern	24.23	20.35	7.50	4.07	21.70	17.36
IV	Central	26.12	23.78	23.78	22.16	25.77	23.48
V	Western	11.62	11.96	21.29	24.17	13.09	14.20
VI	Southern	26.30	35.42	20.63	30.09	25.44	34.44
	Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: Report of the Comptroller and Auditor General of India on Implementation of ADWDR Scheme

(2008), 2013, page no. 8 and Agriculture Census 2010-11, page no. 33.

However, the southern region is benefited in huge percentage in this scheme. This is noticeable not only to marginal and small farmers but to other farmers also. This region was obtained 34 per cent benefit of this scheme, whose share is only 25 per cent (Table 8). While the southern region is relatively better endowed in banking institutions and other infrastructure, but this alone does not justify the relatively high share in the benefit of this scheme and it's indicate that the scheme source of target was not suitable. The western region is taken equivalent gain from this scheme with respect to number of farmers. So, this scheme benefit to farming community is not with their respective regions share, its aid is regionally imbalance.

Secondly, the revival of agricultural credit was started in 2000s, this tendency has continued in Tenth FYP due to announcement of 'Doubling of Agricultural Credit' (DAC) scheme. Graph 5 showing Compound Annual Growth Rate (CAGR) of agricultural credit flow during 10th and 11th FYP in India, its confirm encouraging picture, which it's increased from lower Rs. 69560 crore in 2002-03 to Rs. 229400 in 2006-07, with CGR 34.46 per cent, however, this momentum of growth slipped downward, and it's increased by only with CGR 19.02 per cent in 11th FYP.



Note: CBs: Commercial Banks, Co-op.: Co-operatives, RRBs: Regional Rural Banks

CAGR: Compound Annual Growth Rate

Source: Annual Report of NABARD and Economic Survey (various issues).

These reverse trends were more visible in case of credit supply by CBs and RRBs in India. The credit supply by CBs and RRBs increased in Tenth FYP with CGR 42.96 per cent and 35.46 per cent, which decreased by with CGR 19.45 per cent and 21.11 per cent in Eleventh FYP respectively. The Co-op. credit supply has increased in Eleventh FYP by with CGR 16.19 per cent from CGR 15.79 per cent in Tenth FYP.

This inverted achievement of agricultural credit supply was taken place during Eleventh FYP due to the implementation of ADWDR scheme in 2008. When this scheme was implemented all banking institutions faced scarcity of funds problem and due to this, they could not supply credit to agricultural sector as like earlier period. So, this was negative impact taken place due to this scheme on supply of agricultural credit in India.

Thirdly, in the above discussion, we found decline trend in supply of agricultural credit in India. Addition to that, the commercial banks has major share in agriculture credit supply, so a look at the Table 3.9 reveals that up to 2.5 acres of land holders (Marginal Farmers) the number of account holders increased in Eleventh FYP from 11345 thousands in 2007-08 to 16423 thousands in 2011-12 with CGR of only 9.69 per cent, which was 20.32 per cent in Tenth FYP, whereas the amount of finance increased from 46457 crore to 124439 crore with CGR of 27.93 per cent during the referred period. The number of account reached at its highest level to 17321 thousands but decline in 2010-11 drastically to 12567 thousands and increased again in 2011-12 to 16423 thousands, this trend is not sustainable as like in amount growth.

Table 9: Scheduled Commercial Banks' Direct Finance to Farmers (Outstanding)

Short-Term and Long-Term Loans in 11th FYP

(Number of accounts in thousands; Amount in Rs. Crore)

Year (End-June)	Up to 2.5 Acres		2.5 to 5 Acres		Above 5 Acres		Total	
	No. of A/c	Amt.	No. of A/c	Amt.	No. of A/c	Amt.	No. of A/c	Amt.
2007-08	11345	46457	9512	46631	8739	80956	29596	174044
2008-09	11708	60199	9570	59792	10884	99349	32162	219340
2009-10	17321	77952	14220	72916	17657	119500	49198	270368
2010-11	12567	88712	12900	95120	8292	125460	33759	309292
2011-12	16423	124439	14441	126365	9645	140585	40509	391389
CGR	9.69	27.93	11.00	28.30	2.50	14.79	8.16	22.46

Source: Handbook of Statistics on the Indian Economy (2012-13), RBI, Mumbai.

In case of 2.5 to 5 acres and above 5 Acres of land holders the number of account holders increased in tenth FYP and decline in eleventh FYP, whereas the amount of finance also found the same trends. So, overall CBs direct finance to farmers in eleventh FYP in terms of account holder is significantly decline and amount financed showing turn down picture. These types of fluctuation are more in number of account holders and less is about amount of finance (Table 9). Credit to farmers after implementation of this scheme has been declined. Because of low availability of fund with banking institutions and also it may discourage to banks. This kind of scheme was announced by GOI not to fixing market failures but to fixing elections in earlier period also. May be this scheme was also announced by Congress lead UPA-I government to attract more voters from rural India.

8. Conclusion:

In India, agriculture credit is facing various problems like agricultural credit is inadequate, not reaching to vulnerable section of the rural area especially marginal and small farmers and not having local orientation in supply of agricultural credit.

To overcome some of these problems and increase formal credit supply to agricultural sector, government of India has announced policies and schemes in recent time like, Doubling of Agricultural Credit in 2004, Interest Subvention Scheme in 2006 and Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS) in 2008. These schemes has achieved its objectives well in within time but rises many undesirable issues like more credit flow is going to developed regions or areas, decreasing credit supply to weaker section of the society, not commensurate with regional real sector development indicators, agricultural credit supply

increasing to large farmers, no sustainability in credit supply, commercial banks credit supply is more suspicious, and not creating well credit culture in rural India etc.

Finally, we can say these recent schemes has boosted up credit supply to agricultural sector but rises many issues which policy makers should take in to account while framing further policies and schemes in India.

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