

Need for Banks to know the new trends for Agricultural Finance

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Agricultural growth decelerated during 1990. Agricultural performance witnessed a dip in the 1990s partly on account of subdued public investment in agriculture and an inadequate diversification. The decline in public investment was only partially compensated by the rise in private investment. Real private investment in agriculture did give rise significantly, but in the face of declining real public investment in agriculture, overall real capital formation in this sector has been low in recent years.

The higher increase in MSPs of rice and wheat relative to prices of other agricultural commodities has contributed to an incentive structure that favours production of rice and wheat at the cost of other crops. The policy has contributed to a burgeoning stock far in excess of food security requirements, adding to carrying costs and locked in bank credit. Higher agricultural growth will come from crop diversification to non-traditional activities that are in line with the changing agriculture demand pattern. The banks should come forward to finance such new non-traditional activities.

Developments indicate that banks may have targeted relatively risk-free irrigated areas and individuals with high net worth for providing priority sector agricultural loans. In comparison, rain-fed and drought prone areas and relatively poorer households have had greater dependence on informal sources of finance. The deadweight of non-performing assets (NPAs) of agricultural advances has also affected the recycling of credit. The adherence to prudential norms of income recognition, asset classification and provisioning has made banks more conscious of risk. This would have also contributed, at the margin, to the deceleration in flow of credit to agricultural sector.

Micro finance has emerged as an alternative system for rural credit delivery to complement the formal credit institutions. The scheme of micro finance has made significant progress, by linking Self Help Groups (SHGs) with banks and the number of beneficiaries covered. The loan amount per beneficiary of Rs. 1360 is, however, not adequate to enable the poor to cross the threshold of poverty. Similarly, development of SHGs has been highly uneven across states. There is urgent need to up scale the programme evenly across the states along with an increase in the loan amount per beneficiary. The outreach of the Kisan Credit Cards (KCC) to cover all eligible farmers under the scheme has been hampered by the lack of updated land record, small landholdings and illiteracy of borrowers and the traditional structure of cooperative banks. Sensitisation of bank staff to these issues through training would be helpful.

Future trading, particularly in food grains should be promoted first so that dependence of MSP mechanism for price stabilisation could be avoided. Similarly strengthening of public distribution needs to accompany the relaxation of the Essential Commodities Act, 1955 to ensure uninterrupted supplies of food grains to the poor at reasonable price.

The policy of linking allocation of resources from Centre to State with their performance in implementing agricultural reform measures is a step in the right direction.

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