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Agri. Investment Credit in India: Hidden Opportunities & Challenges

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Abstract : A major mass of the population in India is involved in Agricultural activities as its primary source of income. India has been in a continuous tryst with its farming practices, infrastructure and credit availability since the independence. It is the sector which contributes around 18 to 20% of the GDP of the country. Agriculture as a sector which is emotionally attached to its population since the ancient times and marking new heights by achieving self-sustainability in food grain production and embarking the world with its year-on-year increase in Agri. export value. However, in case of investment in the form of credit in the Indian agriculture is still a long way to go as compared to developed countries with new hi-tech machineries and technologies leading to substantial reduction in manual intervention as compared to India. To bridge these gaps in technology intervention or mechanizing agriculture along with Government support access to credit forms integral part of the agricultural sectoral development in the country. Since the launch of Kisan Credit Card scheme in 1998, Agricultural credit has become integral part of the banking sector in India. However, as compared to production credit that is lent in the form of cash credit for day-to-day farm activities, investment towards the purchase of machinery, setup of farm infrastructure such as godows, adoption of new technologies like drones or any other kind of long-term borrowings are less than 40% as compared to production credit among the farming communities. Hence this paper is an attempt to put lights on opportunities available and challenges for the agriculturists as well as bankers to enhance lending towards investments in the agricultural sector by borrowing medium to long term loans to build a sustainable growth in both in financial and farming sector.

Key Words - Investment, Credit, Farmers, Agriculture

INTRODUCTION

Agriculture plays a crucial role in the development of the Indian economy. It accounts for about 19 per cent of GDP and about 2/3rd of the country's population is dependent on the this sector. The importance of farm credit as a critical input to agriculture is reinforced by the unique role of indian agriculture in the macroeconomic framework and its role in poverty alleviation. Recognizing the importance of agriculture sector in India's development, the Government and the Reserve Bank of India (RBI) have played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector such as Kisan Credit Card Scheme in 1998 followed by interest subvention to KCC limits up to Rs. 3.00 lakhs.

Agriculture credit, especially the investment i.e. long-term credit facilities capitalize formers to undertake new investments and/or adopt new technologies. Hence credit facility to agriculture sector can foster agricultural growth and development, the emphasis on the institutional framework for agricultural credit is being emphasized since the beginning of planning development era in India. In this regard a large number of formal institutional lenders like Co-operatives, Regional Rural Banks (RRB), Scheduled Commercial Banks (SCBs), Non-Banking Financial Institutions (NBFIs) etc. are involved in meeting the credit needs of agriculture. In the Financial Year 2022-23 the total credit to Agri and Allied sector was 21.65 lakhs crores with total outstanding of Rs. 28.67 lakhs crores from the entire formal banking sector in India (RBI, 2023).

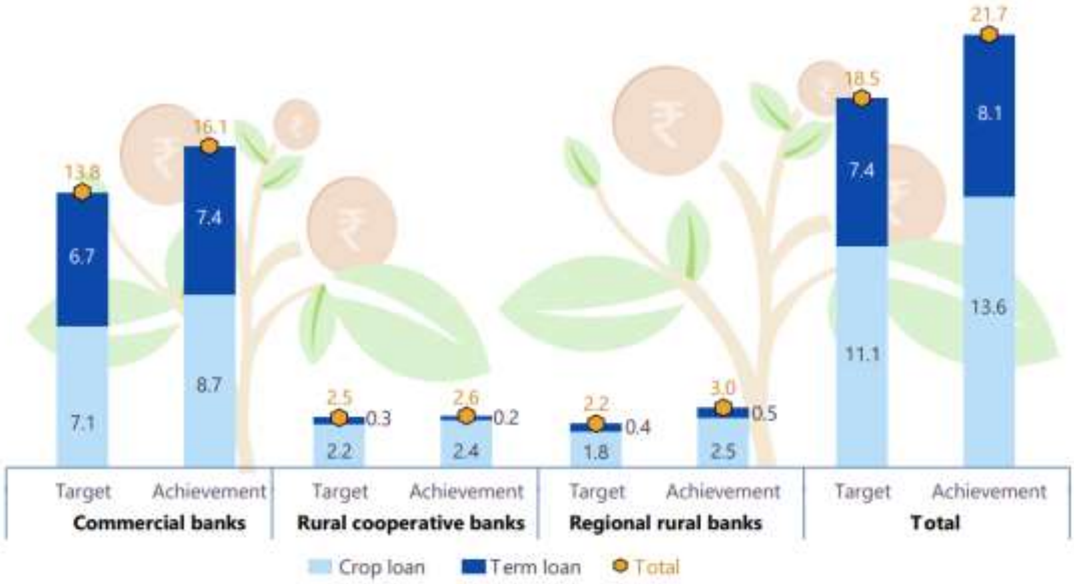

Fig.1 Agricultural credit by Financial Institutions as on 31 March 2023 (₹ lakh crore) (Source: NABARD)

To boost agriculture, it is important to ensure timely and hassle-free flow of credit to the farmer. In this context, the government has been fixing annual targets for ground level credit (GLC) for the agriculture sector for Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs), and Rural Cooperative Banks (RCBs). The above figure reflects the scenario of Agricultural credit distribution in the Indian Public Sector banks (PSBs), Regional Rural Banks and Rural Co-operative banks. From the above figure it is very clear that all the above-said banks have surpassed the assigned target of Agriculture credit in FY'23 and collectively lent 21.70 lakh crore of rupees to agricultural sectors. It is also interesting to note that out of 21.7 lakhs crores 13.60 lakh crores was lent towards Crop loans and the remaining 8.10 lakhs crores was towards Agri Term loans. Above data depicts that 62.67% of the total lending under agriculture is going towards short term credit in the form of crop loans and remaining 37.32% is towards Term loan or investment credit component..
Hence this paper is an attempt to put lights on opportunities available and challenges for the agriculturists as well as bankers to enhance lending towards making investments in the agricultural sector by borrowing medium to long term loans to build a sustainable growth in both in financial and farming sector.

REVIEW OF LITERATURE

"Literature is the art of discovering something extraordinary about ordinary people and saying with ordinary words something extraordinary". Acquainted with past literature is a way to understand the subject matter thoroughly and can help to come out with meaningful results. It helps us to have basic ideas about the subject in most realistic and appropriate manner. It is also an important aspect of research and research methodology.
Viswanadham, N. (2006), carried out a study "Can India be the food basket for the world. Achieving rural and global supply chain excellence: the Indian way" suggested that Investments in cold chain infrastructure, applied research in post-harvest technologies, installation of food processing plants in various sectors and development of food retailing sector are mandatory for achieving gains in Agriculture sector. Strategic growth plans for achieving both national and international competitiveness of the food industry are essential.
Casuga, M. S., Paguia, et al (2008) carried out a study on financial access and inclusion in the agriculture value chain. They stated that financing intervention should be directed where it is required, not focused solely on production. Financing for processing and marketing is particularly crucial for growth and expansion of chain products from local to international/export markets. Hence, loans should not be limited to short term, production loans but should also include bigger loans, with longer maturities, to finance investments in farming equipment and machineries, transportation, storage, mills, and other processing/post-harvest facilities.
Jha, S. N. et al (2015) under All India Co Ordinated Research project on Post Harvest Technology carried out research on quantitative harvest and post-harvest losses of major crops and commodities in India. In the report they stated that the average range of losses altogether for food grains, oil seeds and fruits and vegetables were found to be 4.65% to 15.88%, which indicates that overall losses have gone down by about 2% as compared to previous study in 2005 -07 despite tremendous increase in production in last 10 years. They also stated that improvement in infrastructure and transportation were found to be helpful in reducing the post-harvest losses. Development of cold chains and construction of cold stores with pace of production are essential.

RESEARCH METHODOLOGY:

The study was an explorative study to find opportunities towards Agricultural investment credit for the formal lending institutions and hence mainly backed by secondary data, which is obtained from public domain such as Ministry of Agriculture, NABARD, Ministry of Animal husbandry etc. and simple statistical tools are used to conclude the results.

RESULTS AND DISCUSSION:

4.1 Opportunities:

4.1.1 Performance of States below the targets:

Table 1: State wise Term loan sanctions against target for FY'2021-22

State Name	Agri Term Loan (2021-22) Cr.	Target in Cr.	% Achievement
Meghalaya	80	555.07	14
Jammu & Kashmir	1307	5299	25
Himachal Pradesh	1559	4675.53	33
Nagaland	78	233.09	34
Mizoram	258	632.48	41
Punjab	16690	38329.49	44
UP	10399	19861.46	52
Telangana	17536	32101	55
Assan	3904	6678	58
Gujarat	11279	18562	61
Manipur	398	650.79	61
Uttarakhand	3631	5117.82	71
Haryana	24872	30302	82
Rajasthan	24651	27221	91
Goa	704	750	94
Maharashtra	60690	58060	104
Bihar	49777	47541	105
Karnataka	57477	54069	106
Jharkhand	5327	4912	108
TN	89585	81752	110
Odisha	16795	14430.38	116
Kerala	34657	22279	156
Andra Pradesh	61494	38077	161
Tripura	1445	NA	NA
West Bengal	16477	NA	NA
MP	50098	NA	NA
Arunachal Pradesh	NA	NA	NA
Sikkim	NA	NA	NA
Sikkim	NA	NA	NA

Source: State Focused Papers, NABARD

Out of 29 states and Union territories of India, only 8 states have achieved the Term loan lending target assigned by NABARD for FY'2021-22, however a diversified country like India we find a various Agri. linked activities require investments to support the farming community and such one example is "One District One Product" project of Govt. of India to support the entrepreneurship at micro level by identifying a unique product at each district of the country through Agriculture or allied activities.

4.1.2 Increasing Strength of FPOs/FPCs:

Table 2: Number of Registered FPO's in India as on 15/03/2022

S. No	State/UTs	Number of FPOs registered by respective agencies			
		Small Farmers' Agri-Business Consortium (SFAC)	NABARD	FPOs registered by IAs under CSS for formation & Promotion of 10,000 FPOs	Total
2	Andhra Pradesh	16	295	88	399
3	Arunachal Pradesh	6	10	12	28
4	Assam	18	72	95	185
5	Bihar	38	217	101	356
6	Chhattisgarh	26	57	61	144
7	Delhi	4	1	0	5
8	Goa	2	2	1	5
9	Gujarat	25	190	140	355
10	Haryana	23	85	93	201
11	Himachal Pradesh	8	99	67	174
12	Jammu & Kashmir	2	23	64	89
13	Jharkhand	10	150	96	256
14	Karnataka	125	287	166	578
15	Kerala	0	134	36	170
16	Ladakh	0	0	3	3
17	Madhya Pradesh	149	254	147	550
18	Maharashtra	105	291	173	569
19	Manipur	8	12	16	36
20	Meghalaya	3	12	10	25
21	Mizoram	1	19	14	34
22	Nagaland	2	5	16	23
23	Odisha	41	241	165	447
24	Punjab	7	93	22	122
25	Puducherry	0	0	2	2
26	Rajasthan	50	166	135	351
27	Sikkim	30	8	2	40
28	Tamil Nadu	13	264	133	410
29	Telangana	26	335	99	460
30	Tripura	7	1	23	31
31	Uttarakhand	7	90	57	154
32	Uttar Pradesh	57	183	210	450
33	West Bengal	89	305	10	404
Total		898	3904	2257	7059

Source: PIB, New Delhi

As on 15th March 2022 India had a total of 7059 Farmer Producers Organization registered with different agencies such as NABARD or SFAC or under Central Sector Scheme for formation and promotion of 10000 FPOs. Hence this increasing popularity of FPO's/FPCs with the help of Govt. support can lead to enhanced opportunities to lending institution to garner business not only in production credit but also in Agri. Investment activities which are hidden in the form of Agri. Value Chain.

These FPOs can be established under the statute of companies act or the state co-operative act. It is a crowdsourced model with likeminded farmers belonging to the same geographical and cultural areas. Over the years it has been proven that these FPOs are the easiest source of inspiration for positive impact on all the players and practices of agri value chain. With formal sources of credit and government support these FPOs will be in a better position to tackle uncertainty in prices, processing and storage activities and can deploy new age Agri-Technology.

4.1.3. Increasing support to Agri. infrastructure in the country:

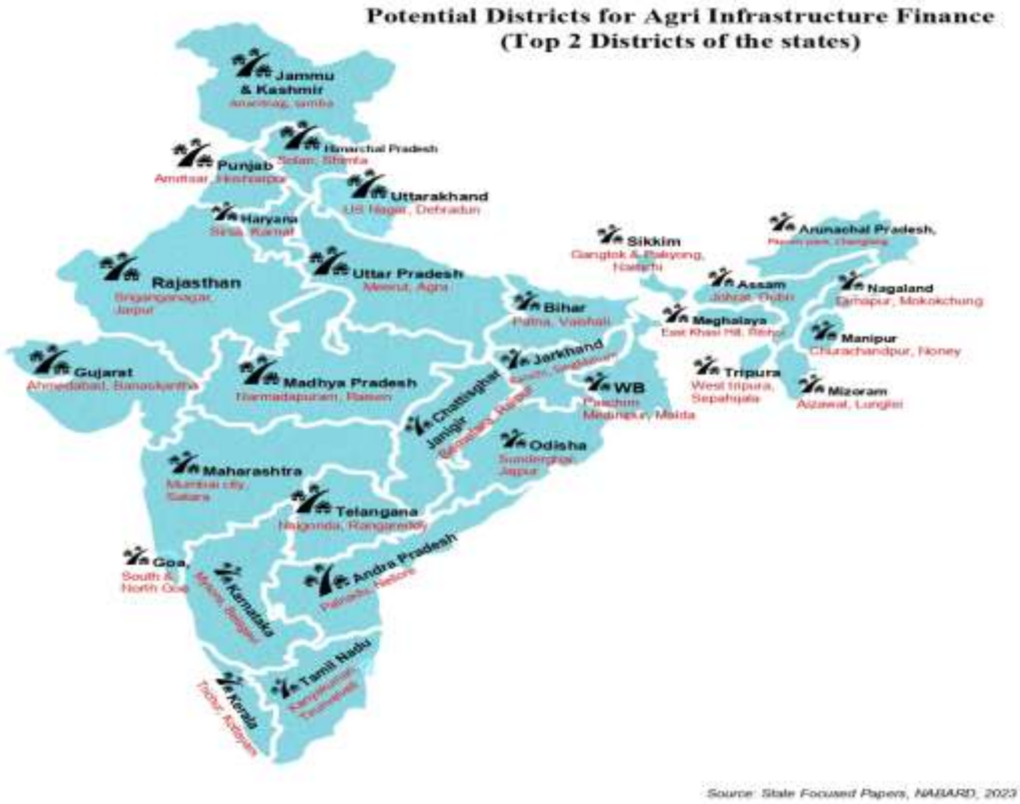

Fig. 2 Potential top two districts for Agri. infrastructure investment Source: State Focused Papers, NABARD, 2023

With launch of Agri. Infrastructure Fund scheme in 2020 as part of Atmanirbhar Abhiyan, now almost all the primary Agricultural activities including community farming activities can get benefit of finance from the banking system anywhere in the country at substantially less rate of interest and without any collateral up to Rs. 2. Cr of the project cost. This scheme is encouraging the formal lending sector to explore the unexplored Agriculture infrastructure within as wind below the wings.

4.1.4 Diverse country with diverse opportunities:
In India major mass of the population is still depending on the farming and allied activities. These allied activities such as dairy, poultry, sheep and goat rearing, fisheries etc. form the major primary and secondary source of income to many of the rural households. India being a diverse country with its varying soil type to meteorological conditions across the country, is a home for various breed and verities of farm animals and crops

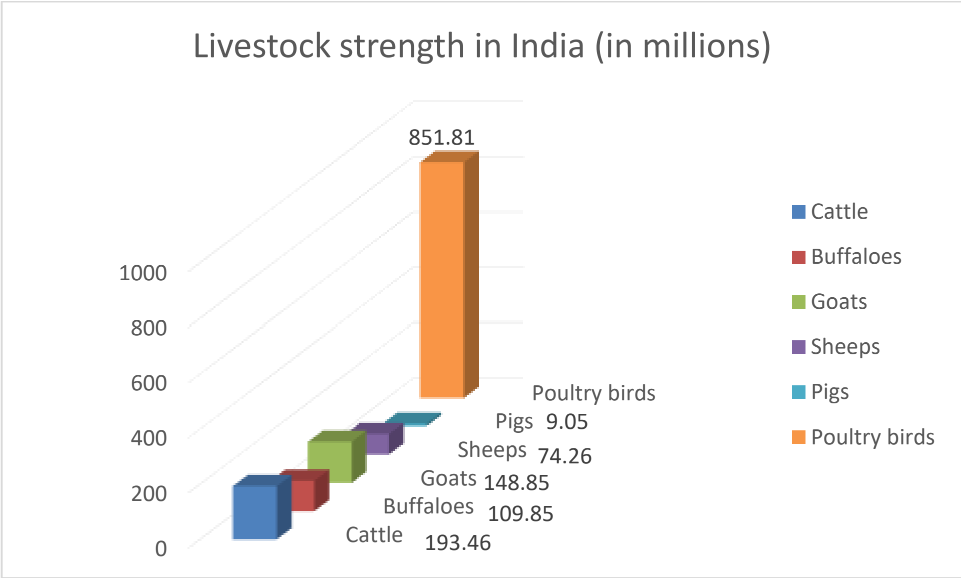

Fig.3 Livestock strength in India *(Source: Livestock Census, 2019)*

India is a leading country in milk production and in total livestock population in the world. According to Livestock census report 2019, there are total 1387.28 million of livestock are there, which involves agriculturally important livestock such as Cattle, Buffaloes, Goat, Sheep's, Pigs and poultry birds. All these figures show the hidden opportunities in financing agri allied activities in India to handhold the farming communities by creating either primary or secondary source of income.

4.2 Challenges:

- Lack of awareness in the farming community: Indian farming is in continuous tryst with availability of suitable infrastructure, practices since independence. Even after many changes in governments policies and support to build Agri infrastructure to strengthen the Agri. Value Chain, lack of awareness in the farmers such as importance of formation of FPO's, Govt. subsidy schemes and availability of formal credit support etc. These lacunas can be attributed due to existing gap in literacy and marginalized to small land holdings discouraging to bring changes in their routine farming activities.
- Lack of Collateral to avail financial services: Indian farming community consists of approximately more than 60 percent are of either marginal or small farmers holding between 1 to 2 hectare of land and most of these lands are ancestral in nature. Many of the times we may observe that within the family agricultural properties are being cultivate by generation after germination without proper partition of the land records as owner or cultivator. In such cases access to formal credit facilities becomes difficult without proper ownership of the land records above a stipulated limit by the regulatory authority. If a farmer wants to go for implementation of new machinery or new technology in his farm with help of formal credit facilities from financial institutions offering of collateral with clear ownership becomes limitation to such progressive thought process of the farmers.
- Non-Uniform banking sector guidelines among the bank: Lending of Agri. Term loan is mainly affected by bank or lending institution's credit policy guidelines and are vary from one institution to another such as public sector banks, private banks, co-operative banks and Non-Banking Financial Companies (NBFC) with respect to collateral and personal guarantee requirements, agriculture products, title tracing period, applicability of credit guarantee coverage etc.
- Micro land holdings: The increasing fragmentation of Agricultural land is limiting the farmer's scope to adopt mixed farming, new age technology or machinery for his farm activities. Out of 146.44 million of farmers in India, more than 100 million of them fall under marginal category of farmers (Agricultural Census, 2015-16).

CONCLUSION:

Enabling institutional credit is essential for any sector so for agriculture to have better agricultural services and new age technology and empowering individual farmers and to build a sustainable Agri. value chain. To see a rigorous improvement in this sector a fair share of rapid mechanization, technological intervention and collective efforts from the farmers in the form of FPOs are need of the hour. At the same time access to credit by these marginal and small farmers is essential to realize the sustainability growth and prosperity in this sector. Thus, investment in agriculture in the form of mechanization, infrastructure and to have additional source of income through agricultural allied activities helps to build these individual or group of farmers into a self-made Agri-preneurs.

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