

# Paucity of public investment and strangulated credit flow to small farmers-Result: stagnancy in agriculture and incomes of farmers

*By K. Ramasubba Reddy*

## **ABSTRACT:**

**\*“Government policies over a period have rendered agriculture, as the least profitable vocation in the country.” Standing Committee on Agriculture.**

\*The Economic *Survey* says that huge investment is needed to make agriculture viable and sustainable.

**\*“... the global experience of growth and poverty reduction shows that GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth originating outside agriculture.”** *Agri Sector- XI Plan Mid term Appraisal*

**\*Direct agriculture credit has significant positive impact on agriculture output. In particular, change in per capita agriculture direct credit (amount outstanding) by one per cent will lead to increase in per capita agriculture output by 0.11 per cent.** *Source: Abhiman Das et al, RBI, Occasional Papers Vol. 30, No.2, Monsoon 2009*

**\*ACTION NEEDED:** Separate budget for Agriculture bringing all components in to it.

Quadrupling public investment in agriculture by enhancing plan allocations to 10% of total XII Plan outlay,

Increasing credit flow to small farmers to 10% of total bank credit.

And it is imperative to include agriculture in the concurrent list which employs about 60% of the workforce; so that the centre is enabled to fund important production oriented agri schemes are adequately funded.

**PART1-Paucity of public investment in agriculture**

i. During the 60 years of Planning between 1950-51 and 2010-11, the share of agriculture in GDP has fallen by more than two third from 55% to 15%, whereas the share of industry has increased from 15% to 28% and the share of services has nearly doubled from 30% to 57%. Further agri GDP growth rate was subject to wide fluctuations.

Despite the shift in sectoral GDP away from agri sector, most of the employment is still in agriculture. This means a disquietingly large increase in income disparities during the last 60 years of planning!

	Share in GDP	Share in Employment
Agriculture	17	58
Industrial	19	18
Services	64	24

**\*While the GDP from agriculture has more than quadrupled from Rs. 1,08,374 crore in 1950-51 to Rs. 4,85,937 crore in 2006-07 (at 1999-2000 prices), the increase per worker is only about 75% higher in real terms than in 1950 compared to 400% higher increase in overall real per capita GDP.**

**As per GDP data on sectoral income for the four year period 2007-08 to 2010-11, average per annum growth in non-agri worker income is 7.7% compared to meagre 2% growth in the income of agri worker. The ratio of disparity in incomes thus is 1:4. Agri workforce got only one fourth incremental income of what non-agri workforce got. Thus the disparities in incomes of non-agri and agri workers is continuously widening ever since 1950s despite the so called planned effort at inclusive growth.**

ii. *\*“... the global experience of growth and poverty reduction shows that GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth originating outside agriculture.”*  
*Agri Sector- XI Plan Mid term Appraisal*

The Economic Survey says that huge investment is needed to make agriculture viable and sustainable.

***But the reality is opposite of what has been stated above. There is continuous decline in public outlays and investments in Agri Sector for over two decades.***

**\*After the economic reforms have started, the government's expenditure and investment in the agricultural sector have been drastically reduced. The expenditure of the government in rural development, including agriculture, irrigation, flood control, village industry, energy and transport, declined from an average of 14.5 per cent in 1986-1990 to six per cent in 1995-2000.**

### **iii. Decline in Capital Formation in Agriculture**

#### **Investment in Agriculture –Declining trend in real terms**

Even though Agriculture is the life blood of the nation, **public investment in agriculture, in real terms, had witnessed a steady decline from the Sixth Five Year Plan onwards.**

Plan	Sixth Plan 1980-85	Seventh 1985-90	Eighth 1992-97	Ninth 1997-2002	Tenth 2002-07
Amount Rs in Crore	@64,012 @1999- 2000 prices	@52,107	@45,565	@42,226	@67,260

**Analysis of trends in public investment in agriculture and allied sectors reveal that it declined in real terms (at 1999-2000 prices) from Rs.64,012 crore during the Sixth Plan (1980-85) to Rs.52,107 crore during the Seventh Plan (1985-90) to Rs.45,565 crore during the Eighth Plan (1992-97), and Rs.42,226 crore during Ninth Plan (1997-2002). This trend was, however, reversed in the Tenth Plan (2002-07), with public investment in agriculture of Rs.67, 260 crore.**

#### **iv. Decline in public investment in Agriculture**

Over the years there is a decline in the share of agriculture investment

Period	Share in total investment	Share of Public Sector Investment in total investment
1970s	15%	14.3%
1980s	11%	11.6%
1990s	8%	6.5%
2006-07	7.0%	8.2%

## v. Growth in Real Public Expenditure on Research and Extension (Per cent)

**Rate of growth of expenditure on extension services has declined drastically since the nineties.**

Year	Research & education	Extension & training
1960s	6.5	10.7
1970s	9.5	0.00
1980s	6.3	7.0

During 2004-05 to 2009-10 gross Capital Formation in agriculture and allied sectors relative to overall GDP has remained stagnant at around 2.5 to 3.0%. As a result the share of GCF in agriculture and allied sector in total GCF has remained in the range of 6.6 to 8.2 per cent during 2004-05 to 2009-10.

## VI. Plan Allocations:

There has been continuous decline in the plan outlays for Agriculture. During 6th Five Year Plan the share was 5.8%; the same declined to 4.9% during 9th Plan and further down to 2.4% during the X and XI Plans.

### Central Plan outlays - %

VI Plan	*VIII Plan	*IX Plan	*X Plan	**XI Plan
	1992-97	1997-2002	2002-07	2007-12
5.8%	5.2%	4.9%	2.4%	2.4%

\*At 2001-02 prices \*\*@2006-07 Prices Source: Plan Documents

**XI Plan allocations:** For the Eleventh Plan the Department of Agriculture and Cooperation have been allocated Rs. 66,577 crore .

**The total expenditure in first four years of XI Plan period will be Rs.42,248 crore which leaves a whopping gap of Rs.24,329 crore.**

**For 2011-12, the allocation to Agri sector at Rs 14,744 crore amounts to just about 2.5% of the massive Central Plan Outlay of the Government of India of Rs. 5, 92,457 crore.**

**A petty amount of Rs2,200 crore was allotted to very important schemes to boost production of vegetables, pulses, oilseeds, millets and**

fodder and to bring about second green revolution in the eastern states, which falls far short of the requirements to boost output. The objectives are good with potential to boost output but the allotments are too stingy to yield desired results.

**\*Thus the long-term neglect of agriculture has affected adversely the level and pattern of agricultural production to an extent where supply-side constraints are leading to inflation. Agriculture sector after decades of neglect needs to be infused with higher levels of investment to ensure 4% Agri GDP growth at least during XII Five Year Plan period.**

**Action needed:** Separate budget for Agriculture bringing all components in to it.

Quadrupling public investment in agriculture by enhancing plan allocations to 10% of total plan outlay,

Increasing credit flow to small farmers to 10% of total bank credit.

Any half measures or isolated knee jerk reactions would not only prove grossly inadequate but are bound to fail.

And it is imperative to include agriculture in the concurrent list which employs about 60% of the work force; so that the centre is enabled to adequately fund important production oriented agri schemes as suggested above.

## **PART 2- strangulated credit flow to small farmers**

**Investments including bank credit help Agri GDP growth.**

*Direct agriculture credit has significant positive impact on agriculture output. In particular, change in per capita agriculture direct credit (amount outstanding) by one per cent will lead to increase in per capita agriculture output by 0.11 per cent. Source: Abhiman Das et al, RBI,*

*Occasional Papers Vol. 30, No.2, Monsoon 2009*

Government claims that credit flow to agriculture has increased four fold since 2004. How this was achieved by diluting the definition of agri credit is detailed below. Several Commissions and experts

**including Sengupta and Swaminathan Commissions have pointed out to this dubious means adapted by RBI and the Banks.**

## **1. Major changes introduced in the definition of indirect finance**

**From the 1990s onwards, the definition of what constitutes indirect finance to agriculture has been widened and diluted drastically. This enabled banks to show higher level of growth of indirect finance.**

A. Up to 1993, only direct finance to agriculture was considered as a part of the priority sector target of 18 per cent for agriculture and allied activities. From October 1993, indirect finances have been added in the priority sector target.

It was stipulated that indirect finance to agriculture up to one-fourth of the total agricultural advances would be considered while meeting the priority sector target of 18 per cent for agriculture. However, the indirect finance over and above one-fourth of total agricultural advances was allowed to be reckoned while meeting the overall target of 40 per cent for priority sector advances

B. About one-third of the increase in credit flow to agriculture between 2000 and 2009 was on account of the increase in indirect finance. The sharp growth in indirect finance in the 2000s was mostly a result of changes in definitions effected since late 1990s. These changes broadly involved:

- i. The addition of new forms of financing commercial, export-oriented and capital-intensive agriculture; and
- ii. Raising the credit limit of many existing forms of indirect financing. Indeed, meeting the task of doubling agricultural credit appears to have become much easier for banks as a result of these definitional changes.

C. The entire growth of indirect finance to agriculture in the 2000s originated from a major expansion of loans with a credit limit of more than Rs 10 crore, and particularly, more than Rs 25 crore.

In the year 2000, indirect finance with credit limit above Rs 25 crore accounted for less than one-third of the total indirect advances to agriculture. However, in 2009, **indirect finance with credit limit above Rs 25 crore accounted for 62% per cent of the total indirect advances to agriculture.**

D. There was a major rise in the share of direct advances with a credit limit of more than Rs 1 crore between 2000 and 2009. **The amount of direct advances with a credit of more than Rs 1 crore formed 5 per cent of total direct advances in 2000; the share more than doubled by 2009 at 10.2 per cent**

E. **“Between 1995 and 2005, the share of agricultural credit supplied by urban and metropolitan bank branches in India increased from 16.3 per cent to 30.7 per cent. As a consequence, there was a sharp fall in the share of agricultural credit supplied by rural and semi-urban branches from 83.7 per cent in 1995 to 69.3 per cent in 2005. In 2008, the share of rural and semi-urban branches in total agricultural credit was 66 per cent.”**

## **2A. 1/3<sup>rd</sup> of Agri loans are given in Urban and metro areas**

**Farming takes place in rural areas but, for reasons unknown to us, 1/3<sup>rd</sup> of Agri loans are given in Urban and metro areas and rural areas got less than 40%. More than half of indirect loans are given in metro areas mostly to corporate concerns and categorized as loans to agriculture.**

**Agri loans-PERCENTAGE SHARE ACCORDING TO POPULATION GROUP-Mar 09**

Ag Loans	Rural	Semi-urban	Urban	Metro	Total
<b>Total</b>	<b>38.7</b>	<b>27.8</b>	<b>15.5</b>	<b>17.9</b>	<b>100</b>
<b>Direct</b>	<b>47.3</b>	<b>31.9</b>	<b>13.5</b>	<b>7.3</b>	<b>100</b>
<b>Indirect</b>	<b>9.8</b>	<b>14.1</b>	<b>22.4</b>	<b>53.7</b>	<b>100</b>

In States like Maharashtra, about 58 per cent of agricultural credit was supplied from either metropolitan or urban branches in 2008. In other words, there is little evidence to show that the major beneficiaries of the increase in agricultural credit have been small and marginal farmers.

## **2B. Small loans of Rs 25,000 and below account for only 8% of the total agri advances**

**Agri advances of Rs. 1 crore and above constitute 27% of the total agri advances where as small loans of Rs 25,000 and below account for only 8% and the share of small loan dwindling year after year from 52% in 1995 to 24% in 2003 and further drastically reduced to 8% in 2009.**

Rs 25,000      1,88,07,000      24,681      8.0%

And less

Rs.25,001-      1,88,09,000      1,12,335      36%

Rs 2 lakh

Rs. 1 crore      10,700      82,638      26.7%

and over

**T1. The number of small loans to farmers reduced by 80 lakhs (reduced by 30%)**

<b>No. of year</b>	<b>A/c in lakhs A/cs</b>
--------------------	--------------------------

<b>1992-93</b>	<b>267</b>
<b>2005-06</b>	<b>178</b>
<b>2007-08</b>	<b>196</b>
<b>2008-09</b>	<b>188</b>

### **T2. % of Decline in small loans to farmers (Rs.25,000/- and less).**

<b>1990</b>	<b>1995</b>	<b>2003</b>	<b>2007</b>	<b>08 09</b>
<b>59%</b>	<b>52%</b>	<b>24%</b>	<b>11%</b>	<b>10% 8%</b>

Source: RBI- BSR, NABARD

### **T3. The amount of loans to big farmers is enhanced phenomenally**

	<b>No. of A/cs</b>	<b>Amount (in crores)</b>
<b>Small loans upto Rs.25,000- 2005-06</b>	<b>178,00,000</b>	<b>22,976</b>
<b>Mar 2009</b>	<b>1,88,00,000</b>	<b>24,681</b>
<b>Loans Rs.1 crore and above- 2005-06</b>	<b>7,300</b>	<b>50,969</b>
<b>March 2009</b>	<b>10,700</b>	<b>82,638</b>

### **T 4. Agri Credit-Distribution of amount outstanding by credit limit size-%**

<b>Credit limit size (Rs)</b>	<b>Share of amount</b>	<b>outstanding</b>	<b>%</b>
	<b>1990</b>	<b>2000</b>	<b>2005</b>
	<b>2009</b>		
<b>Less than Rs 2 lakh</b>	<b>82.6</b>	<b>67.6</b>	<b>51.9</b>
<b>2 lakh to 10 lakh</b>	<b>4.3</b>	<b>11.7</b>	<b>17.9</b>
<b>10 lakh to 1 crore</b>	<b>7.6</b>	<b>6.6</b>	<b>6.4</b>
<b>1 crore to 10 crore</b>	<b>4.2</b>	<b>6.7</b>	<b>8.0</b>
<b>10 crore to 25 crore</b>	<b>1.3</b>	<b>1.7</b>	<b>3.3</b>
			<b>2.7</b>

Above 25 crore		5.7	12.6	17.7
Total	100	100	100	100

Source: BSR, RBI

**3. Conclusion:** *In post reform era, there has been studied indifference in extending credit to agriculture. Neither the Government nor the RBI, bothered to reverse the trend despite this being pointed out by Sengupta, Swaminathan and Planning Commissions and by other experts too. Very silently definition of agri credit was broadened which allowed big loans also to be included under this category.*

*It is very clear that during the period commencing from 1993, the loaning to agriculture sector has been neglected, the RBI was a party to this, wittingly or unwittingly, and banks took cue from this and reduced the share of small loans to farmers.*

**4. Way forward: Provide 10% of total credit to small farmers and tenant farmers**

i) The recommendations of NCEUS that 10% of bank credit should be given to small land holders should be implemented forthwith to better their lot, who constitute 84% of all the farmers and own 40% of the land. Presently their share is less than 5%.

ii) Finance to the extent of 18% of bank credit should be made available as direct agricultural finance for production and investment purposes as was the position obtaining prior to 1993. Indirect finance should not be included in 18% target for agricultural credit.

iii) Higher agri credit limits exceeding Rs I crore should be categorized as agri business loans and extended as part of other business loans. *KRSR/CIFA Souvenir Article/20110318*