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Agriculture Gold Loans- Issues and Implications

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Government of India, during the last decade or so, implemented several new initiatives like Doubling of Agriculture Credit Programme and Interest Subvention Scheme in order to cater to the increasing credit requirements of the farming community. These schemes have led to "deepening" of credit by way of more intensive credit per farm and "widening" of credit, measured in terms of inclusion of new borrowers in the institutional fold. However, several concerns have emerged in the process, one of which is preponderance of Short Term (ST) loans in total agriculture lending, within which Agriculture Gold Loans (AGL) as a liberal credit product gained prominence. This issue of Rural Pulse presents the findings of a study undertaken to examine the factors that have led to proliferation of AGL and the issues and implications thereof.

Introduction

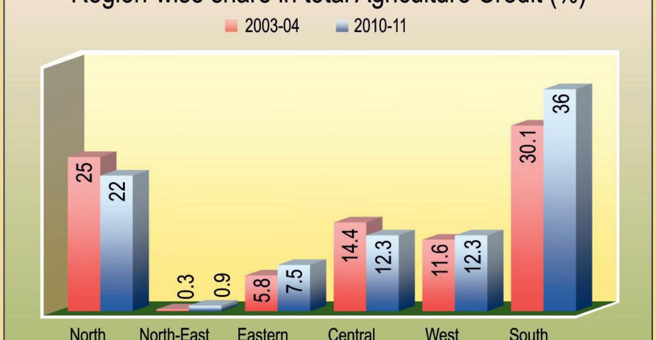
Credit as an enabling input, which exercises control over direct inputs in the agricultural production process, also plays a crucial role in influencing the decision making of farmers. The function of credit is especially vital in an economy like India, where, four in every five farm holdings belong to the category of small and marginal farms, which are characterized by a general resource constraint in undertaking farming operations. The fact that out of 89.35 million farming households, only 48.6 percent had access to formal sources of credit (Situation Assessment Survey of Farmers-Indebtedness of Farmer Households, NSSO, GoI, 2003) prompted the Government to initiate a series of efforts to address the issue, of which, the Doubling of Agriculture Credit (2004-05 to 2006-07) and the Scheme of Interest Subvention (2006-07), are prominent. While such initiatives successfully addressed the credit needs of farmers, many distortions and concerns have also emerged in the process of their implementation.

On the brighter side, the Ground Level Credit to Agriculture (GLCA), which was ₹86,981 crore in 2003-04 increased to ₹5,11,029 crore during 2011-12, at a Compound Annual Growth Rate (CAGR) of 24 per cent. Further, total GLCA as a share of Gross Domestic Product (GDP) generated in agriculture (at current price) increased from 15.9 per cent in 2003-04 to 36 per cent in 2011-12. Credit intensity measured in terms of GLCA per ha. of Gross Cropped Area (GCA) also increased six-fold from ₹4,512 (2003-04) to ₹26,095 (2011-12).

However, a few concerns have emerged over the years, prominent among them being (i) the uneven spread of Ground Level Credit across various regions and (2) distorted growth in sector-wise components of GLC. The share of Southern Region in the total GLCA has been on the rise, in comparison to other regions (Chart 1). Agriculture credit per ha. has undergone a massive increase in the Southern Region in comparison to the rest of the country (Chart 2).

Chart 1

Region-wise share in total Agriculture Credit (%)



Source : NABARD

Chart 2

Agriculture Credit per ha. (₹)

Sources : (i) Ministry of Agriculture (ii) NABARD

*Deputy General Manager, Assistant General Manager and Assistant Manager, respectively.

Table 1: Trend in Disbursement of Agriculture Credit and share of LT Credit - Branch-level Statistics

(₹ lakh/branch)

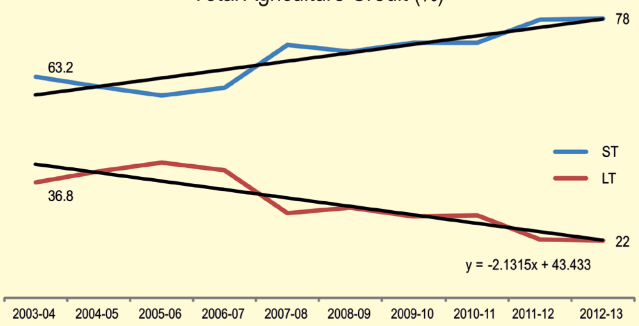
Year	Tamil Nadu			Kerala		
	Com Banks	RRB	PACS	Com Banks	RRB	PACS
2009 -10	1679 (5.3)	302 (0.0)	79 (0.0)	385 (19.3)	706 (0.0)	290 (0.0)
2010-11	2801 (2.4)	1416 (0.0)	104 (0.0)	640 (19.1)	820 (0.0)	432 (0.0)
2011-12	3109 (3.3)	2140 (0.0)	130 (0.0)	1256 (6.2)	635 (2.7)	762 (0.0)
2012-13	3389 (1.9)	1762 (0.0)	149 (0.0)	1634 (3.1)	664 (0.4)	782 (0.0)
CAGR-Tot (%)	26.4	80	23.6	61.9	-2.0	39.2
CAGR-LT (%)	-10.4	-	-	-11.8	-	-
CAGR-ST (%)	27.9	80	23.6	72.2	-2.2	39.2

CAGR: Compound Annual Growth Rate *Source: Field study, Branch-level data* *Figures in parenthesis refer to share (%) of LT credit in total agri. credit*

Further, the Long Term (LT) credit as a proportion of total GLCA, which was 36.8 per cent in 2003-04, has come down drastically to reach around 22 per cent by 2012-13, raising grave concerns regarding the process of capital formation in agriculture (Chart 3).

Chart 3

Share of Short Term and Long Term Loans in Total Agriculture Credit (%)



Source: NABARD

Credit flow to Agriculture- Field level perceptions

As the Southern Region leads the growth in per ha. GLC, a quick study was undertaken in Tamil Nadu and Kerala, with the primary objective of examining the trend in GLCA at the micro level and the factors leading to the change in the composition of agriculture loan at the branch level. The study covered 2 districts in each state having a higher concentration of GLCA viz., Kanyakumari & Madurai districts (Tamil Nadu) and Thrissur & Kollam districts (Kerala). A total of 12 bank branches in Tamil Nadu and 14 in Kerala across the three agencies, i.e., Commercial Banks (CBs), Regional Rural Banks (RRBs) and Cooperatives (Coop), were covered under the field study.

Branch-level data: Does the decline in LT credit mirror the national trend?

The share of LT credit in total GLCA was paltry in both the states. This was evinced by a sharp decline in the share of LT credit in total GLCA in commercial banks in both the states and nil share in both RRBs and Primary Agriculture Credit Societies (PACS) (Table 1). Loans in sample branches were dominated by ST credit, ratifying the all-India trend. Both RRBs and PACS focused mainly on ST loans during the period from 2009-10 to 2012-13 in Kerala and Tamil Nadu. From the Table, it is evident that while the share of Short-Term credit in total GLCA has increased across all banking agencies (except RRBs in Kerala), LT credit on the other hand, has registered a steady decline.

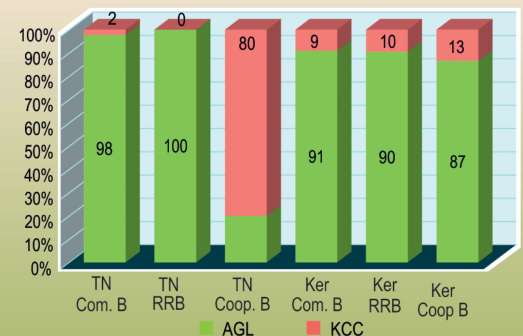
Trend in Short Term Agriculture loan accounts- Is Agriculture Gold Loan on the rise?

Kisan Credit Card (KCC) scheme was launched in the country with the objective of covering eligible farmers in the fold of institutional credit, in a way that their needs are met on time, with minimal procedural hassles. However, branch level information from TN & Kerala for commercial banks and RRBs shows that, KCC accounts constitute a smaller proportion of crop loan lending vis-à-vis AGL (Chart 4). Of the total number of ST loans under agriculture in the commercial bank branches, KCC constituted hardly 2 per cent in Tamil Nadu and 9 per cent in Kerala in 2012-13. In Tamil Nadu, RRBs issued no KCC, whereas the share of KCC in total ST loan accounts stood at 10 per cent in RRBs in Kerala. PACS in Tamil Nadu had a good share of ST loans under KCC while in Kerala the share was 13 per cent only.

From the Chart, it is evident that KCC appears to be losing preference as a convenient credit product and its numbers may dwindle further in the near future, particularly in Southern Region. As noted earlier, GLCA is largely skewed in favor of the Southern Region and this has occurred mainly on account of the proliferation of AGL, which is looked upon as a more liberal credit product, both by the banking fraternity and farming community. In this context, it becomes necessary to examine the trends in the amount disbursed under ST agriculture credit and how AGL and KCC have fared in the process.

Chart 4

Share of Accounts under AGL & KCC (2012-13)-(%)



Source: Field study, Branch-level data

Table 2: Trends in Loan amount disbursed under crop loan and share of KCC

(₹ Lakh/branch)

Year	Tamil Nadu			Kerala		
	Com Banks	RRB	PACS	Com Banks	RRB	PACS
2009 -10	1590 (1.1)	302 (0.0)	79 (62.0)	311 (18.6)	706 (15.9)	290 (37.2)
2010-11	2734 (1.5)	1416 (0.0)	104 (55.8)	518 (11.6)	820 (14.8)	432 (43.8)
2011-12	3007 (1.2)	2140 (0.0)	130 (70.0)	1178 (12.5)	618 (18.0)	762 (42.5)
2012-13	3325 (1.8)	1762 (0.1)	149 (69.8)	1583 (10.4)	661 (12.1)	782 (39.9)

Source: Field study, Branch-level data *Figures in parenthesis refer to share (%) of KCC loans in total Crop Loan issued*

Increasing share of AGL in total ST loan amount: What does this point to?

Management Information System (MIS) followed at present, fails to report the extent of AGL in ST credit, resulting in inaccuracy of data on GLC. In Kerala, however, State Level Bankers' Committee (SLBC) has compiled disbursement under AGL and published the same for the past two years. The details available indicate that 96.3 per cent of the total crop loan disbursed during 2011-12 and 95 per cent during 2012-13 was by way of AGL in the state (Chart 5).

The findings from the field study in TN & Kerala reinforces the secondary data collected from SLBC. The share of loan amount disbursed under AGL in total ST loans was considerable in Tamil Nadu, where it formed around 97.4 per cent leaving just 2.6 per cent towards KCC, whereas its share in Kerala was 84.4 per cent. Barring PACS, both commercial Banks and RRBs concentrated only on AGL to disburse loan under ST agriculture (Table 2).

The growth in AGL is substantial as compared to KCC. For example, in Tamil Nadu, the field study indicates that the loan disbursed under AGL doubled, in the case of commercial banks and multiplied more than five times in the case of AGLs disbursed by RRBs. In Kerala, the loan disbursed under AGL increased from ₹ 253 lakh in 2009-10 to ₹1419 lakh in 2012-13 in commercial banks, registering a CAGR of 77.7 per cent compared to KCC which grew only by 41.4 per cent during this period.

This trend may have several implications on the ultimate objective of targeted lending not just in the case of agriculture, but the entire priority sector. Apprehensions are also raised that southern states like Kerala are exporting surplus Priority Sector Lending (PSL) achievement to the banks enabling them to reduce PSL in other parts of the country.

Has AGL enabled financial inclusion?

AGL as a credit product was formulated with the objective of enlarging the spread of institutional credit across the farming community, due to the flexibility built into the product, including non-insistence on documentary evidence and linking of loan sanctioned to the value of the gold pledged. However, field level observations point to a situation where credit deepening has taken precedence over credit widening. The growth per account is higher in the case of AGL in comparison to KCC in both the states. Barring the KCCs issued by cooperative banks in Kerala and RRBs in Tamil Nadu (between 2009-10 and 2012-13), the growth of loan amount per account is higher in the case of AGL across all banking agencies in both the states (Chart 6).

This trend has a strong implication on the financial inclusion process and is an indicator that farmers without gold to pledge may have been left out in the process of gaining access to institutional credit.

Trends in composition of GLC- What is its impact on productivity?

The rise in proportion of ST credit in comparison to LT credit may not augur well for increasing capital formation and hence productivity in agriculture. Since AGL has emerged as the major driver for banks to disburse ST credit especially in the Southern Region, lending under LT credit has been relegated to the backseat, which in turn, affects capital formation in agriculture. Since, AGL corners a major share of loans disbursed under ST, agricultural production may also be affected adversely as it is often diverted towards purposes other than agriculture.

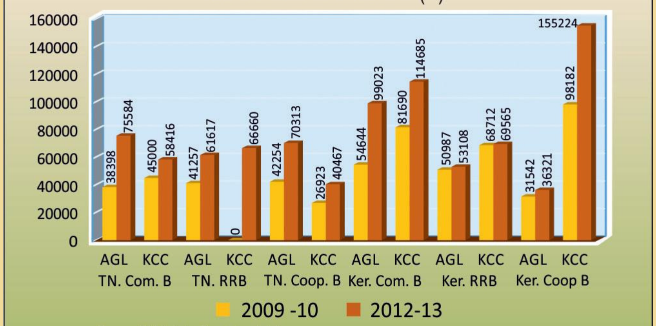
Chart 5

Average share of AGL and KCC in total crop loan disbursement in Kerala (2011-12 and 2012-13)

Sources : (i) SLBC, Kerala (ii) NABARD Kerala RO

Chart 6

Agency-wise Per account loan amount in Tamil Nadu and Kerala (₹)



Source: Field study, Branch-level data

Why has Agriculture Gold Loan been on the rise?

This question can be answered based on the perception of bankers and farmers regarding AGL as a credit product. Policy signals have prompted banks to formulate schemes for the benefit of farmers such that their needs are promptly met. The loan is granted depending on the value of gold pledged. Prompt repayment by borrowers is assured in view of the ever-increasing value of gold, its high liquidity, social stigma in the event of default, emotional attachment to gold, as it is looked upon as an asset, etc. The AGL as a product has also received wide acceptance among the bankers, in view of its utility in attaining priority sector lending targets. Since no formalities like pre/post-sanction visits for sanctioning loans are required under AGL, it acts as a time-saver for banks, besides improving its business substantially.

From the perspective of farmers, AGL borrowers enjoy all benefits available to KCC borrowers such as subvented interest rate (7% per annum), interest rebate for prompt repayment, repayment period, etc. The in-built flexibility in the product such as non-insistence on documentary evidence regarding area under cultivation for sanctioning loan is an incentive for borrowers to resort to AGL in the event of an exigency. Non-insistence on kind components and the provision of linking value of gold with eligible loan amount have also acted as drivers in promoting the popularity of AGL among borrowers as an option for gaining easy access to credit. It is also to be remembered that AGL has had a positive impact on agriculture production in certain cases as it enables leased land cultivation by tenant/sharecroppers/landless farmers, etc. in locations where absentee landlordism prevails.

Implications of rapid growth in AGL

Enhanced priority accorded to ST credit in relation to LT credit and increasing share of AGL in ST credit to agriculture may have several alarming implications as well:

- **Adverse impact on capital formation :** The proportion of crop loan in total GLCA lending has been rising rapidly during the past few years. Within crop loan, the share of AGL has been increasing sharply in the southern states, thereby prompting bankers to focus more on AGL for lending towards agriculture. Hence, lending under LT credit has diminished, which may affect capital formation adversely.
- **Farmers not having gold as collateral :** In order to avail AGL, farmers need to have access to gold. It is observed that poor farmers need not have gold to the extent required for the purpose of availing AGL. This has an implication on financial inclusion of farmers without gold to pledge. Availability of cheap credit under AGL has also prompted borrowers to divert it for purposes other than agriculture.
- **Declining importance of KCC :** AGL has come to be characterized by timeliness and provision of hassle-free services to farmers, which were essentially envisioned as the defining features of KCC at the time of its launch. However, the fact that the share of KCC in total ST loans is on a steady decline, might jeopardize the inclusion of genuine farmers in the institutional credit fold.
- **Reliance by banks on AGL to attain PSL targets :** Of late, banks have resorted to AGL as a means of achieving PSL targets, which may have further alienated the asset-less section of farmers from availing credit from formal sources.

The Way Forward...

- It is often observed that the norms with respect to Scale of Finance (SoF) are strictly applied while sanctioning loans under KCC, unlike AGL. Policy guidelines need to be streamlined with the clause that banks may ensure that the loans sanctioned under AGL are linked to the SoF, crop cultivated and area operated. End-use monitoring of loans sanctioned under AGL may ensure that diversion of loans are kept in check.
- In several instances, a shortfall was observed in the KCC limit as compared to farm requirements. Hence, it is recommended that a matching additional limit with gold as security may be extended to KCC holders for crop cultivation.
- AGL has established a strong foothold in ST lending in the southern states. Is there a case for re-designing KCC (especially in southern states), incorporating some of the flexible features of AGL?
- Annual Credit Plans (ACPs) at district level have to be adhered strictly in terms of subsector wise components. Achievement over and above the ST loan target may not be counted for achievement under agriculture and further to PSL. Suitable incentives can be thought of, for increasing the LT credit in agriculture to neutralize the attraction of subsidized ST credit in agriculture.

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