

Need of Agrifinance in Uttar Pradesh: Challenges and Opportunities



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Abstract

The term "inclusive growth" was made popular by the India Development Policy Review 2006 titled "Inclusive Growth and Service Delivery Building on India's Success". This report focuses on two major challenges facing India today, improving the delivery of core public services, and maintaining rapid growth while spreading the benefits of this growth more widely. The domestic challenge is to make growth more inclusive. As 26 percent of the population of India lives in poverty. Agriculture affects about 14% of the Gross Domestic Product (GDP) and about 2/3rd population of India depend on Agriculture. Agriculture provides employment to about 48.9% of the total workforce in India but contributes only 15.2% to the country's Gross Value Added (GVA). About 85% of operational holdings in the country are in the small and marginal categories, and the average size of an operational holding is only 1.15 hectares. A large number of village people have limited access to education or healthcare. Basic services such as drinking water, sanitation, electricity, road connectivity, and housing are not available to large sections of the rural areas. A high rate of growth of GDP would have little meaning to the poor and the disadvantaged unless there is a visible improvement in their living and working conditions. Hence the emphasis should be on inclusive growth and the effort to devise programmes and plans that address the felt needs of the productivity, employment generation and income of Rural areas.

Keywords: Inclusive Growth, Sustainable Rehabilitation, Capital Formation.

Introduction

For inclusive and sustained growth of the Indian economy, Agricultural growth and Agricultural infrastructure is an essential prerequisite. Agricultural growth will have a positive effect on the current account deficit. To prevent food shortages and continuing hunger in the developing world in particular, there is a need for a quantum leap in agricultural productivity foodgrain output and farm incomes in the developing countries.

The country has taken major initiatives in agriculture and rural development, in the industry and urban development, in infrastructure and services, and in education and healthcare, aimed at promoting inclusive growth. However, a 7.5% growth rate for the past four years has allowed India to make considerable progress in the eradication of extreme poverty. The Government is investing huge sums in rural infrastructure through schemes like the National Rural Employment Guarantee Act and Bharat Nirman for socially inclusive and regionally balanced economic growth. At present, the external or global challenge is to integrate the Indian economy with the global economy and remain competitive. Agricultural growth which is powered by agricultural infrastructure investments financed by the export boom will stimulate domestic demand for export-oriented sectors.

The low growth rate in the agriculture sector, presently at 2.7%, has an adverse impact on the inclusive growth because growth in the crucial agriculture sector could only bring about greater social inclusion and sustainable rehabilitation since half of the country's population is dependent on it. The current share of agriculture in the country's GDP is around 18.5 per with those of services, at 55%, and industry at 26%, the role of agriculture sector has a wide relevance in the present times when globalization is a fact of life.

Uttar Pradesh is the most populous state in the country accounting for 16.4% of the country's population. It is also the fourth largest state in a geographical area and its agriculture sector includes horticulture, forests, sericulture, fisheries and animal husbandry is pivotal to

the economy of Uttar Pradesh as it contributes more than 40% to the Net Domestic Product of the State and is the main source of livelihood for around 80% of the population. However, the share of this sector in State income has been progressively reducing.

Aim of the Study

To study the effect of Agriculture finance on Gross Capital formation in Agriculture & Allied sectors & measure the impact of institutional Agriculture Finance on production & farmers' income.

Review of Literature

The literature investigating Institutional Agriculture finance is increasing after the nationalization of banks. Recent research provides evidence of the influence of the Institutional Agriculture Finance over farmers' need. The following studies have been taken into consideration to find out research gaps and justify the need for the proposed study.

Year	Publication Details	Authors	Title	Objective	Conclusion
Aug. 2017	ICRTESM-17, ISBN:978-93-86171-56-6	Sadhik. Syyed, Noorbasha	Lead Bank and Lead Bank Scheme –India	This study is mainly confined to the lead bank scheme in Andhra Pradesh State Districts only and focuses on lead bank activities in the present day.	The role of LBS is useful for the development of the economy especially in the backward area; it acts as to coordinate the efforts of all other Commercial Banks, Financial Institutions and other development agencies for bringing about the overall development of the Districts.
Aug. 2017	International Journal Of Engineering Sciences & Research Technology ISSN: 2277-9655 Value:3.00 CODEN: IJESS7	Ajit Kumar Mishra and Upasana Mohapatra	Agriculture Finance in India- An Overview	The paper discusses the history and need of Agriculture Finance in India, sources, and magnitude of Agriculture Finance and assesses its progress.	It revealed that the Institutional credit flow to Agriculture has been increasing for the past four decades. The structure of the sources of credit have witnessed a clear shift and commercial banks have emerged as the major source of Institutional credit to Agriculture in recent years imparting training to borrowers regarding procedural formalities of financial Institutions could be helpful in increasing their access to Institutional credit.

Investment in Agriculture & Allied Sector

At all India levels, the present actual investment in the agriculture sector is only 1.3% of the total Gross Domestic Product (GDP). The position is not much better at the State level either. The percentage expenditure in Agriculture & Allied sector has declined over the Plan period from a high of about 29% during Second Five Year Plan and the Annual Plans of 1966-69 to a low of 5.47% during Sixth Five Year Plan and about 8.6% & 7.8% during Tenth & Twelfth Plans.

A large number of formal Institutional agencies like Scheduled Commercial Banks (SCBs), Co-operatives Banks, Regional Rural Banks (RRBs), Non-Banking Financial Institutions (NBFIs), and Self-help Groups (SHGs), etc. are involved in meeting the short and long-term needs of the farmers. Several initiatives have been taken to strengthen the Institutional mechanism of the rural credit system. The main objective of these initiatives is to improve farmers' access to Institutional credit. There are various sources from which the farmers can raise funds needed for farming. These sources are classified into two categories.

1. Non-Institutional Sources. Non-Institutional Sources are as followings: Moneylenders: Agriculture and Professional, Landlords, Traders and Commission agents, Friends and Relatives and Others.
2. Institutional Sources. GOI, RBI, NABARD, Scheduled Banks, SBI, Public Sectors Banks. Other Nationalised Banks.

Gross Capital Formation In Agriculture Sector

Data reveals that there is declining public investment in agriculture, stagnant gross capital formation and falling share of agriculture in the Total Plan outlay. There has been a deceleration in the sector in the past decade.

In the case of Uttar Pradesh, gross capital formation in Agriculture at current prices in the year 2016-17 comprises of 44% Public investment and 56% Private investment. Gross capital formation in agriculture in Uttar Pradesh in 2016-17 was just 13.71% of gross capital formation in the State. Private investment in the State in agriculture and allied sector is considerably lower than all India figures.

The Committee on Capital Formation in Agriculture set up by Government of India in its report has noted that the coverage of items and the

procedure for compilation of capital formation in agriculture as followed by the Central Statistical Organization is Constrained by the United Nations System of National Accounts (SNA). The present estimates of capital formation in agriculture does not represent total capital formation augmenting capacity of agriculture. Expenditures on agriculture education, research, and training help to enrich human capital and lead to break-through in increasing productivity in agriculture. Although these activities are not taken as capital formation activities in SNA, it is desirable to prepare a separate estimate of expenditure on R&D for agriculture to keep track of the development of agriculture. Further Public Sector investment in agriculture mainly consists of investment in irrigation projects (90%) while expenditure on soil and water conservation etc. are included as capital formation under Public Administration. With the adoption of a new strategy for agricultural growth and diversification of agriculture from traditional crop cultivation to horticulture etc. which would require more investments on cold storage, rural roads, communication, marketing network and facilities, warehouses, etc., these need to be taken into account

while determining 'capital formation for agriculture' instead of 'capital formation in agriculture'.

Agriculture Credit

Uttar Pradesh has 2, 04, 03,000 hectares irrigated land and in India, it is 9,57,72,000 hectares. The state has the potential to double its agro-growth from the present 2.5% to 5% per annum. Presently, this most populous state of India has 59% of its workforce in Agriculture, as per Census 2011, but with an average holding size of just 0.76 hectares and the predominance of small and marginal holdings. 29% of its population was below the poverty line in 2011-12. As per the Situation Assessment Survey of NSS (2012-13), the average monthly income of an agro-household in UP was the third lowest in the country.

Out 90% of farmers in the State are small and marginal farmers, The outreach of credit institutions, whether Commercial banks or Cooperative institutions is very low. Out of 2 crore farmers in the State, the actual coverage of farmers would be less than 20%. It may be noted that the agricultural credit in the country by Cooperative banks, Commercial banks, RRBs and other agencies.

Table 2: Agency-Wise Ground-Level Credit Flow

(Amount in Rs. Crore)

Agency	2012-13	2013-14	2014-15	2015-16 (PE)	2016-17(PE)
CBs	4,32,491	5,27,506	6,04,376	6,42,954	7,33,201
RRBs	63,681	82,653	1,02,483	1,19,261	1,03,974
COOPS	1,11,203	1,19,964	1,38,469	1,53,295	1,22,651
Total	6,07,375	7,30,123	8,45,328	9,15,510	9,59,826

Note: CBs – Commercial Banks; RRBs – Regional Rural Banks; Coops – Cooperative Banks

Source: As reported by concerned banks in ENSURE portal of NABARD. Data on Agriculture term loan include Agriculture and agro-allied, agro-infra and ancillary activities. Out of total term loan disbursement, share of Indirect Term Loan is Rs. 1, 27,070.52 Crore (not given to non-corporate farmers as per definition of RBI).

Thus, despite the State contributing about 13% in the agricultural Gross Domestic Product of the country in 2016-17 and about 20% of the total food grain production in the country, agricultural loan disbursed in the State was only 17.58% of total agricultural loans disbursed in the country during 2014- 15, 6.72% in 2015-16 and 6.06% in 2016-17.

There are 10479 Cooperative Societies functioning at Nyaya Panchayat level in the State and they constitute a point of interface between the farmer and the Cooperative Society for disbursement of short-term, long-term agricultural loans, provide HYV seeds, pesticides, fertilizers, improved agricultural implements, etc. There are 80 District Cooperative Banks which have 124 branches. However, data reveals that there is virtual stagnation in the functioning of the Cooperative Societies in the State. It is also being seen that earlier Cooperative sector was meeting 65-70% of the agricultural credit needs and the rest by the Commercial banks. But now the role has been reversed and presently commercial banks are making available 70 percent of agricultural credit and only 30% by the Cooperative banks. The average loan being provided to farmers in the State is

only to the tune of Rs.2000 per hectare which is clearly insufficient for meeting the input cost of HYV seeds, fertilizers, pesticides etc. Thus, it can be safely asserted that the agricultural sector in the State is under-financed.

Further, an examination of the role of Cooperative societies reveals that while earlier they were providing nearly 75% of the credit, their disbursement has come down to about 30%. Data released by NSSO further reveals that cooperative societies which used to play and still play such a key role in the disbursement of agricultural credit and other agri-inputs, do not serve more than 13% of farmer households in Uttar Pradesh, NSSO data reveal that in UP only 20% of farmer households included a member of a cooperative society and just 13% had availed themselves of services from a cooperative while at all India level, about 29% of farmer households included a member of a cooperative society and 19% had availed themselves of services from a cooperative. Most of these households availed themselves of either credit facilities or services related to seeds or fertilizers.

Returns on Investment

Despite the rise in the cost of all inputs like seeds, power, fertilizers, pesticides, and water, farmers are selling wheat, corn, sugar, and meat today at prices that are in reality half of those twenty years ago. Returns on investment are reducing further. Though retail food prices are significantly higher than ever before, over the past two decades, the prices of

nearly all the major agricultural commodities declined in real terms. i.e. inflation adjusted or relative to movement in prices overall. A study conducted by UNCTAD reveals that upon a comparison of the prices of agricultural raw materials and food and beverages in 2003 with 1980 prices show a drop of 60% and 73% respectively. From 2008 to 2016 alone, the combined price index of all commodities fell by 53% in real terms, that is commodities lost more than half their purchasing power in terms of manufactured goods. OECD forecasts show that in real terms rice prices are likely to remain flat over the next ten years while world wheat and maize prices are expected to continue their long-term declining trend. Real prices of oilseeds are also likely to remain flat as productivity and increase in acreage neutralize growth in demand. In the Indian context too it is clear that the returns on investment to the farmer are declining, in case of paddy and maize, the Minimum Support Price is less than the cost of production and in case of wheat, the MSP is only marginally more than the cost of production

Since paddy and wheat are the predominant Kharif and Rabi crops in Uttar Pradesh, there is an urgent need to take a fresh look at this situation. It will be futile to expect the farmer to continue to grow paddy and wheat when his return on investment is negative.

Strategy to Revitalize the Farm Sector First Report of the Farmer Commission

The first Report of the Farmer Commission has identified the following five basic reasons for present agrarian crisis:-

1. Unfinished agenda in land reforms
2. Quantity and quality of water
3. Technology fatigue
4. Access, adequacy, and timeliness of Institutional credit
5. Opportunities for assured and remunerative marketing

It has also been observed that adverse meteorological factors and possible climatic changes tend to further accentuate the problem. The worst affected are small and marginal farmers, tenants and sharecroppers, landless agricultural laborers and tribal farmers since their coping capacity is very limited.

Some of the recommendations made by the Farmer Commission with a view to revitalizing the farm sector are as under:

1. Ecologically sound agriculture is knowledge intensive, knowledge empowerment on a variety of issues ranging from agriculture and allied activities, health, education, on-farm and off-farm livelihoods, enterprise development, market linkages, and quality literacy is the need of the hour. This can be effectively done through a network of Rural/Village Knowledge Centres and other modern tools of communication-linkage with e-Choupal, Lokvani centers, development under UPSWAN.
2. Village Knowledge Centers under PPP Farmer's Distress Call Centers in each State to provide

timely and effective aid to farmers during periods of crises.

3. Connectivity, Content, Capacity Building and Care Management-linkage With Panchayats. District level Content Consortium & Capacity Building Consortium can be set up.
4. Young graduates should be engaged in precision horticulture, e-trading establishment, and management of agri-clinics and soil and pesticide testing.
5. Farm schools in the fields of farmer achievers -- identity at least two each Block to begin with.
6. Create pulses and oilseeds villages for specialized enhanced production (ensuring full availability of quality seeds and other specified inputs) efficient processing and remunerative producer-oriented marketing of the selected crops as well as the optimization of producing more crops and income from every drop of water by cultivating low water requiring crops.
7. Crop-livestock: crop-livestock-fish integrated systems.
8. Convergence and synergy of all agricultural programmes around a watershed - use remote sensing data for every district.

At the Agri Summit, it was recommended that the 'New Deal to Rural India' requires the following:

1. Reversing the declining trend in investment in agriculture and allied sector
2. Stepping up credit flows to farmers
3. Increasing public investment in irrigation & wasteland development
4. Increasing funds for agricultural research & extension
5. Creating a 'single market' for agricultural produce
6. Investing in rural healthcare & education
7. Investing in rural electrification
8. Investing in rural roads
9. Setting up commodities futures markets
10. Ensuring farmers against risks

In short, agriculture has to move from 'sustenance farming' to market-driven farming with a view to maximizing the returns for the farmer and making farming a remunerative, attractive occupation. Farm sector takes care of 69% of the population, the horticulture sector contributes 28% of the agriculture income and 54% of the agricultural exports at all-India level. It has also been suggested at the Agri Summit that taking into consideration the 24.03% contribution of agriculture to total GDP (2016-17) minimum 6.0% of the total GDP should be invested in agriculture & allied activities. The present level of investment by Government of India is around 3.8% of the Total Twelfth Plan Outlay The suggestions made by the Farmer Commission as well as the Agri-Summit need to be carefully looked into and acted upon as the problems and solutions are equally applicable to Uttar Pradesh.

The State Government could evolve the following strategy for inclusive growth in agriculture sector resulting in a revival of the Farm Sector in Uttar Pradesh:

Steps to Improve The Self-Esteem Of The Farmers

Scheme to publicly honour farmers who have achieved success in their sphere of action - on lines of 'Yash Bharati'.

Improve Seed Replacement Rate

According to farmers, thirty hybrid varieties of paddy and about twenty High Yielding Varieties of paddy are now available in the market. Farmers are presently using 25 to 30% hybrid seeds and about 70% HYV seeds in their fields. Thus, improving availability and usage of hybrid seeds and ensuring replacement of HYV seeds after every three years could be a useful strategy for Kharif crops. For Rabi crops, efforts should be made to ensure seed replacement every third year by all farmers.

Improve Extension Activity In The State

The strategy should be formulated for specific agro-climatic zones taking into account the strengths and weaknesses of the extension network in the area.

Prepare Various 'Farm Models' For Different Types of Farmers in Different Agro-Climatic Zones

Apart from proper 'crop mix' with a view to increasing productivity and income, the farm model would also include subsidiary activities like dairying, goaterly, rural backyard poultry etc. so as to maximize returns for the small and marginal farmer. This would vary for different agro-climatic zones in the State.

Effective Steps for Restoring Soil Health

Scheme for promoting balanced use of chemical fertilizers, pesticides etc., promoting the use of 'organic manure', herbal pesticides, soil testing facilities at the doorstep of farmers.

Promote Cultivation of Biofuel Plants like Jatropha to Increase The Income of Farmers From Non-Productive Land Holdings And Reduce Input Costs of Diesel

As per the National Biofuel Mission, production of jatropha over 90.2 million hectares of wasteland would be required to produce adequate bio-fuel for meeting the requirement of 20 percent blending with High-Speed Diesel by the year 2017. Keeping in view the large tract of wasteland in the State, it is essential that cultivation of jatropha is taken up on a big scale. Oil Companies like IOC. Bharat Petroleum has agreed to buy biodiesel at the rate of Rs.25 per liter. This would ensure payment of Rs. 6-7 per kg of jatropha seed to the farmer and an income of Rs.20,000-25,000 per acre in case of dense cropping.

Reform Agri-Marketing

Introduce competition so as to ensure better returns to farmers for their Agri-produce. Permission was given by the State Government to ITC to set up e-choupals and e-sagars in the State is a step in the right direction. The government could also think of introducing 'Rythu Bazars' in the State on lines of Andhra Pradesh with a view to eliminating intermediaries and bringing producer and consumer face to face so that both stand to gain. The price of the produce is generally fixed 25% above the wholesale price and 25% below retail prices.

Improve Availability of Agricultural Credit

The average credit extended to farmers in Uttar Pradesh is only about Rs.2,000 per crop. This is grossly inadequate and cannot meet even the cost seeds and fertilizers.

Implement Scheme on the Pattern of National Horticulture Mission in Remaining Districts of Uttar Pradesh

In view of the potential to raise farm income and provide employment, it is essential that horticultural activities are stepped up in all districts of Uttar Pradesh and eventually extend it to all districts during the twelfth Plan.

Increase Capital Investment in Dairy Sector

There has not been any major capital investment in Cooperative Dairy sector in the the last ten years or so. There is an urgent need to modernize the existing infrastructure and make a new capital investment with a view to double the capacity of the Cooperative sector from 15 lakh liters per day to 30 lakh liters per day in the next two years.

Increase in Investment in Animal Husbandry Sector

There is a need to focus attention on this sector. Schemes for the training of Para vets could be extended and they could be made part of the veterinary service in the rural areas.

Increase investment in the fisheries sector

The State has good potential to Usher in 'blue revolution'. The large tract of unutilized water bodies Should be harnessed for quadrupling fish production in the State.

Increase Funding for Agriculture Universities

Research activities in the sector has to be given a fillip and avenues for the attainment of clearly defined outcomes in terms of crop yield, reduction in input costs sustainability in the long term.

Introduce Health Insurance Schemes for Farmers

On the pattern of initiatives taken by the Government of Karnataka, a public-private partnership model could be developed for providing comprehensive health insurance for heart diseases, cancer, urology, etc. requiring hospitalization in super-specialty hospitals to farmers.

Thus agricultural growth supported by agricultural infrastructure will help the national economy to prepare for a future in which exports assume diminished importance as a driver of growth and complementarities between various sectors in the economy become much more important for growth. Uttar Pradesh has the potential to ensure social inclusion and sustainable rehabilitation in Agriculture sector with the various efforts of competent authorities and to become leading Agriculture Center of India with its rich resources and large labor force base.

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