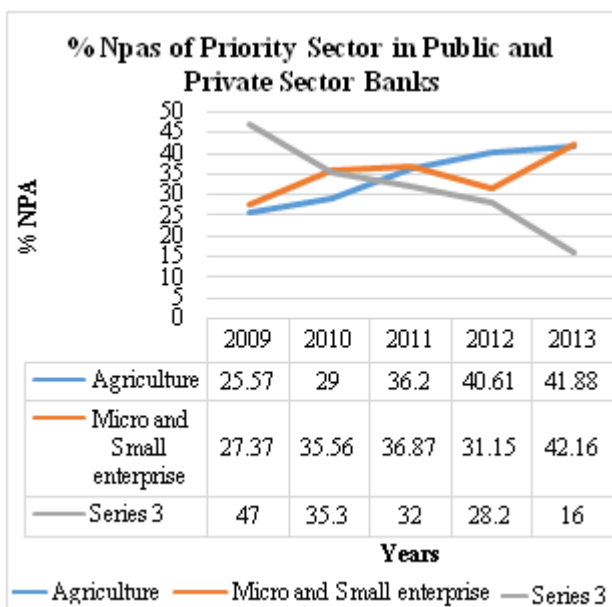


GRAPH 1 (data retrieved from: [www.rbi.org.in](http://www.rbi.org.in))



GRAPH 2 (source: [data retrieved from: [www.rbi.org.in](http://www.rbi.org.in)])

It is imperative to find out the reasons for the higher ratio of NPAs in agriculture loans as well as the solutions for controlling them.

## 5. Reasons Contributing to High NPA Ratios in Agriculture Finance

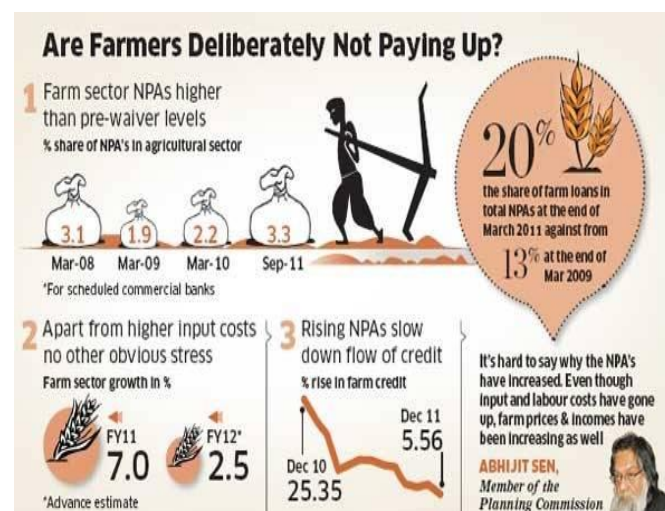
### 1) Challenges faced by agriculture sector:

- (i) Fragmentation and uneconomical size of land holdings- Fragmentation of land in India is widespread because of various reasons, such as the *Zamindari* system and the division of land among family members over various generations, to name a few. It is believed that these factors play an important role in explaining the low levels of agriculture productivity. 83% of landholdings are held by small and marginal farmers, which in turn is leading to increasing NPAs.

- (ii) High wastage due to inadequate storage and supply chain infrastructure- Estimates indicate that roughly 7% of the total grain output, 10% of the seeds and between 25% to 40% of the fruits and vegetables get wasted every year.
- (iii) Significant dependence on monsoon and inadequacy of irrigation facilities- Farming in India is still dependent on monsoons and traditional methods of agriculture. This leads to high risks and low productivity and in turn high NPAs.
- (iv) Inadequacy of extension services in agriculture- Extension services include application of scientific research and new knowledge to agricultural practices through farmer education. It is on nascent stage in India leading to inadequate utilisation of resources.

### 2) Government's Debt waiver schemes-

The share of NPAs amongst the total agriculture loans extended by commercial banks is increasing by the day. Stress in the sector is insufficient to justify the rise in non-performing loans. According to the report of Standard and Chartered Securities, "The problem with farm loans is not slow growth but rising non – performing loans as farmers expect more debt waiver". Abhijit Sen, member of planning commission carried out an analysis and added that "This is certainly no time for fresh waiver".



(source:

[http://articles.economictimes.indiatimes.com/2013-01-23/news/36505468\\_1\\_net-bank-credit-priority-sector-loans-interest-subsidy](http://articles.economictimes.indiatimes.com/2013-01-23/news/36505468_1_net-bank-credit-priority-sector-loans-interest-subsidy))

### 3) Mandatory requirements by the Government

NPAs increased to Rs 302 billion as on March 2013, which can largely be attributed to existing policy prescriptions substantially increasing agricultural credit, such as mandatory agricultural credit target of 18% of adjusted net bank credit, fulfilling credit targets announced in the annual budget, targeting to disburse 20% to 25% more than the previous year through formulating a special agricultural credit plan, and aggressively marketing KCC. Besides, farmers were too incentivized through interest subvention for obtaining crop loans. This has led to inadequate inspection of documents and higher credit distribution and in turn higher volume of NPAs.

## 6. Suggestions and Discussions

The most important part of this paper is suggesting and discussing what actually should be done to reduce NPA's. Many of the suggestions below are already in practice though not widely but there is a need to revisit them to realise their importance.

1. *Financing Polyhouses*- Polyhouse farming is an alternative new technique in agriculture which is steadily gaining foothold in rural India. It reduces dependency on rainfall and makes the optimum use of land and water resources due to assured system. A typical, traditional farm of 4,000 square meters (1 acre) would generate an estimated annual income from ` 20,000 to `1,50,000 (depending upon type of cultivation i.e. cereals, vegetables and fruits) whereas estimated annual income from similar sized poly house is `1 lakh to `5 lakhs. Potentially, polyhouse farming can help the farmer generate income around the year growing multiple crops and fetching premium pricing for off-season vegetables. This will solve the problem of dependence on monsoons and low productivity. Which in turn will reduce increasing cases of farmer suicides and increasing NPAs. So, targets should be set by the government for giving more and more loans for setting up polyhouse farming units.

2. *Agriclinics*-Agriclinics should be set up to provide expert services and advice to farmers on cropping practices, technology dissemination, crop protection from pests and diseases, market trends and prices of various crops in the market and also clinical services for animal health etc. which would enhance productivity of crops/animals. This will also educate the farmers and expose them to the developments in the agricultural sector and help them obtain fair prices for their produce in the market. This would effectively lead to poverty alleviation among the farmers which, in turn would encourage them to pay off their loans. One of the steps in the area is Kisan call centres—which has a toll free number and farmers can seek advice regarding farming techniques, methods etc. 24\*7 free of cost.

3. *Less waivers more contributions*-Government's debt waivers should be less encouraged, and the monies used to fund the waivers should rather be channelized towards example-research and development to improve farming practices, educating the farmers, to name a few.

4. *Fair prices to farmers*- Market mechanisms should be built in a way so as to reduce the middlemen. Loans for building rural godowns should be sanctioned, and the government should take initiatives to build roads proper transportation system basically to discourage the middlemen from take undue advantage of these loopholes leading to unfair pricing of the crops of the farmer.

5. *Documentation*- Banks should not sanction agriculture loans in haste to meet targets without proper diligence and documentation. Physical inspection of mortgages should be done and all the necessary documents, including the 'know-your-customer' documents should be obtained. Only after completing all the formalities should the banks sanction loans. Along with this, timely reviews should be carried out to ascertain whether the loan obtained for a certain purpose is being used for the same or not. In this

regard, a separate team should be appointed in the rural areas. This would certainly help in reducing NPA level.

6. *Post-harvest finance*-Warehouse receipt financing and similar types of collateralized lending provide an alternative to traditional lending requirements of banks and other financiers and could provide opportunities to expand this lending in emerging economies for agricultural trade. The main contents include: (i) a description of warehouse receipt financing; (ii) details of the value of warehouse receipt financing; (iii) other collateral lending mechanisms; (iv) tradable receipt financing; and (v) the use of reverse factoring. The basic idea behind this method is securing loan against the underlying for which the loan is granted. This will both give security and certainty of the loans sanctioned. While this type of financing is in practice, it should be encouraged even further in order to bring down the NPA levels.

## 7. Conclusion

Agriculture is the most important of contributors in our economy. Despite such an overwhelming majority of the population being engaged in agricultural activities, it is very unfortunate that the agricultural credit system is yet not well developed in India and the existing systems are plagued with increasing number of NPAs. It is important to realise that this is a systemic problem which would not be fully solved by superfluous means such as farm loan waivers, and has to be tackled by resorting to some modern techniques and sophisticated mechanisms, some of which have been highlighted in this paper. These techniques will not only help in reducing the number of NPAs, but also help increase production levels, reduce uncertainties and consequently, contribute to the overall growth of farmers in a sustainable manner.

Future Scope- Relevance of this topic for future research lies in examining the extent of the adaptation of suggested technologies and mechanisms. Further examining the impact of such adaptations on the NPA levels.

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