

## A Detailed Overview of Agricultural Credit in Bihar

<sup>1</sup>Mrinalini and <sup>2</sup>Saroj Sinha

<sup>1</sup>Department of Economics, BRA Bihar University, Muzaffarpur, Bihar, India

<sup>2</sup>Associate Professor, Department of Economics, Patna University, Patna, Bihar, India

### 1. Introduction

Bihar encompasses a large agrarian economy of over Rs 250 billion with over 80 percent of rural population subsisting on farming. Agricultural men increased over two-fold from 126 lakh in 1981 to 265 lakh in 2006 whereas net sown area declined by about one lakh hectares and gross cropped area has been stagnating at 80 lakh hectares during the amount. Because of increase in number of agricultural labour force in Bihar, per agricultural worker annual real productivity (at 1980 prices) has declined from Rs 1977.00 in 1980-81 to Rs 1278.00 in 2005-06.

Bihar is characterized by excessive dependence of population on agriculture and dominance of small land holders. Small and marginal farmers constitute about 90 per cent of total farm households whereas farm households owning land but 0.5 ha constitute 78 per cent of total farm households and their average farm size is about 0.10 hectare. The agricultural production has been showing declining trend during 2001-07 and also the income from agriculture is increasingly becoming insufficient to fulfill even the essential consumption needs of farm households. It's more thus far small and marginal farmers whose income falls in need of their consumption expenditure.

### 2. Credit flow in the State

In this situation, the bulk of farm households don't have savings to speculate in critical inputs like irrigation, seed, fertiliser and agricultural chemicals. Institutional agricultural credit is that the only option which might help in increasing investment in agriculture through improving the liquidity of the farmers for using critical inputs at proper time. The financial requirement of farmers has increased manifold because of adoption of recent technology. Keeping in sight the increasing demand for agricultural loan in Bihar, the commercial bank for Agricultural and Rural Development (Regional office, Patna) also increased their projection for agricultural credit within the State from Rs 1745 crore in 2001-02 to Rs 5720 crore in 2008-09 and Rs. 8427 crore in 2009-10. whether or not the target set for agricultural credit is achieved, it'll still be but two third of per hectare agricultural loan made available to farmers at national level and fewer than 50 percent of loans granted in agriculturally advanced states within the country. As per National Sample Survey Organisation (NSSO), only 17.2 per cent rural households in Bihar obtained institutional credit in 1971 which declined to 14.3 per cent in 2003, the remaining majority households (86%), mainly small and marginal farmers, have virtually no access to institutional source of credit within the State. Proportion of non-institutional loanees to total indebted farmers increased from 43 per cent in 1991 to 75 per cent in 2003 as against 49 per cent and 54 per cent, respectively at the national level.

Institutional bankers perform a gap-filling function in Bihar whereas the case is simply reverse in other parts of the country. Among the main states in India, Bihar is at rock bottom ladder in terms of proportion of institutional loan to total loan disbursement to farmers. The high indebtedness to money lenders is also a vital reason for indifferent attitude of farmers towards lending institutions, leading to low investment and low productivity in Bihar.

Provision of credit to agriculture sector has been one in every of the most concerns of policy planners in India since independence. However, an assessment of matters at ground level indicates that recourse to non-institutional credit continues to dominate as far as rural areas and agriculture sector are concerned. Institutional credit expanded with slow rate of growth during 1980-81 to 1990-91 when it took 10 years in doubling the quantity of credit in Bihar. The similar growth pattern was observed during 1990-91 to 1999-2000 when it increased from Rs 231.81 crore to Rs 477.12 crore during the amount. the expansion in agricultural credit remained slow upto 2002-03 when total amount of agricultural credit could hardly reach Rs 1587 crore. The farm credit package announced in June 2004 stipulating doubling institutional credit flow to agriculture during the subsequent three years seems to possess worked in Bihar furthermore. Although agricultural credit flow within the state increased from Rs 1587 crore in 2003-04 to Rs 2985 crore in 2006-07, and Rs 3700 crore in 2007-08, the bottom itself was very low. But the share of agricultural credit flow in Bihar to national level agricultural credit flow declined from 1.82 percent in 2003-04 to 1.47 per cent in 2006-07. It clearly indicates that the institutional system in Bihar didn't perform on par with systems functioning in other parts of the country.

The expansion of economic banks has been impressive in post-nationalisation period but per banking company branch rural population increased from 50,000 in 2002 to 66,000 in 2008 in Bihar. There are 24 block headquarters in Bihar which are still unbanked.

The co-operative system remains a crucial source of agricultural credit in Bihar. In spite of several drawbacks, co-operatives still be a highly favoured agency for financing agricultural and allied activities. The Bihar State Co-operative exploitation Bank was established to cater to the requirements of long-term agricultural credit but it's been in recurrent loss for the last 13 years and therefore the bank doesn't qualify for any assistance from NABARD because of poor recovery performance. The short-term co-operative credit structure has Bihar State Cooperative Bank at the apex level. At the centre level, the state had originally 25 District Central Co-operative Banks (DCCBs) of which license applications of three were rejected in 2003, reducing the quantity to 22 with 279 branches. there have been only 12 profit making DCCBs in

Bihar in 2005-06 and also the majority of DCCBs experienced deposit erosion from 50 to 100 per cent and none of the bank qualifies for audit classification of 'A'. The poor financial performance of DCCBs is reflected in their inability to retort to the increasing demand for agricultural credit in Bihar.

The majority of Primary Agricultural Cooperative Credit Societies (PACS) (69 per cent) are non-viable, and about 1,000 PACS are non-functional in Bihar. Their ability to disburse credit has deteriorated because of weak financial strength. The Task Force on Restructuring of Cooperative Credit Institutions (2005) underlined the necessity to eliminate authorities interference within the functioning of co-operatives and recommended a revival package for retiring the share capital contribution to co-operative societies. The regime initiated the implementation of the Task Force recommendations but progress continues to be slow as compared to most of the states within the country. The govt of Bihar has, however, amended the cooperative act and constituted a corporation for conducting election of co-operative institutions. A campaign has also been launched by authorities for increasing membership of PACS. Besides, Government has already launched Integrated Co-operative Development Projects (ICDP) in 8 districts for improving infrastructure, diversification of activities and making available required funds to PACS. There are, however, still large numbers of interested farmers who are being denied PACS membership by concerned PACS officials. The regime should take suitable steps to involve left-over farmers under co-operative movement initiated within the State. A good monitoring of the implementation of ICD Project must be in serious trouble rational utilisation of funds for faster agricultural development in Bihar.

But the strengthening of co-operatives under different programmes might not by itself solve the matter of farmers because even the viable and profit making PACS don't seem to be assigning priority to agricultural credit and also the majority of those PACS are engaged mainly in banking business. It's therefore, suggested that PACS officials be sensitised to adopt empathetic and pro-farmer attitude towards agricultural development.

Before reorganisation of Regional Rural Banks (RRBs), there have been 17 RRBs in Bihar, covering all the districts of the State. Since their inception in 1975 the RRBs have grown rapidly in structure and strength. During period, the financial performance of RRBs was far better than rural branches of business banks but RRBs did not maintain their edge over rural branches of business banks and were caught in trap of high NPA (46.45%) and poor recovery (34.13). Thanks to financial weakness, RRBs could disburse only Rs 75 crore of loans in 2001-02 but increased the amount of disbursement to Rs 431 crore in 2005-06. Regional Rural Banks have large network of branches in geographic region of Bihar and that they can play a major role in agricultural financing. NABARD reviewed the performance of RRBs and suggested quality lending by RRBs but did not spell out details of quality lending within the report. However, the hassle-free credit disbursement to financially viable projects of credit-worthy farmers can solve the matter of increased over-dues of Regional Rural Banks in Bihar.

### 3. Self Help Groups (SHGs)

Self Help Groups (SHGs) are emerging as organisational innovations for providing thrift-linked credit support, particularly to weaker sections of the agricultural society. The SHG institutions not only benefit their members, they also enable banks to scale back their transaction costs and risks in delivering small loans. This also improves banks' outreach and credit flow to the poor. The recovery under SHG-Bank linkage programme has been impressive at national level: 90% for commercial banks, 87% for RRBs and 86% for co-operative banks' in 2005-06. During the last 15 years, there has been phenomenal increase within the number of SHGs.

Some 29 lakh credit-linked SHGs have up to now been established upto 2007 within the country. Bihar accounts for 8 per cent of national population but over 18 per cent rural poor of the country reside within the state. Only 2.46 per cent of SHGs of country are established within the State upto 2007. Although substantial number of SHGs has been promoted by various agencies during last two years, all the eligible SHGs haven't been credit-linked in Bihar. Out of 10716 SHGs organised by Women Development Corporation, Bihar, 7786 SHGs are linked to Micro-financing institutions but only 2990 are credit-linked. Given the personal income within the state, predominance of small and marginal farmers similarly as landless labourers in Bihar, SHGs have tremendous potential in lifting the disadvantaged groups and rescuing them from position.

This assumes particular significance and urgency visible of the difficulties being faced in accessing credit from the institutional sources in Bihar. State accounts for nearly 50 per cent of SHGs promoted within the entire country. On the lines of state, Federation of SHGs has to be promoted for further strengthening of the SHGs movement within the State. Co-operative should even be involved in formation of SHGs and federations of SHGs through their wide network in villages.

Interest subsidy for increasing agricultural loans despite the initiatives by Central and State Governments, agricultural credit flow remains at very cheap level in Bihar. It is, therefore, further recommended that an outsized number of Self Help Groups, Joint Liability Groups and Farmers Clubs should be organised in Bihar for increasing agricultural credit flow and reducing transaction cost of borrowing within the State.

Government of Bihar has started reorganisation of co-operatives but the method has to be accelerated so they begin functioning effectively for the advantages of farmers, particularly small and marginal farmers located in remote area who have poor access to other banking institutions.

National Commission on Farmers (NCF) has also suggested strengthening of cooperatives and recommended the reduction of rate to 4 per cent each year for agricultural credit. Government of Karnataka has reduced rate on agricultural cooperative loan to 4 percent since 2007 whereas Madhya Pradesh reduced rate to five percent on short term agricultural credit since 2008. Uttarakhand Government also took initiative for increasing agricultural credit flow and reduced rate to differing kinds of agricultural loans for various categories of farmers. In Uttarakhand, small and marginal farmers can obtain co-operative loan on an rate of 5 percent, all categories of farmers are now entitled to urge co-operative loan of Rs 1 lakh for agriculture and house construction at an rate of 5.5 percent whereas tractor loan from co-operatives up to Rs 5

lakh is on the market to any or all categories of farmers on 5.5 per cent in Uttarakhand. In these States, agricultural credit flow is far more than Bihar. Hence, it's recommended that the rate on co-operative crop loans should be reduced by 3 per cent in Bihar for advantage of farmers. It'll be a motivation to farmers to approach co-operatives for agricultural loan who are still not inclined to contact full service bank branches. consistent with 2009-10 projections of NABARD Focus Paper, total crop loans in Bihar through all the three lending agencies (Commercial banks, Regional Rural Banks and Co-operatives) are estimated to be Rs 5074 crore in 2009-10.

**4. Agricultural Insurance**

Agricultural insurance offers protection against losses caused by fluctuations within the output of a crop from one year to a different or from one crop season to a different. Its objective is to stimulate and support the assembly of principal crops within the country. Providing financial backing to farmers within the event of failure, it makes farmers credit-worthy for the following crop season. it's been observed that the bulk of small and marginal farmers, in addition as tenant farmers and farm labourers bear the brunt of failure. In 1979-80, a pilot crop insurance scheme was launched in limited areas in 12 states. In April 1985, a comprehensive crop insurance scheme was implemented which covered all the willing states and Union Territories. it had been implemented in 17 states and a pair of Union Territories up-to kharif 1990. the advantages of this crop insurance were extended to almost 1.94 million farmers and covered 3.41 million hectares. However, the scheme covered mainly large farmers but small farmers failed to get benefits of the scheme.

The advantage of the great crop insurance scheme was availed by farmers of Gujarat, Maharashtra, Andhra Pradesh and Madhya Pradesh. Their share was nearly 90 percent of the claims paid within the country during 1985-90. Bihar, Assam and north-eastern states lagged behind in availing the advantages of crop insurance. The share of those states was but 1 percent of total claims paid within the country (Singh 1993)

In the year 1999-2000 the govt of India in co-ordination with the overall Insurance Corporation of India (GIC), had introduced a brand new scheme namely; the National Agricultural Insurance Scheme (NAIS) from Rabi 1999-2000 season. the most objective of the scheme was to safeguard the farmers against losses suffered by them because of failure on account of natural calamities, drought, flood, hail storm, cyclone, pest and diseases, so on restore their credit worthiness for the following season. Agricultural insurance underwriter of India Ltd. (AICIL) which was incorporated in December, 2002 and commenced operating from April, 2003 took over the implementation of NAIS.

In Bihar, National Agricultural Insurance Scheme is implemented all told the districts of Bihar. However, insurance of money crops is implemented in some selected districts where these crops are grown on large scale. Loanee and non-loanee farmers including share croppers and tenant farmers are eligible for insuring their crops under this scheme. However the coverage is compulsory for loanee farmers and optional for non-loanee farmers. Farmers can insure their crops for 150 percent important of their crops by paying actuarial rate of premium.

**5. Role of Credit Institutions**

All the three rural financing institutions that is; Co-operative Banks, Regional Rural Bank and Commercial banks are engaged in crop insurance scheme. Commercial banks granted about 56 percent of crop loans but covered only 16 percent of farmers under crop insurance in Bihar in 2005- 06.

**Share of different lending institutions in granting crop loans and their share in coverage of farmers in Bihar. (2005-06) (%)**

Name of Bank	Share in crop loan	Share in crop insurance
Commercial Banks	Share in crop loan	Share in crop insurance
Commercial Banks	56	16
Gramin Banks	21	21
Co-operatives	23	63

On the opposite hand, co-operatives granted 23 percent of total crop loans disbursed by all the three financing institutions in Bihar but covered about 63 percent of total farmers participating in crop insurance in Bihar within the year 2005-06 (Map-VI). Regional rural banks granted about 21 percent of crop loans in Bihar and covered 21 percent of participating farmers. Among Commercial Banks, Punjab commercial bank performed far better in crop insurance than other Commercial Banks operating in Bihar.

Despite compulsory insurance of notified crops in notified area for loanee farmers, commercial banks failed in providing insurance facilities to any or all their crop loanees. The co-operatives with their weak infrastructure performed far better in providing crop insurance facilities to farmers in Bihar.

Progress of agricultural insurance has been slow in Bihar since the inception of the scheme. the most reasons of slow growth are inadequate flow of crop loan, indifferent attitude of business banks, and weak financial health of Co-operatives and non-inclusion of vegetables, fruits and spices crops in crop insurance scheme. Besides these factors, lack of awareness about crop insurance among farmers and inadequate publicity about the scheme is additionally affecting adversely the expansion of the crop insurance scheme in Bihar.

In Bihar, crop damage by wild animals is now emerging a significant menace. Such cases could also be sporadic and in selected pockets but causes substantial crop loss to an outsized number of farmers. Like some developed countries namely; Japan and Korea, there's an urgent have to develop a project of crop insurance for insuring crop loss thanks to wild animals.

**6. Conclusions**

Above discussions clearly indicate that there's vast scope for extending insurance support to an outsized number of loanee and non-loanee farmers for various crops. the method of agricultural insurance has to be accelerated to save lots of the weaker sections of society because the bulk of small and marginal farmers still as tenant farmers and farm labourers bear the brunt of crop failures. Therefore, the target group for

preferential treatment should incorporate small and marginal farmers, furthermore as tenant farmers and farm labourers.

In crop insurance, block for rice and wheat, and district for other crops are declared "units" for estimating crop losses in Bihar. However, districts and blocks don't have homogeneous agro- economic & geographical situations. Despite the upper yield of a crop during a particular district, some villages of the

district have low yield because of localised natural calamities and farmers of those villages are denied crop insurance benefit during this situation. Panchayat should be declared as unit for crop insurance to fulfill this sort of situation. The authorities should take necessary steps in order that Panchayat is asserted as unit for crop insurance of all the crops in Bihar.

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