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Making Farm Loans Work - Digital and Retail Route

What is the issue?

With farm loans not being an attractive segment for banks, here is a look at making them lucrative.

How important are crop loans?

- Crop loan is a lifeline for over 145 million farmers in India.
- Every year, millions of farmers and thousands of bank branches go through a hectic process of granting crop loans delivered through Kisan Credit Cards.
- Denial or delay in crop loans forces farmers to borrow from informal sources, on adverse terms.

What support does the government offer?

- The Centre provides interest subvention on crop loans up to Rs 3 lakh.
- With additional incentive for timely repayment, effective interest rate works out to affordable 4%.
- Banks are also mandated to secure crop insurance cover for farmers, who have to pay a minimal premium.

How are farm loans treated though?

- Despite these measures to make crop loans affordable, only 61% of farmers have accessed institutional loans (in 2016-17).
- Due to predominantly manual crop loaning processes in banks, there are substantial direct and indirect costs inflicted on farmers.
- During 2018-19, banks disbursed Rs 12.55 trillion worth farm loans (majority as crop loans).
- Despite this, this massive loan segment continues to be only treated as a necessary evil by banks.
- They are not mainstreamed as a commercial proposition like retail loans.

Why are waivers inadvisable?

- Undue glorification of farm loans through politically-motivated waivers has become common.
- Elected state governments had announced farm loan waivers since 2014 aggregating to a whopping Rs 2.4 trillion.
- Irrational loan waivers cause systemic damage as farmers tend to postpone repayments.
- So, NPAs rise in banks which, in turn, show reluctance in extending new loans.
- On the other hand, state governments resort to fiscally-imprudent acts.
- They take up higher market borrowings and curtail expenditure on capital investments and welfare programmes to fund waivers.
- Notably, agricultural NPAs crossed Rs 1.04 trillion mark in July 2019.
- Their proportion to total outstanding agri-loans rose from 9.6% in July 2018 to 11.04% in July 2019.
- Also, states that implemented waivers ended up in bad fiscal math.

What are the challenges in resolving this?

- **Subsidised crops** - Subsidised crop loans are now a necessity for farmers.
- But, the challenges include accurate targeting, end-use, skewed distribution across states, exclusions, adverse selection, actual impact in terms of incremental farm productivity/output, etc.
- Correct diagnosis and mitigation of these issues can be possible only through analysis of credible micro data and trends on farm credit.
- **Priority sector** - Within the priority sector norms for agriculture, banks are required to provide 8% loans to small and marginal farmers.
- The presence of women and lessee farmers, who also need credit, is steadily growing in India.
- With existing manual loan operations and related data, it becomes difficult to track actual progress on these parameters.
- This calls for a paradigm shift in approach and an open mind by all the stakeholders.
- Adopting new fintech ideas for making crop loans work better for farmers, banks, and governments is essential.

What are the possible measures for better farm loan practices?

- **Process** - Crop loans should continue to be delivered based on a well-evolved methodology.
- This should comprise parameters such as crop-wise acreage, crop seasonality, district-wise scale of finance.
- There is also a need to make crop loan delivery simple, transparent and

efficient through process automation.

- **Approach** - Banks must start looking at crop loans to see the multi-billion worth banking opportunity with 145 million aspirational rural customers.
- Banks should act proactively to make crop loaning a serious and competitive business, like retail loans.
- **Calamity fund** - The government may create a 'National Agriculture Calamity Fund (NACF)' within a credible national-level agency.
- This could safeguard financial interests of farmers in the event of a natural calamity or market adversity.
- A set of operational guidelines comprising eligibility criteria, operating procedures and supervisory mechanism may be evolved.
- Mandatory annual contributions to NACF by the central/state governments may be facilitated by the Finance Commission in its resource-sharing formula.
- States granting loan waivers outside the NACF mechanism may be disincentivised.
- **Crop insurance** - Crop insurance should be made a preferred choice of farmers, insurance firms and banks.
- Towards this end, the refinements must be expedited:
 - i. early remittance of premium collected by banks to insurance firms
 - ii. timely payment of premium subsidy by state/central governments
 - iii. use of advanced remote-sensing and digital technologies for timely and trustworthy conduct of crop cutting experiments at farmer level
 - iv. building effective grievance mechanism, etc
- These would ensure seamless integration between crop loaning and insurance processes.
- **Data processing** - With numerous data points involved in crop loan operation for 145 million farmers, the segment is a mammoth big data game.
- Manual handling of this massive data during crop loan processes may result in inefficiency, delays, biases, opaqueness and even exclusions.
- With digitisation and the aid of data analytics, banks, governments and other stakeholders could make better-informed decisions.
- There is thus an urgent need to adopt modern financial technology in crop loaning.
- Creating a robust 'National Data Platform on Farmers (NDPF)' to warehouse data on individual farmers could help.
- This would cover their demographics, land records, credit history, lease/contracts, agro-climatic risks, crops, scale of finance, crop insurance, interest subvention, PM-Kisan, land lease contracts, etc.
- NDPF may be promoted as a joint venture of central/state governments,

financial institutions and other stakeholders, managed by an exclusive national authority.

- Data on NDPF may also be made available to users on payment.
- **Crop risk** - There are risks associated with crop cultivation and loaning, often manifested as distress to both farmers and banks.
- But, banks do not systematically factor structured risk assessed at farmer level in their crop loaning decisions.
- With farmer-level micro data on NDPF, it will be possible to evolve appropriate risk-assessment models.
- A 'Farmer Rating and Credit Score (FRCS)' could be generated.
- Score may be updated annually and made available to individual farmers on NDPF.
- Crop loan eligibility for a farmer, worked out using usual standard criteria, may be further moderated, based on his/her score.
- Such a risk-based lending approach would help in promoting judicious borrowing by farmers and responsible lending by banks.
- **FRCS-score-based approach** may gradually be adopted for deciding differential eligibility of farmers in other areas also.
- These may include interest subvention, insurance subsidy and subsidies under other government programmes.
- This will prompt farmers to improve their FRCS scores to maximise benefits.
- It would also help in improving targeting, transparency, de-duplication, efficiency and inclusiveness under farmer welfare programmes.
- **Loaning Portal** - A standardised 'National Crop Loaning Portal (NCLP)' may be developed under the aegis of Indian Banks' Association (IBA).
- It could function as a fully digitised and paper-light end-to-end solution for crop loaning.
- The NCLP shall be able to access data from all the relevant databases of the government, banks, credit information bureaus, insurance agencies, etc.
- Farmers may be given access for making online loan application, tracking and viewing loan transaction details through this.

What are the possible benefits of the above?

- The proposed NACF and NDPF shall prove to be major steps towards promoting cooperative federalism in Indian agriculture.
- Loan process automation would enable banks to easily outsource basic loan processes to other agencies.
- Data-driven, digital and score-based approaches to crop loaning would also help liberate farm loans from political patronage.
- In all, a revamp would enable banks to see the farm loan segment as their growth driver, like retail loans.

Source: Financial Express



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