

Report on Study on Reasons for Low Credit Flow to Agriculture Sector in Meghalaya

A. Agricultural Credit Flow - Conceptual Framework

Agricultural credit is divided primarily into Short Term Agricultural Credit (Production Credit) and Agricultural Term Loan (Investment Credit). As a normal practice, credit for duration of less than one year (except in case of sugarcane where it is 1.5 years) is termed as Short Term Agricultural Credit and other loans are considered as Agricultural Term Loans (ATL). Quantum of Agricultural Short Term Credit for a unit area of land is decided in State Level Technical Committee meetings whereas Unit Costs proposed by NABARD can be taken as guidance for arriving at the quantum of Agricultural Term Loan. Agricultural Short Term loans are mainly disbursed through Kisan Credit Cards (KCC).

B. Government Policy on Agricultural Credit

Interest subvention of 2% is available for all banks who disburse short term crop loans, working capital for animal husbandry and fisheries activities at an interest rate of 7%. In addition, 3% interest incentive is also available for prompt paying farmers under KCC. Government of Meghalaya in the year 2020-21 has declared an additional 2% interest incentive to prompt paying farmers thus making the ultimate interest payable by farmers to only 2%.

Agricultural Term Loans are generally assisted under capital investment subsidy schemes. However, under Piggery Mission of Government of Meghalaya, Term Loan is provided by MCAB at zero interest.

As per the priority sector guidelines of RBI, banks need to achieve a target of 18% of their outstanding credit under Agriculture and allied activities.

C. Agricultural Credit Flow in Meghalaya - A Snapshot

Historically, the Agricultural Credit Flow in Meghalaya State has been found to be at a very low level. The following table is an analysis of Annual Credit Plan (ACP) targets and achievements of banks under Agriculture for 3 years as sourced from SLBC

Years	Agencies	Crop Loan			Term Loan			Total Agri Loan		
		Target	Ach	% Ach	Target	Ach	% Ach	Target	Ach	%Ach
2017-18	Public banks	32537	0	0	10462	16722	160	42999	16722	39
	Pvt banks	4963	0	0	2038	1252	61	7001	1252	18
	MRB	7000	3511	50	2500	3091	124	9500	6602	69
	MCAB	1420	756	0	4526	2179	48	5946	2935	49
	All agencies	46000	9693	21	20000	28012	140	66000	37706	57
2018-19	Public banks	38973	24937	63	15691	8131	52	54664	33068	60
	Pvt banks	5944	48	1	3058	1210	40	9002	1258	14
	MRB	8385	5904	70	3751	792	21	12136	6696	55
	MCAB	1700	1136	67	6790	2204	32	8490	3340	39
	All agencies	55100	32027	58	29999	12336	41	85099	44363	52
2019-20	Public banks	40127	8328	21	18139	3781	21	58266	12109	21
	Pvt banks	8187	240	3	7290	1456	20	15477	1696	12
	MRB	9056	4901	54	4829	537	11	13885	5438	39
	MCAB	1837	2915	159	8717	0	0	10554	2915	28
	All agencies	59311	16386	28	38995	5774	15	98306	22160	23

It may be observed that during last three years :

The overall achievement of banks under ACP targets has been very low. As on March 2020, the Total Agricultural Credit achievement was only 23%, public sector banks disbursing 54% of the total agricultural credit disbursed during 2019-20, followed by Meghalaya Rural Bank (MRB) with 25%. While Meghalaya Apex Cooperative Bank (MCAB) disbursed 13% of Total Agricultural Credit, the share of agricultural credit of Private Sector banks is the least at 8%.

Private Sector banks having presence mainly in urban areas are not disbursing short term loans or KCC as evident from the fact that in FY 2017-18, FY 2018-19 and FY 2019-20, they managed to service only 0%, 0.82% and 2.94% of the crop loan/KCC targets allotted to them.

Both MRB and MCAB are showing a declining trend in pursuing agri targets whereas their achievements are gradually declining over the last three years.

In terms of investment credit in agriculture, FY 2017-18 saw an overwhelming 140% in achievement whereas in FY 2019-20 it dropped to a mere 14.81%.

Overall agriculture and allied sector achievement by all lending agencies (commercial banks, rural bank and cooperatives), ACP targets in FY 2017-18 was 57%, which dropped to 52% in the succeeding FY and declined further to a distressing 23% in FY 2019-20.

D. Reasons for low credit flow to Agriculture

In order to improve the agriculture credit flow in the State, focus has to be on the constraints faced at both banks and borrower's level to arrive at enabling factors for facilitating credit flow. The constraints in upscaling of agricultural credit disbursement, specific to the state may be discussed as under:

1. Low credit absorption capacity

Small and Marginal farmers in the State constitute about 82% of total farmers who are engaged in subsistence farming covering about 62% of total cultivable area. Most of the farmers are carrying out subsistence farming mainly for own consumption obviating the necessity for availing a bank loan.

2. High Transportation Cost

Hilly terrain of Meghalaya increases the transportation cost of agricultural commodities upto Rs 44/- per running km. Although the ITeams project of GoM reduced the transportation cost by half, products from Meghalaya find it difficult to compete with the price of commodities available from other states. Lack of economies of scale exacerbates the problem since it costs even more for transporting smaller quantities. High transportation costs thus reduces the margin available for the farmers and reduces the confidence to repay the debt with interest.

3. Low level of awareness

Majority of the farmers in the State are illiterate and are afraid to approach the banks for their credit requirements. Most of them prefer the moneylenders for their urgent requirements as no paperwork is involved albeit at higher rate of interest of 20% to 25% per month.

4. Cultural Factors

People in Meghalaya are truthful by nature. Generally, people pay back the loans. Nobody wants to be known as a defaulter in the community. So, the loans are taken only when they are sure that it could be repaid. Since agriculture is depended on nature and by default, risky, most of the farmers are averse to investing in agriculture. Although many risk mitigation factors are available, low level of exposure and awareness prevents the farmers in accessing those factors.

5. Land Tenure System does not allow land as collateral

Absence of cadastral survey and digitisation of land records pose major constraints in creating systematic and updated land records. Lack of authenticity of the title deeds and their enforceability in the court of law acts as major challenge for the banks to extend loans.

Land tenure system and restrictions in transfer of land titles are indicated as the major reason by banks for not extending credit support for high value crop loan (>Rs1.60 lakh) and long-term loan required under farm mechanisation, plantation & horticulture, fisheries, commercial diary, etc.

6. NPA levels of the banks

The overall Gross NPA of Banks in the State as on 31 March 2020 was 11%, while NPA of Public Sector CBs, RRB and MCAB at 16%, 17% and 6% respectively. The high NPA level and accountability attached to that may be considered as one of the reasons for the bankers not expanding the credit reach.

7. Lack of Infrastructure Facilities

Lack of proper infrastructure facilities in terms of electricity, road network and connectivity, banking outreach, railways, poor telecommunications, etc. do not attract credit led investment to the desired level. Limited farm mechanization, poor irrigation infrastructure, lack of post-harvest management and processing infrastructure are also affecting the credit flow.

8. Enforcement of Security

As per Meghalaya Transfer of Land (Regulation) Act 1971 banks are empowered to take land as security on the condition that in case of default, banks will auction it only among Tribal population. The Meghalaya Credit Operation and Miscellaneous Provisions Act, 1976 provides enabling provisions for the same.

However, in practice, banks are not able to enforce the same. For example, for taking possession of land under SARFAESI Act, bankers prefer permission from District Administration. However, this permission is not forthcoming always. In addition to SARFAESI Act, there are two other modes banks adopt for recovery – Debt Recovery Tribunal (DRT) and Suit Filing, both of which are not practical solutions for recovery. Resolution of Bakijai cases is also very low.

LokAdalats are helping the recovery in case of compromise settlement. Although the cases reaching enforcement of security is less, the comfort level of the bankers for financing considerably reduces, leading to limited credit off take.

9. Low banking outreach

There are many unbanked villages in Meghalaya. Often farmers have to travel 40 to 50 km to reach the nearest bank branch for availing banking services. This makes it unviable for farmers availing banking services including credit.

E. Measures to improve Agricultural Credit Flow

1. Farm Level Processing and Marketing at a Premium

Since the transportation of fresh produce out of Meghalaya is adding to the cost, the strategy proposed would be to process the produce at the farm level in micro units to increase the shelf life and to have farmer collectives to generate enough volumes for economies of scale. Pristine products of Meghalaya mostly organically grown can command a premium price of at least 20% in metros of the country.

Identification of potential clusters for processing to capitalise on the crop/sector specific comparative advantages enjoyed by the State should be attempted. FPOs promoted by

CBBOs is a preferred mechanism for this. KVK and Agri- Universities to be associated in preparing area specific crop/integrated farming model with support from Agriculture Department.(LakadongTurmeric, Pineapple, Jackfruit, spices, cashew, crops not grown commercially in the mainland areas like peach, plum, kiwi etc to be processed).

It may be noted that even though 82% of the farmers are small and marginal they cover only 62% of the area. Rest of the area (38%) could be tapped for commercial cultivation for economies of scale. Farm level processing and marketing at a premium will ensure enough margin available with farmers for absorbing risk and provide the much needed confidence for availing credit and repaying the same.

2. Farmers Identity Card

Government of Meghalaya has already issued more than 1 lakh Farmers Identity Cards with the cooperation of NIC. There is a need for identifying and issuing more such cards especially for share croppers and tenant farmers. This should be followed up by making the details of these farmers online to bankers through already available channels. Thereafter Government of Meghalaya may notify Farmers Identity Cards as an acceptable document for bank loan.

3. Handholding and Forwarding Loan Applications through Line Departments

Line departments like MBDA, PRIME, KVK, MSRLS, Agri, Horti, AH, RSETIs etc may be instructed to assist in forwarding loan applications of trainees/ producers, entrepreneurs, SHGs, etc to the concerned bank branch. This will help forums like DCC/DLRC/SLBC to review any pending applications and also create a system for line departments (who are directly interacting with trainees/producers/entrepreneurs) to bring forward potential borrowers. Further, one session under any training conducted should be handled by a nearby bank branch personnel. It is the experience of NABARD in various training programmes that when credit flow is facilitated, units are established and run successfully.

4. Credit Linkage through SHGs/JLGs

Meghalaya is at the inflexion point of exponential growth in credit linkage of SHGs as a follow up to the exponential growth of savings linkage already happening under the watch of MSRLS. The successful SHG Bank linkage programme in the country has created

avenues for women farmers to get hassle free credit especially through JLGs. Meghalaya should aggressively credit link its SHGs.

5. Business Correspondences Agents (BCAs) with Micro ATMs

MSRLS in partnership with MRB has implemented 200 micro ATMs with support under Financial Inclusion Fund maintained by NABARD. Business Correspondences may help understaffed bank branches by carrying out the functions of deposit and withdrawal using these micro ATMs so that bank managers get more time for credit processing. Government may support the BCs with viable gap funding. This will help in bringing banking to unbanked villages and increase the credit flow to agriculture.

6. Strengthening the Cooperative Credit structure

PACS strengthening, computerisation and enhancing the number of borrowing members needs to be done urgently. Government of Meghalaya has declared IVCS as PACS. MCAB may quicken the process of affiliating the IVCS so that the clogged credit flows through PACS may be opened up for better credit flow under Agriculture, which is the basic purpose of forming the PACS/IVCS.

7. Convening of DCC/DLRC meetings regularly

DCC/DLRC meetings are important forums for monitoring the credit flow. Inclusion of public representatives/MDCs/MLAs in DLRCs may bring more accountability in the forum. DCC/DLRC meetings can act as an in-built mechanism to remove bottlenecks in the credit flow. This will also help the coordination with the bankers and line departments. BLBC meetings are conducted rarely in Meghalaya but it needs to be conducted to disseminate information as also increase credit flow to agriculture.

8. PRIME Project for supporting Entrepreneurs

PRIME project of Government of Meghalaya is a good opportunity to support entrepreneurial talent. Many enterprises selected under Chief Ministers E-Challenge are in agro processing. Supporting such talents is the sure shot way to success and bankers should come forward to finance units selected under PRIME project.

9. State Government's support for recovery drive

State Government may extend adequate support to bankers under Bakijai system, SARFAESI ACT and other recovery measures. Only if bankers are reasonably confident of assured recovery that they will extend loans.

10. Overhaul Land Tenure system and computerization of Land Records

Tribal Autonomous District Councils and traditional Headmen, Wahehchnong, Nokmas, etc being prominent authorities in the state may issue land operating documents to entrepreneurs/producers/farmers and ensure that banks find them acceptable as Officially Valid Documents. The conservative land-holding certificate by ADCs is time consuming and deprives the tenant farmers and non land owning entrepreneurs of bank finance.

Holding rights of land for collaterals as acceptable to bank to facilitate security enforcement is a basic minimum requirement for increasing the credit flow.

Computerisation of land records and online marking of lien for loan is a reality in many states.

F. Framework for implementing the above measures

Short Term Measures

1. Aggressively promote SHG Bank Linkage
2. Popularize and support Business Correspondences with micro ATMs
3. Handhold trainees for credit linkage by departments / Training centres
4. Affiliate IVCS to MCAB and strengthen cooperative system.
5. State Government may support recovery measures
6. Convening of DCC/DLRC meetings regularly

7. Support to PRIME Entrepreneurs in Agri sector by banks.

Medium Term Measures

1. Notify Farmers Identity Card

2. Farm Level Processing and Marketing at a Premium through FPOs

3. Overhaul Land Tenure system and computerization of Land Records

Way forward

Farm level processing and marketing of products of Meghalaya at a premium supported adequately with handholding by departments with proper credit delivery mechanism by circumventing the constraints currently being faced by Meghalaya farmers can definitely increase the credit flow under agriculture. Government of Meghalaya may implement the measures suggested above as an “Administrative Package for Agriculture” along with SLBC. This will facilitate proper monitoring and enhance demand for agricultural credit which will be helpful for the farmers of Meghalaya.