Flow of Credit
to
Agriculture Sector

With Special Reference to Tenant Farmers,
Oral Lessees and Agricultural Labourers

IBA Sub-Committee on Flow of Credit to Agriculture
IBA Sub-Committee

On
Flow of Credit
to
Agriculture Sector

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Flow of Credit to Agriculture Sector

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EXECUTIVE SUMMARY

Despite Indian Agriculture making rapid strides in Agricultural Sector since Independence, particularly after the Green Revolution of the 1960s and the country achieving an overall food security to its population of more than 1 billion, inadequacies of serious long-term concern are now obvious. The growth has not been inclusive. In a similar vein, the growth in Credit Flow to Agriculture has been impressive over the years in absolute terms and yet there are many serious issues that need to be addressed.

In the context of predominance of agriculture as the largest employer of the country’s population and the financial exclusion as one of the crucial obstacles in ensuring equitable agricultural growth of the nation, an IBA Sub-Committee was formed to examine issues and suggest measures to increase the flow of credit to agriculture sector especially to tenant farmers, agricultural labourers, share croppers.

The Sub-committee has prepared the paper after analyzing and deliberating on various issues flagged off by the members of the Sub-Committee Issues in Indian agriculture, Issues in Flow of Credit to Agriculture and Emerging Opportunities and Trends in Indian Agriculture.

The Sub-Committee recommendations are presented on the following lines:

• Increasing the Credit Flow to Tenant farmers
• Recommendations for enhanced Credit Flow to Agriculture in general
• Policy Support and State interventions that can facilitate enhanced Agri Credit Flow

I. INCREASING THE CREDIT FLOW TO TENANT FARMERS

1. Recognizing tenancy: Tenant farmers face a range of problems, dominantly stemming from the lack of official recognition of tenancy and the fact that their status as actual cultivators is nowhere recorded. In this backdrop following is recommended:

• The names of tenant farmers should be recorded in the revenue records (in the Record of Rights) along with the name of the landowner.
• A system of issue of tenancy passbooks be introduced through concerned State Governments.
• The village level revenue officials to be authorized to issue cultivation certificates to the tenant farmers.
• A dedicated department in the State for the welfare of these sections of the farmers
2. **Identification of tenant farmers**: In most of the cases the tenancy is in disguised form. To facilitate the Banks identify and finance the tenant farmers the suggestions include:

- Identifying the pockets predominated with the tenant cultivation in all its forms i.e., including sharecroppers and oral lessees.
- Building up data on tenant farmers at district level
- Conducting awareness camps in association with the concerned banks to pursue tenant farmers to approach banks
- The forum of District Consultative Committee (DCC) with the membership consisting of the District Administration, development departments and agencies, Banks and public representatives can facilitate the process of identification and preparation / review of the list of Tenant farmers in the districts.
- Accepting easier means for establishing tenancy for financing tenant farmers like–
  - Certificate by village accountant / revenue authorities / Gram Pradhan.
  - Certificate by Agriculture Department
  - Any list provided by Agriculture / Revenue or any other Government Department on the tenant farmers.
  - Certificate from active Self Help Groups / NGOs of repute which have been in active existence for at least three years and wherever they have been rated satisfactorily.

3. **Facilitating formation of Joint Liability Groups (JLGs) of tenant farmers**: Through the process of counselling and persuasion to encourage the tenant farmers to form into JLGs.

4. **Avoiding Multiple financing in Tenant farming** (financing tenant farmers as well as the owner of the lands for the same activity/land): By recording the name of the actual cultivator in the land records.

5. **Credit Guarantee Fund**: Constitution of Credit Guarantee Risk Fund by contribution from all stakeholders viz., Central Government, State Government, NABARD, Commercial Banks, etc.

6. **Crop Insurance Scheme**: Bringing all crops in all areas under insurance cover, low premium rates, simplified procedure for settlement of claims, village as the base unit for assessment of crop damage, providing cover to farmers for all types of risks including weather insurance etc.

7. **Health Insurance Scheme**: Implementing a separate health insurance scheme through GIC for the entire family of Tenant cultivators (including oral lessees, share croppers etc) with subsidized premium (par with the BPL families).

8. **Scale of finance**: Assessment based on Crop production, Consumption and Lease amount in case fixed lease contracts with advance payment of lease amount (provided there is a record)

9. **Diversified income generating activity**: to take up alternative income generating activities such as Dairy, mini Poultry units, sheep rearing, Non farm enterprises as an avenue of additional disposable income and as a risk mitigant against the failure of land based agriculture.
10. **Legislation on leasing** - Legalizing and liberalizing leasing can facilitate Contract farming and agribusiness. Tenure should be for a reasonable length of 3-5 years so that improvement of land by the tillers and the landowners is encouraged.

11. **Financial literacy** - The bank’s voluntarism can focus on opening Knowledge/Credit counselling centers for education on financial services of the Bank, credit and repayment planning and facilitate interface between the poorer sections of the farmers and the Research /Agricultural Institutes.

II. **RECOMMENDATIONS FOR ENHANCED CREDIT FLOW TO AGRICULTURE IN GENERAL**

- Creation of more irrigation potentials and encouraging Private participation / Joint venture participation through Special Purpose Vehicle (SPV) in agriculture and classify such finance as Direct agriculture.
- Extending finance to corporates/companies for onward financing to farmers under agriculture and the need to include such advance under Direct agricultural credit; Examining employing such corporates engaged in contract farming to act as Business Correspondents.
- Encouraging private investment in avenues like production of quality seeds, micronutrients, cold chains and establishment of large and sophisticated controlled atmosphere cold storages, construction of market yards and all infrastructure for post harvest operations.
- Encouraging Agro / food processing units and financing end-to-end activities of Agriculture production under Agriculture finance.
- Price Risk Mitigation products: Institutionalising the warehouse receipts by making it negotiable in all States and make it an instrument of Institutional credit.
- Leveraging the commodity exchanges and enlisting reputed aggregators who can act as an intermediary between the exchanges and farmers to take the benefit of commodity exchanges to the farmers.
- Micro finance through NGOs-MFIs to explicitly target agriculture and allied sector.
- Enhancing the cap of collateral free agricultural credit to Rs. 1 lac from the present Rs. 50,000/-
- Enhancing the cap on General Credit Card Scheme to Rs.50,000/- from the present level of Rs.25,000/-
- Revisiting the earlier policy (2004) of enhanced Credit Flow to double the Credit Flow to agriculture with new benchmarks.

III. **POLICY SUPPORT AND STATE INTERVENTIONS THAT CAN FACILITATE ENHANCED AGRI CREDIT FLOW**

A slew of measures including mapping of crop potential by Departments of Agriculture and Horticulture-depending on the agro-climatic characteristics

Legal intervention for encouraging contract farming, Tenant farming.

Risk mitigation measures for various risks-natural calamities, price, weather and market fluctuation.
CHAPTER - I

INTRODUCTION

Indian Agriculture has made rapid strides in Agricultural Sector since Independence, with the Green Revolution of the 1960s ushering in manifold increase in farm production and productivity. The Indian Agriculture has rallied to become self-reliant in providing overall food security to its population of more than 1 billion. However, inadequacies of serious long-term concern are now affecting Indian Agriculture. The rising input costs and poor pricing mechanism, to be candid, have only increased the plight of majority of the farmers. The Green Revolution has not necessarily translated into benefits for the lower strata in the economic pyramid in terms of greater food security or economic opportunity and well-being.

1.2. In a similar vein, the growth in Credit Flow to Agriculture has been impressive and yet there are many serious issues that need to be addressed. The three-year phase between 2004-2007 has seen a quantum jump in Flow of Credit to Agriculture, as the policy of doubling credit was unveiled in June 2004 by the Union Government. The Credit Flow to Agriculture has touched about Rs. 1,90,000 Crores during 2006-07. The positive response from the Banks has led to belief that the momentum generated can be sustained and the targeted Flow of Credit to Agriculture during 2007-08 is around Rs.2,40,000 Crores.

In-spite of doubling of Credit Flow to agriculture in the last two years, the growth under Agriculture has been around 2.80% only. Further, the growing spectra of financial exclusion in agriculture, providing livelihood to more than two third of our population, particularly of small and marginal holders, tenant farmers / oral lessees cannot be wished away. Various studies indicate that the access to formal credit is skewed in favour of large holdings.

GENESIS OF THE SUB-COMMITTEE

1.3. The Millennium Development Goals driven policy outlook is envisaging an inclusive economic growth, with inclusive finance as an essential component. In the context of predominance of agriculture as the largest employer of the country’s population and the financial exclusion as one of the crucial obstacles in ensuring equitable agricultural growth of the nation, a committee of IBA, chaired by Dr. K C Chakrabarty, C&MD, Punjab National Bank and senior bankers drawn from different banks is working on agro business and financial inclusion.

1.4. At the meeting of the Standing Committee of Indian Banks Association (IBA) on Agro Business and Financial Inclusion held on September 17, 2007, while deliberating on issues related to lending to agriculture and financial inclusion, it was desired to have a focused attention on ‘How to increase the flow of credit to agriculture sector especially to tenant farmers, agricultural labourers, share croppers’. The Committee desired that a Sub-Committee could examine the critical issues faced by the Banking Industry and prepare a white paper with appropriate recommendations and directions for uniform adoption by Banks.
CONSTITUTION OF THE SUB-COMMITTEE

1.5. Towards this end a Sub-Committee was constituted comprising-

1.6. The Committee discussed on the various issues and the white paper prepared based on contributions from the members in the meeting held at IBA, Mumbai on 20. 12. 2007. The report has been prepared based on detailed discussions and deliberations.

ORGANISATION OF THE REPORT

1.7. The report is organized into Six Chapters. Chapter – II, follows the introductory first Chapter, where the concerns relating to current agricultural scenario and the perspectives of National Agricultural Policy have been enumerated. Current issues relating to Flow of Credit to Indian agriculture are enumerated in Chapter III. Chapter IV examines emerging opportunities and trends in Indian agriculture. Chapter V enumerates issues relating to Tenancy farming. The final Chapter VI covers recommendation for enhanced Credit Flow in three parts--with the focus on Tenant farmers as the first part, recommendation relating to Credit Flow to agriculture in general as the second part and followed by the Policy support and areas of State intervention that can facilitate enhanced Credit Flow to agriculture.
2.1. There are many issues that have a bearing on bringing synergy to agricultural growth through credit. The strategies are to be formulated in the context of various problems and associated issues.

2.1.1. Reduced Investment: During the last decade, the overall growth in capital formation in agriculture has been inconsistent with the share of public sector showing a negative growth rate of 0.22%. Public sector capital formation generally tends to create infrastructure, which leads to private investments in agricultural assets for productive purposes.

2.1.2. Sagnating productivity: Growth in agriculture, which in the earlier decades benefited from increased area being brought under the plough now, has to rely mostly on productivity gains - both through increasing cropping intensity and increasing yield. The yields have been declining throughout the decade of the 1990s. A comparison reveals that the average yield in India is generally 30% to 50% of the highest average yields in the world.

2.1.3. Fragmentation & Exclusion of small holders: Agriculture in India has been the preserve of Small and Marginal Farmers. In terms of number of holdings, the Small and Marginal Farmers (less than 2 ha. land) account for 78% in 1990-91. Yet it is reported that 73% of the farmer households are outside the formal financial system and the exclusion is 87% among this segment of farming community. Small holdings are often the barriers to adopt modern technology, often over manned resulting in disguised unemployment and low labour productivity.

2.1.4. Declining trend in prices and Profitability: This is on account of a combination of factors - rising input cost, falling prices, stagnant productivity and lack of mechanism to make long-term and short-term forecast of prospects of different crops / farming systems in the light of globalization. The declining trend in prices of a host of agriculture commodities and plantation crops has severely affected the investment capacity of the farmers.

Substantial increase in cost of cultivation has been a general trend in the cultivation of crops with increase in labour costs accounting for the major share. On the other hand, the yield levels of crops have almost been stagnant and although there was general increase in market prices of the crops, the rise was not commensurate with the increase in cost of cultivation. Thus profitability has declined on account of yields and market prices failing to keep pace with rising input costs.

2.1.5. Stagnation in creation of more irrigation potentials: Major parts of the country still depend on the vagaries of the monsoons and droughts & floods have been a part of the economy. There lies a necessity to increase irrigation potential for effective utilization of the rainwater including rain harvesting.
2.1.6. Inadequacy of Post harvest management policy leading to wastage of commodity at farmer’s fields and poor realization, loss of income, lower realization thereby reduced investment. Further it has damaged the morale of farmers to make a higher level of investment.

2.1.7. **Insufficient Investment in Infrastructure** commensurate with growth of agriculture and regulatory restrictions in commodity logistics resulted in higher cost of handling and giving scope for inefficiencies in the supply chain management.

2.1.8. **Inadequate Integration of value chain** for each crop through developing relationship with growers, processors and brand owners, a significant factor in success of agribusiness worldwide and in sugar in India.

### 2.2. National Policy on Agriculture

2.2.1. There is an urgent need to make agriculture demand driven, increase value addition in agriculture products and leverage competitive advantage to maximize opportunities in the domestic as well as global market. The farm production level has to grow consistently to maintain food security in the face of ever-growing population.

The 11th Five-Year Plan aims at faster and more inclusive growth. Even as the growth of more than 9% is projected for the economy, the income can be doubled in Ten years if the population growth is pegged down at 1.50%. The major challenge will however be to regain agricultural dynamism - a revisit of Green Revolution. The planners envisage that a growth rate of at least 4% under agriculture alone can help to sustain the overall economic growth at about 10%.

The National Policy on Agriculture seeks to actualize the vast untapped growth potential of Agriculture; strengthen rural infrastructure to support faster agricultural development, promote value addition, accelerate growth of agri business and create employment in rural areas.

2.2.2. The National Policy on Agriculture has the following prime objectives:

- A growth rate in excess of 4% per annum in the agriculture sector.
- Growth that is based on efficient use of resource and conserves our soil, water and bio-diversity.
- Growth with equity, i.e., growth which is widespread across regions and farmers.
- Growth that is demand driven and caters to domestic markets and maximizes benefits from exports of agricultural products in the face of the challenges arising from economic liberalization.
- Growth that is sustainable technologically, environmentally and economically.
- The policy envisages development of animal husbandry, poultry, dairy and aquaculture for diversifying agriculture and generating exportable surpluses paving the way for rapid expansion of agri-business.
CHAPTER - III

ISSUES IN FLOW OF CREDIT TO AGRICULTURE

3.1. Extent of Inclusive Credit Expansion

The Banks have a vital role to play and facilitate Inclusive Growth. The factors and facets of exclusions may be – Below / Above Poverty line, rural / urban, Productive Jobs / Unproductive-Under productive, backwardness of Regions / States etc.

With regard to Agricultural credit, the exclusion has two dimensions–farm households as a whole and varied exclusion levels within the farm households.

The extent of inclusion hence should be in terms of access to agri-credit and that addresses the needs of all types of farmers.

3.1.1. Small value credit expansion as an index of availability of credit to small cultivators:

The number of small and marginal farmers, tenant cultivators and non-cultivator families (agricultural labourers) and the tenant farmers (including oral lessees) form a large number of households.

Percentage and number of households by size of landholding

<table>
<thead>
<tr>
<th>Size of land owned</th>
<th>Percentage of households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Landless</td>
<td>10.2</td>
</tr>
<tr>
<td>0.01-0.40 Hectare</td>
<td>48.7</td>
</tr>
<tr>
<td>0.41-1.00 Hectare</td>
<td>18.8</td>
</tr>
<tr>
<td>1.01-2.00 Hectares</td>
<td>11.2</td>
</tr>
<tr>
<td>2.01-4.00 Hectares</td>
<td>7.2</td>
</tr>
<tr>
<td>4.01 Hectares and above</td>
<td>3.9</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>


It is estimated that about 40% of the farming community in the country fall into the category of Tenant farmers, Sharecroppers and agricultural labourers - the group owns very small and uneconomical land holdings, often without proper records, accessing credit from non-institutional sources.

3.1.2. The Credit requirement of Tenant farmers’ households will be distinct as under–

- Extent of requirement will be small & urgent
- Mismatch of flow of income and expenditure
- Non-production expenditure will be an important component of requirement
- Limited capacity to provide the collateral
• The Credit Flow to these vulnerable groups should be adequate in terms of meeting their needs and performance should be in terms of reach in terms of number of farmers covered rather than on the quantum of credit.
• The custom-made credit products for these farmers will facilitate better Credit Flow.
• The identification process of tenant farmers also should be made simple.
• The support & focus on allied activities that can mitigate the problem of undisguised employment of their family and provide a bigger revenue basket.

3.2. Credit Flow - in terms of tenor and purpose

Whether the impressive increase in flow of credit has sustained the outstanding level is a moot question as major portion of Credit Flow is for short-term purposes. Long term investments that can particularly sustain the farm productivity of small / marginal farms need to be encouraged.

With regard to lands cultivated by lessees, the legislation on tenancy farming is not conducive to the landowners to invest on improvement of land.

The investment on allied sectors can also be an enabler in greater financial inclusion. Further, there is the need to encourage investment in private sector in areas that provide the pre-cultivation and post harvest linkages should be one of the guiding principles of Credit Flow. The Contract farming is an avenue that can play a major role in private investment in agriculture.

3.3. Enhancing Credit absorptive capacity

This in essence is to create greater revenue surplus per unit of investment. This calls for making ecologically sustainable advancements that will increase farm productivity overcoming the rising input costs and declining factor productivity. Input supply has often been found in disarray, particularly in rainfed areas. The timely and easy availability of quality inputs in even small quantities, good soil management advice (particularly of micro nutrients, Soil & water conservation) are often the critical barriers.

Strong risk mitigation including against weather risks and affordable avenues & a well-developed market mechanism for realization of fair prices can complement and enhance the credit absorption.

3.4. Research & Development :

Our agriculture is at cross roads - ecologically, economically, technologically and socially. The oldest industry is in a crisis–with investment in agriculture and irrigation going down and the gap between the potential and actual yields increasing.

The technology fatigue is an aggravated problem, particularly of the majority of the farmers who are small and increasing the productivity and profitability of small farms in an ecologically sustainable manner is the main challenge.

This does involve a revamping and refocusing on the vast network of National
Agri Research System comprising of ICAR institutions, State Agri Universities and Private & Public Sector R&D Institutions. The research should be aiming at creating greater marketable surplus (since most of the small / marginal farms - farming is only subsistent now) and creating greater surplus over each unit cost of investment. The Research should focus on developing new high yielding varieties that can result in vertical growth of agricultural production of cereals and food grains that can sustain the envisaged growth and can support the growing population and ensure continued food security of the country.

3.5. Models of increasing outreach

New models of credit dispensation are *sine-quo non* for ensuring greater Credit Flow as an inclusive strategy

SHG–As it is a time tested, thrift driven model.

Joint Liability Groups–Non thrift based groups with group collateral binding on the strength of possibility of sharing common infrastructure, economics of scale.

IT–enabled–Expansion of financial sector in remote areas to reach the unbanked through the IT–enabled process like simple Bio metric ATMs, smart Cards etc.

Business outsourcing models–Financial inclusion to leverage Business facilitator and correspondent models for financial inclusion.

3.6. Diverse areas of Credit Flow

The strategy should improve the productivity of land, water, livestock and labour asset owning families, converting unskilled agricultural labourers into skilled entrepreneurs engaged in organized market driven non–farm enterprises.

Making marginal farm holdings viable and enabling their financial inclusion through diverse credit avenues should continue to drive the inclusive-Credit Flow strategy. Some of the avenues are–

Farm aggregation models

Allied activities–particularly dairy sector & investment on infrastructure to support the allied sector.
CHAPTER - IV
EMERGING OPPORTUNITIES AND TRENDS IN INDIAN AGRICULTURE

4.1. Contract Farming

Contract Farming is a vital element of policies aimed at raising the level of food processing from 2% to 10% in the next 10 years. India will need an investment of Rs.1.4 lac crores to achieve this. India is the 3rd largest food producer with an output of 601 million tonnes and ranked 2nd in horticulture production with 132 million tonnes. The share of the nation in the global agriculture market is less than 2%. It is expected to achieve at least 10% annual growth over the next 5 years.

The National Agricultural Policy envisages that private sector participation will be promoted through contract farming and through land leasing arrangements, will allow accelerated technology transfer, capital inflow and assured market for crops, particularly for cotton, oil seeds, sugarcane, milk, poultry, fruits and vegetable processing. Large scale organic farming to raise the share of the nation in the global markets is also one of the methodologies for increasing the share in global markets.

In view of the importance given for food and agro processing industries, a lot of corporates are going for contract farming to source the raw material from the farmers. Though contract farming is practised on a large scale, it is still to be legalized. Govt. may think of creating proper legal and institutional framework so that the corporate who are undertaking contract farming are able to enter into agreements and source, required finance from the Banks and Financial Institutions. This will also to a great extent neutralize the deficiencies of fragmented holdings and fair returns to the small and marginal/tenant farmers.

Some examples of region and crop specific models of contract farming are–
Tomato cultivation in Punjab, Haryana and Rajasthan
Mushroom in Haryana
Sunflower in AP and Karnataka
Gherkins in Karnataka
Fruits and vegetables in Tamil Nadu, AP and Maharashtra

4.2. Marketing Infrastructure—Strengthening and Development

The State has been taking efforts to promote and strengthen agri-produce marketing infrastructure through Venture Capital Schemes. These are aimed at providing necessary impetus and value addition to the entire chain through processing, packaging, grading, standardization of farm produce and thus effectively link the farmers and production to market.
4.3. **Agro Processing**

Agri-business ventures have tremendous scope for fresh dried, preserved and dehydrated fruits and vegetables, marine foods, meat and poultry food, milk and agri-products, soya and jaggery, natural honey, pets use products cattle and poultry feed, pickles, processed foods and snacks, seed processing tea, coffee, tobacco species and derivatives, etc.

4.4. **Hi Tech Agriculture**

Application of biotechnology in tissue culture and genetic engineering for development of genetically modified crops, improvement in animal husbandry and aquatic life farms, bio-fertilizers have added additional dimensions to agri-business and agri-exports, thereby enlarging scope of agri-business.

4.5. **Organic Farming**

Total Indian organic farming industry is currently estimated at around Rs.100 crores. Though at a very nascent stage, it has already made its ways into the world market in sectors like tea, coffee, spices, fruits and vegetables, frozen / dried banana, cotton, dried nuts, oil seeds, pulses and sugarcane.
CHAPTER - V

TENANT FARMING–ISSUES

5.1. With the decreasing dependency on agriculture noticed in certain regions which are endowed with natural resources or supported by irrigation facilities, there are instances of letting the fertile land fallow or productivity is much below the potential. By permitting leasing, these lands can be utilized effectively. Hence, there is a need to review the land tenancy act, so as to permit leasing of land without the owner losing property rights. Such a modification may help the tenant farmers to have access to institutional credit at lower rate of interest to take up cultivation practices for the benefit of themselves and for the prosperity of the nation.

The expectations from the Union Government towards credit to Tenant farmers (including Share croppers, oral lessees) is that at least 2.50% of Credit Flow that goes to new farmers should go to the Tenant farmers, share croppers, oral lessees. As per the present policy guideline, at least 100 new farmers are required to be financed annually by each rural / semi-urban Branch of the Banks. However the extent of financial exclusion and the urgency to address the same, scaled up efforts and higher peg mark may be required. Accordingly assistance in terms of number of Tenant farmers covered by formal financial sector needs to be scaled up.

5.2. Difficulty in Recognizing the target group–Tenant farmers

The inability to offer collaterals is often stated to be the hindrance in Banks extending credit to Tenant farmers, share croppers, oral lessees. Equally importantly the other aspect relating to demand side also matters–which is the fallout and impact of legislation, identification process of such Tenant farmers in States wherein the legislation does not encourage formal recording of tenancy arrangements.

5.3. The need for alternate delivery channels, intermediaries and IT solutions may form the basis of our strategies to reach the largely disadvantaged section of tenant farmers.

5.4. Generally lease will be on oral terms subject to termination at any time.

5.5. Uncertain tenancy arrangements a disincentive for the landowner and the tenants as well for improving and developing the land, thus the land remaining sub par in productivity and tenant farmers continuing to get only marginal returns.

5.6. The simplification and system of recognition of tenancy arrangements by the formal sector.

5.7. Prescription of alternate collaterals.

5.8. A study taken up by a Bank on financing Tenant farmers has observed the following:

In many places the Tenant farmers are scattered and forming a group (Joint Liability Group) is difficult.

The identification of Tenant farmer in the light of Land Reforms Act proving a dampener for recognizing any formal / informal arrangements (like in Karnataka).

- Difficulty in verification of extent and tenure of cultivation.
- Cultivation of different crops with different harvesting schedule by the members of a Tenant farmer Group.
- Details of Tenancy Systems in India, legislations and related historical issues are given as annexure.
CHAPTER - VI

RECOMMENDATIONS TO INCREASE THE CREDIT FLOW TO AGRICULTURE

(With Particular Focus on Tenant Farmers, Oral Lessees, Share Croppers)

6.1. Increasing the Credit Flow to Tenant farmers

6.1.1. Recognizing tenancy: Tenant farmers face a range of problems, dominantly stemming from the lack of official recognition of tenancy and the fact that their status as actual cultivators is nowhere recorded. This continues despite the fact that in many states the land revenue act stipulates that the names of tenants should be recorded in the revenue records. It is fairly clear that some measures are required urgently to remedy the situation.

The names of tenant farmers should be recorded in the revenue records (in the Record of Rights) along with the name of the landowner.

A system of issue of tenancy passbooks be introduced through concerned State Governments.

The village level revenue officials to be authorized to issue cultivation certificates to the tenant farmers.

A dedicated department for the welfare of these sections of the farmers

6.1.2. Identification of Tenant farmers: In most of the cases the tenancy is in disguised form. Hence, Banks are finding it difficult to identify and pursue the tenant farmers to approach for institutional credit. The revenue officials of the State Governments have to play a vital role in this regard as they have required expertise and competency to:

- Identify the pockets predominated with the Tenant cultivation in all its forms i.e, including sharecroppers and oral lessees.
- Build up data and continuously update the data on tenant farmers at district level and provide to all the Banks and Financial Institutions as done in the case of uncovered farmers to achieve saturation under KCCS.
- Conduct awareness camps in association with the concerned banks to pursue Tenant farmers to approach banks for credit rather than private moneylenders at exorbitant interest.
- The forum of District Consultative Committee (DCC) with the membership consisting of the District Administration, development departments and agencies, Banks and public representatives can facilitate the process of identification and preparation/review of the list of Tenant farmers in the districts.
• Accepting easier means for establishing tenancy–
  • Certificate by village accountant / revenue authorities/Gram Pradhan.
  • Certificate by Agriculture Department
  • Any list provided by Agriculture / Revenue or any other Government Department on the tenant farmers.
  • Certificate from active Self Help Groups which have been in active existence for at least three years and wherever they have been rated satisfactorily.
  • Certificate from reputed NGOs—in active existence in the area wherever they have been rated satisfactorily.

6.1.3. Facilitating formation of JLGs of Tenant farmers: Lot of counselling and persuasion is required to make the Tenant farmers to form into JLGs. Again the revenue officials have to take responsibility to identify the areas predominated with tenancy cultivation and facilitate formation of JLGs. The revenue officials of State Governments are already facilitating the formation of SHGs under SGSY and other Govt. Sponsored Schemes. Reputed NGOs may also be associated in organizing formation of JLGs of tenant farmers.

6.1.4. Multiple Financing: In majority of the cases, the landowners are availing the crop production finance from the Banks showing the land records as if they are cultivating lands. In such cases, financing tenant farmers for cultivation of same piece of land amounts to multiple financing. Some remedy is required to tackle such situation and help Tenant farmers. The suggested remedies are:
  • Record the name of the actual cultivator in the land records. Noting the name of the Tenant in the Record of Rights along with the name of the cultivator would provide comfort level to the Branch Manager besides avoiding cases of double financing.
  • In cases where landlords already availed crop production limits and are providing inputs to the tenants, a provision may be made to extend a limit to cover remaining cost of production and consumption needs.

6.1.5. Credit Guarantee Fund: Risk perception is another impediment in extending credit to this segment of cultivators. Tenant farmers not necessarily be from the same village / area where they cultivate land on tenancy basis. Under these circumstances, coupled with the absence of documentary evidence to prove cultivation, bankers perceive financing Tenant farmers more risky. Hence, constitution of Credit Guarantee Risk Fund by contribution from all stakeholders viz., Central Government, State Government, NABARD, Commercial Banks, etc, is essential to remove the risk perceptions and ensure need-based credit to the Tenant farmers. This will facilitate the Banks to finance the Tenant farmers and also agricultural labourers without insisting for third party guarantee and collateral security.
  • 100% credit guarantee cover be extended on the credit facilities to the Tenant
farmers including share croppers, oral lessees and landless agricultural labourers.

- The guarantee fee may be subsidized and only a nominal fee may be passed on to the borrowers.
- Procedure for revoke of guarantee may be simplified and lock-in period may be kept at minimum.

6.1.6. Crop Insurance Scheme: Risk Mitigation and Safety-net is to be provided to save SF and MF and Tenant farmers by creation of awareness for various insurance products, bringing all crops in all areas under insurance cover, low premium rates, simplified procedure for settlement of claims, village to be made as the base unit for assessment of crop damage, providing cover to farmers for all types of risks including weather insurance is very essential. Tenant farmers are worst affected category of cultivators in case of crop failures. This is more so in fixed lease tenancy contracts. Hence, there is a need to give separate treatment to tenant farmers with the following provisions:

- Coverage of the crops cultivated by Tenant farmers based on their declarations in the absence of documentary evidence.
- Low premium rates/Subsidized premiums to reduce the burden on Tenant farmers.
- Liberalized settlement procedure and provision to cover individual cases of crop failures. Separate mechanism maybe introduced to confirm genuineness of claims as in case of settlement of Personal Accident Insurance Scheme (PAIS) claims.

6.1.7. Health Insurance Scheme: Health hazards jeopardize the activities of the Tenant farmers, as they are not in a position to bear with the unexpected financial shocks. If the cultivator himself falls ill, the situation not only leads to starvation of the family but also have a negative impact on crop yield. Therefore, in addition to PAIS, health insurance is very essential to protect the Tenant farmers and save their families. Separate health insurance scheme may be implemented through GIC:

- Premium may be subsidized on par with the premium for BPL families.
- All major and minor illnesses of the cultivator and also all his family members be covered.
- Scheme shall be user friendly so as to cover the treatment taken at local hospitals, nursing homes and also clinics run by the qualified doctors. A panel of hospitals, nursing homes and clinics may be approved for this purpose.
- Settlement procedure may be simplified to ensure faster claim settlement. Liaison with the empanelled hospitals / nursing homes / clinics may be established to ensure treatment without having need for payment by the insured.
6.1.8. Scale of Finance: Normally Tenant farmers engage family labour in cultivation. Therefore, there is a need to adopt separate scale finance for extending crop production limits to the tenant farmers to cover components for:

- Crop Production
- Consumption

Lease amount in case fixed lease contracts with advance payment of lease amount provided there is a record for payment of lease amount.

6.1.9. Income generating activity: Banks can expand the flow of farm credit significantly if they were to consider total credit needs of cultivators. There is, therefore, a need to integrate investment and production credit. In addition to crop production activity, the Tenant farmers are to be encouraged to take up alternative income generating activities like allied activities and non-farm activities. Family approach to meet credit requirement of all family members will facilitate them to earn additional income to meet day-to-day family expenses and improve financial status.

6.1.10. Encouragement to the allied activities: The Tenant farmers, small and marginal land holders should be encouraged to take up allied activities as an avenue of additional disposable income and as a risk mitigant against the failure of land based agriculture.

6.1.11. Contract Farming: Contract farming has the potential for expanding credit outreach, especially to the small / marginal farmers and oral lessees. Banks may increasingly consider associating with contract farming. Govt. has to provide proper legal and regulatory framework for contract farming.

Legalizing and liberalizing leasing can facilitate contract farming and agri business. Tenure should be for a reasonable length of 3-5 years so that improvement of land by the tillers and the landowners is encouraged.

Appropriate legal framework may ensure under contract farming –

- Direct intervention role of the Corporate (like Amendment to APMC Act in the State)
- Provides transparent arrangements on production, input supply, technology involved, quality and quantity parameters
- Provides price protection for the farmers—pre-agreed prices but not less than the actual market price that may prevail at the time of sale
- Mutual trust for honouring respective commitments.

6.1.12. Targeting small & marginal farmers and agricultural labourers:

The focus should be on group Collateral loans and Joint liability groups for all small and marginal farmers on the lines of Tenant farmer groups needs to be encouraged. The flow of credit to these segments should be more in terms of numbers assisted.

6.1.13. Financial literacy:
The lack of financial advise is one of the barriers for economic independence through appropriate savings / credit / other financial services and investment decisions. The high illiteracy of the disadvantaged is one reason for low-level transfer of farm technology. The Bank’s voluntarism can focus on opening Knowledge/Credit counselling centres for education on financial services of the Bank, credit and repayment planning and facilitate interface between the poorer sections of the farmers and the Research / Agricultural Institutes.

In short, Credit intervention alone would not bring about a change in growth of Tenant farmers but access to all logistical linkages and market and treatment on par with big farmers is critical.

It is recommended that the following specific areas need to be explored in greater degree:

- Training Centres for Tenant farmers, Oral lessees, etc
- Financial Literacy vehicles-Publicity vans of the Bank that can visit interior areas with literature on financial services available and Audio Visual Equipments. Suitable visuals and messages can be prepared in the vernacular and packaged as an appealing programme (like a short movie)
- IT Kiosks/Choupals-Private sector partnership
- Involving sanchalaks in financial literacy
- Financial literacy centres at Block level

6.2. Recommendations for enhanced Credit Flow to Agriculture in general

6.2.1. Creation of more irrigation potential:

Private participation / Joint venture participation through Special Purpose Vehicle (SPV) may be permitted for setting up of medium / large irrigation projects. This will spur investments in agriculture, which today faces a decline in investment. The financial sources for setting up these irrigation projects can come from financial institutions. Such financing should be eligible to be classified as Direct Finance to Agriculture.

6.2.2. Extending finance to corporates / companies for onward financing to farmers under agriculture:

Financing corporate involved in procurement of agricultural produce either for processing or processing and exports so that the financial requirements of the companies for supplying inputs like seeds, fertilizers, extension services, etc., can be met by the companies effectively. Similarly, there is scope for financing well run sugar mills for similar activities for onward lending to farmers. The Banks will be encouraged in meeting these requirements if such loans extended to companies can be included under Direct agricultural credit.

In the backdrop of manifold increase required under inclusive finance and the successful supply chain model of the Corporate engaged in contract farming, such of those corporates can also effectively play the role as Business Correspondents.
Typical examples and features of contract farming are–

Examples: Gherkin production through processing & Export Units, Sugarcane production, Cotton production through Ginning units, Bio fuel plantation (like Jatropha) through Processing Companies, Cocoa cultivation through Companies like Cadburys.

Advantages–

Value addition and linkage support for farmers, Price advantage to farmers with realization at pre-agreed prices, especially small and marginal farmers under Direct Agriculture.

Enhanced reach–Banks can reach a large number of farmers, facilitates inclusive credit growth.

To Corporates: Sourcing of raw materials, prefixed cost of raw material, proper planning and growth strategy.

6.2.3. Identifying Areas of focus :

Private investment in linkage provider avenues like quality seeds, micronutrients.

Cold chains and establishment of large and sophisticated controlled atmosphere cold storages in strategic locations for long storage of fruits and vegetables.

Construction of market yards, platforms for loading, assembling and auctioning, weighing and mechanical handling equipments etc.

Mobile infrastructure for post harvest operations such as grading, packaging, quality testing, etc.

Encouraging Agro/food processing units and financing end to end activities of Agriculture production under Agriculture finance.

Ready to operate Green houses and other latest technology for floriculture and vegetable cultivation projects suiting to small holdings.

Development of Commercial Horticulture through production and post-Harvest management.

6.2.4. Coordination and Participation in all Venture Capital Schemes :

The Agri Business development ventures promoted by various development organizations like National Horticultural Board, Small Farmers Agri Business Consortium, APEDA and other departments promoting various Central / State sector plans–wherein projects that provide the linkages need to be encouraged. Coordinated efforts of the above development agencies along with those of NABARD and Banks would facilitate enhanced Credit Flow to areas of high and inclusive growth potential.
6.2.5. **Price Risk Mitigation products :**

The simple pledge loans can provide the farmers with better price realization. There is a need to institutionalize the warehouse receipts by making it negotiable in all States and make it an instrument of Institutional credit.

With commodity exchanges in India now spreading far and wide covering a large number of commodities, it is time to make the benefit of commodities markets available to the farmers. The services of reputed aggregators can be enlisted to help small farmers; they can act as an intermediary between the exchanges and farmers and thus make available the benefits of risk price insurance to large sections of the farmers.

6.2.6. **Credit Counselling :**

The very vulnerability of small / marginal farmers, the segment of tenant farmers including oral lessees and absence of any organized financial advisory services, credit counselling by Banks / Financial Institutions becomes imperative that Credit Flow should be complemented by credit advisory/counselling services.

The Financial Institutions may open up separate setup through personnel professionally qualified preferably under Social welfare or similar academic areas. This set up may provide counselling in other areas too like education, health, sanitation, civic rights etc. which can enable small and other vulnerable segments of farming community look for, beyond financial inclusion, inclusive growth.

6.2.6. (i) **Rural Infrastructure :**

Developing markets for vegetables and perishables to be streamlined through concepts like Rytha Bazar.

6.2.7. **NGOs-MFIs:** The role of NGOs-MFIs in undertaking financial intermediation is well-established in India. As suggested by the Vyas Committee, the services of NGOs-MFIs be effectively utilized, especially in areas where banks are still not able to meet credit demands of the rural poor adequately. However, since MFIs generally charge high rates of interest, it is necessary to ensure that these institutions determine the rates of interest they charge to their clients on a cost plus reasonable margin basis.

Micro finance needs to explicitly target agriculture and allied sector—Such NGOs can be chosen through the following criteria—

- Rural area based in operations
- Working closely with KVKs/Agriculture Research Stations
- Focusing on specific interest groups like Farmers’ involved in Jatropha cultivation
- Working for at least 3-4 years in the area
- Having a good network of field staff
- Rating on a suitable parameters & scale
6.2.8. Input supply management: Single window distribution for making the inputs available at the doorstep of the farmers. KVKs (Krishi Vigyan Kendras) to become nodal centres for providing all critical inputs required for agriculture, activating Government agencies / involving Panchayats in the process of distribution of inputs. Above all, quality control measures to ensure supply of good quality seed and stringent action against spurious suppliers are essential factors to protect the interests of the farmers in general and protect SF & MF and the tenant farmers in particular.

6.2.9. Extension Services and Technology Transfer: The network of Agri Clinics and Agri-Business Centres / KVKs /Farmers Clubs to provide better services related to technology transfer, setting up information kiosks in villages for providing latest information relating to prices of agriculture inputs, outputs, markets etc., encouraging corporate houses to provide extension services to the farmers and educating the farmers regarding suitability of land, water and soil conditions for high yielding and high value crops, etc.

6.2.10. Pricing and post harvest management: Amendment in the regulated market Acts to provide better business climate and allow permit free marketing areas to the farmers. Announcement of “Minimum Support Price” before commencement of cropping season is also essential to facilitate crop diversification. Contract farming will provide significant price mitigation to farmers in this regard.

6.2.11. Business outsourcing models:
Financial inclusion to leverage Business facilitator and Business Correspondent models for financial inclusion as a strategy can also facilitate greater flow of agricultural credit. The business correspondent model needs to be aggressively pursued. The scope of entities that can be engaged as business correspondents may be enlarged to include entities like suitable individuals and Corporates /Companies also as well which are providing an effective supply chain and connects hundreds of farmers at the production end.

6.2.12. Relaxation in security norms for Financing:
Enhancing the limit of agricultural loans without collaterals (other than the hypothecation of assets created out of the loan) to Rs. 1 lac from the present level of Rs. 50,000/-.

6.2.13. Enhancing the limit under General Credit Card Scheme (GCC): The present cap of Rs. 25,000/- may be increased to Rs. 50,000/- which can facilitate financial deepening without collateral. To assess the higher requirement based on the credit needs of productive and income generating activities. Banks to classify the entire balance outstanding under GCC as Indirect Finance to Agriculture.

6.2.14. Credit Flow–Need for a new perspective:
The Credit Flow strategy that encompasses inclusive strategy as well, with particular focus on tenant farmers, agricultural labourers and sharecroppers
may require revisiting the earlier policy (2004) of enhanced Credit Flow to double the Credit Flow to agriculture—

- Each rural and semi urban Branch to finance 100 new farmers—the No. of Kisan Credit Cards to be issued to new farmers by each of rural and semi urban branches may be indexed statewise.
- Enhancement of disbursements @ 30% p.a—Targets may focus on Investment credit only.
- Flexibility in extending credit over Scale of Finance.
- Each semi urban and rural branch financing 2-3 area specific projects—targets for financing small/marginal farmers.
- Financing 10 Agri Clinics.
- Targeting small and Marginal Farmers.
- Support to calamity affected farmers by way of OT Settlements and fresh credit.

6.3. **Policy Support and State interventions that can facilitate enhanced Agri Credit Flow**

6.3.1. **Mapping of crop potential**

Crop specific map is to be drawn by the agricultural departments of the State and coordinated by the Central Ministry depending on the agro-climatic characteristics and production of specific crops/range of crops may be encouraged. Hence the entire value chain of production will be built on the inherent potential and on the factors of maximum return that characterize any zone specific to a crop/range of crops.

The crop planning may also prevent the unexpected market gluts of any specific produce and insulate the farmers from market price risk.

6.3.2. **Market Price stabilization and insurance for price risk**

Need for an appropriate Market Price stabilization mechanism so that the farmers do not become victims of price fluctuation and become poorer when there is glut in the market and they become forced defaulters, like tomato glut, potato, sugarcane glut, etc.

6.3.3. **Appropriate risk mitigation** against natural calamities like flood, drought, etc., and its long lasting impact ‘on the farmers’ income. Extending the scope of Insurance coverage to price risk.

6.3.4. **Proper backward and forward linkages.**

6.3.5. **Appropriate legal framework and Govt. assistance in effecting recoveries.**

Favourable Socio-political environment prevailing in the country with incentive for prompt payment and severe punishment for the willful defaulters.
6.3.6. **Legislation on tenancy** that assures the ownership rights to the land owners besides encouraging them to lease out the lands and provide legal framework for the tenant farmers access to credit from formal financial system.

Incentives to private investment for supporting facilities like Cold chains, Requisite technical expertise backup, and Quality planting material at reasonable cost & Firm marketing arrangements for hi-tech agri projects.

Legalizing contract farming as it is practiced on a large scale- creating proper legal and institutional framework including amendments to APMC Act Review of the land tenancy act, so as to permit leasing of land without the owner losing property rights so that tenant farmers have free access to Agricultural credit.

6.3.7. **Encouraging Financing Infrastructure Projects – according status of Direct Agriculture**

High growth in Sector cannot be brought in by micro level initiatives alone without providing them necessary infrastructure and logistical inputs. If significant growth has to be achieved in agriculture sector, technology, infrastructure and other linkages have to be developed that can lead to increased production and productivity. Neither the tenant farmer nor the land lord who owns/cultivates a small holding can afford to invest in technology, creation of infrastructure like irrigation systems in his farm land. Such linkages could be facilitated by corporates through Public Sector or Private Sector participation who in turn derive their financial resources from Banks. Such ventures, as they are aimed to directly benefit the farmers, should be classified as direct agriculture. This will accelerate flow of credit from the Banking system to long-term agricultural investments.
During the pre-independence period under British rule three main types of land tenure systems were in India viz,

**Zamindari System** — the lands of a village or a few villages were held by one person or a few joint owners, who were responsible for payment of the rent to the Government. There used to be many intermediaries in between and the ultimate tillers.

**Mahalwari System** — Village lands were held jointly by the village communities.

**Rayatwari system** — There was a direct relationship between the State and the Tiller (Rayat) or the individual landholder, with every registered holder was recognized as its proprietor and he could transfer the land. He was assured permanent tenure as long as he paid the revenue.

However, post-Independence Tenancy Acts were passed in most States which provided for — Regulation of rent, Security of tenure and Conferment of ownership on tenants.

Protection of tenants and regulation of rent is the first step in the tenancy reforms with the ultimate objective being the land to the tiller.

**TENANCY LEGISLATION IN INDIA**:

Throughout much of 20th Century, in an agrarian setting characterized by strict social and economic hierarchy and where overwhelming numbers of rural poor lacked access to land and any other economic opportunity, tenants had little bargaining power and many landlords exploited their positions of social and economic privilege. As a result, in the decades following independence, most Indian States passed legislation that imposed total bans or significant restrictions and regulations on tenancy. Two purposes fuelled the legislation: uplifting the poor and achieving higher agricultural productivity.

Broadly speaking, three major types of land reform legislation were enacted in most Indian States in the decades after Independence: the abolition of intermediary tenures, the redistribution of land via land ceilings; and the regulation of tenancy. The tenancy reforms were justified on grounds of equity and efficiency and aimed to transfer land to the tiller (often including a ban on landlord-tenant relations) and to increase tenants’ tenure security (through establishing minimum tenancy terms, transforming tenants into owners or perpetual possessors, and registering informal tenancy agreements).

**DIFFERENT TENANCY LAWS IN STATES OF INDIA**:

Land is largely a State subject in India, so the extent and nature of tenancy regulation and restriction varies from State to State. The States, however, do fall into four general categories:

- **Virtual ban on all agricultural tenancies**: Kerala, Jammu and Kashmir.
- **General prohibition on agricultural tenancies, but exempt certain categories of persons such as widows, minors, marginal holders and/or members of the armed forces**: most States.
forces: Karnataka, Himachal Pradesh, Madhya Pradesh, Uttar Pradesh, Orissa and Telangana area of Andhra Pradesh.

- No explicit prohibition on tenancy, but discourage tenancies by empowering tenants with protected rights on the tenanted land, either as perpetual tenants or through rights to purchase within a specified period: West Bengal, Punjab, Haryana, Gujarat, Maharashtra, Bihar and Assam.

- Few restrictions on tenancies, although establishment of minimum lengths of tenancies and/or maximum rent levels: Rajasthan, Tamil Nadu and non-Telengana areas of Andhra Pradesh.

Considering the country as a whole, various rounds of National Sample Survey indicate that the portion of area under tenancy has declined substantially since independence, to about 8.3% of the total operated area in 1990s. The NSS data also shows that the percentage of total operated area leased in varies significantly among States. In 1990s it ranged from 2.9% of total operated area in Kerala to 33.7% in Haryana.

Currently, land rental markets play an important but probably underutilized role in providing land access for the poor. As a consequence of tenancy restrictions and protections, landowners who rent out must select tenants they trust not to reveal the relationship or assert their rights. Thus, it is generally considered that, all things being equal, large farmers (who qualify for tenancy protections or because they belong to the same socio-economic class as the landowner) present lesser risks as tenants.

According to NSS data, marginal farmers (those owning < 1 ha) lease-in 16% of the total leased-in area, despite comprising about 69% of all farm households. Their portion of leased-in land, however, is roughly equivalent to their portion of owned land. On the other extreme, large farmers (those owning > 4 ha) have a much larger share of leased-in area (43%) compared to their portion of owned area (32%). The following Table shows the portion of households, leased-in area and owned area for different sized farm households.

<table>
<thead>
<tr>
<th></th>
<th>Percentage of Owner-Operator</th>
<th>Percentage of Total Leased-In Area</th>
<th>Percentage of Total Operated Area Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginal (&lt; 1 ha)</td>
<td>69%</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td>Small (1-2 ha)</td>
<td>22%</td>
<td>19%</td>
<td>34%</td>
</tr>
<tr>
<td>Medium (2-4 ha)</td>
<td>5%</td>
<td>22%</td>
<td>18%</td>
</tr>
<tr>
<td>Large (&gt; 4 ha)</td>
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<td>43%</td>
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</tr>
</tbody>
</table>

The implementation of tenancy reform legislation has generally been weak, non-existent, or counterproductive, resulting in eviction of tenants, their rotation among landlord plots to prevent them from acquiring rights and a general worsening of their tenure security. As a result of all the various tenancy reform legislation, tenants acquired ownership or owner-like rights in only about 4% of the country’s operated area (and 97% of this in only seven States).
FALLOUT OF TENANCY LEGISLATION:

Large Sale evictions: Tenancy reform legislation led to the large scale eviction of tenants on about 30% of the operated area. These evictions took place even in the States that benefited large numbers of tenants with ownership or owner-like rights.

Lesser access for the poor: Reduced supply of land available for rent, resulting in decreased land access for poor (and other) households who would like to rent-in.

Underutilization of land resources: Non-use or under-utilization of land by landowners who are unwilling or unable to cultivate their land and fear losing their land if they rent it.

Lack of legal protection: Lack of any legal protection for most tenants who are forced to operate in concealed, informal tenancies.
6.1. Increasing the Credit Flow to Tenant farmers

6.1.1. Recognizing tenancy: Tenant farmers face a range of problems, dominantly stemming from the lack of official recognition of tenancy and the fact that their status as actual cultivators is nowhere recorded. This continues despite the fact that in many states the land revenue act stipulates that the names of tenants should be recorded in the revenue records. It is fairly clear that some measures are required urgently to remedy the situation.

The names of tenant farmers should be recorded in the revenue records (in the Record of Rights) along with the name of the landowner.

A system of issue of tenancy passbooks be introduced through concerned State Governments.

The village level revenue officials to be authorized to issue cultivation certificates to the tenant farmers.

A dedicated department for the welfare of these sections of the farmers

6.1.2. Identification of tenant farmers: In most of the cases the tenancy is in disguised form. Hence, Banks are finding it difficult to identify and pursue the tenant farmers to approach for institutional credit. The revenue officials of the State Governments have to play a vital role in this regard as they have required expertise and competency to:

- Identify the pockets predominated with the tenant cultivation in all its forms i.e., including sharecroppers and oral lessees.
- Build up data and continuously update the data on tenant farmers at district level and provide to all the banks and financial institutions as done in the case of uncovered farmers to achieve saturation under KCCS.
- Conduct awareness camps in association with the concerned banks to pursue tenant farmers to approach banks for credit rather than private moneylenders at exorbitant interest.
- The forum of District Consultative Committee (DCC) with the membership consisting of the District Administration, development departments and agencies, Banks and public representatives can facilitate the process of identification and preparation/review of the list of Tenant farmers in the districts.
- Accepting easier means for establishing tenancy -
  - Certificate by village accountant/revenue authorities/Gram Pradhan.
  - Certificate by Agriculture Department
  - Any list provided by Agriculture / Revenue or any other Government Department on the tenant farmers.
  - Certificate from active Self Help Groups which have been in active existence for at least three years and wherever they have been rated satisfactorily.
• Certificate from reputed NGOs—in active existence in the area wherever they have been rated satisfactorily.

6.1.3. Facilitating formation of JLGs of tenant farmers: Lot of counselling and persuasion is required to make the tenant farmers to form into JLGs. Again the revenue officials have to take responsibility to identify the areas predominated with tenancy cultivation and facilitate formation of JLGs. The revenue officials of State Governments are already facilitating the formation of SHGs under SGSY and other Govt. Sponsored Schemes. Reputed NGOs may also be associated in organizing formation of JLGs of tenant farmers.

6.1.4. Multiple financing: In majority of the cases, the landowners are availing the crop production finance from the Banks showing the land records as if they are cultivating lands. In such cases, financing tenant farmers for cultivation of same piece of land amounts to multiple financing. Some remedy is required to tackle such situation and help tenant farmers. The suggested remedies are:

• Record the name of the actual cultivator in the land records. Noting the name of the Tenant in the Record of Rights along with the name of the cultivator would provide comfort level to the Branch Manager besides avoiding cases of double financing.

• In cases where landlords already availed crop production limits and are providing inputs to the tenants, a provision may be made to extend a limit to cover remaining cost of production and consumption needs.

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- Enhancement of disbursements @ 30% p.a.- Targets may focus on Investment credit only.
- Flexibility in extending credit over Scale of Finance.
- Each semi urban and rural branch financing 2-3 area specific projects—targets for financing small/marginal farmers.
- Financing 10 Agri Clinics.
- Targeting small and Marginal Farmers.
- Support to calamity affected farmers by way of OT Settlements and fresh credit.
6.1.5. Credit Guarantee Fund: Risk perception is another impediment in extending credit to this segment of cultivators. Tenant farmers not necessarily be from the same village / area where they cultivate land on tenancy basis. Under these circumstances, coupled with the absence of documentary evidence to prove cultivation, bankers perceive financing tenant farmers more risky. Hence, constitution of Credit Guarantee Risk Fund by contribution from all stakeholders viz., Central Government, State Government, NABARD, Commercial Banks, etc. is essential to remove the risk perceptions and ensure need-based credit to the tenant farmers. This will facilitate the Banks to finance the tenant farmers and also agricultural labourers without insisting for third party guarantee and collateral security.

- 100% credit guarantee cover be extended on the credit facilities to the tenant farmers including sharecroppers, oral lessees and landless agricultural labourers.
- The guarantee fee may be subsidized and only a nominal fee may be passed on to the borrowers.
- Procedure for revoke of guarantee may be simplified and lock-in period may be kept at minimum.

6.1.6. Crop Insurance Scheme: Risk Mitigation and Safety–net is to be provided to save SF and MF and tenant farmers by creation of awareness for various insurance products, bringing all crops in all areas under insurance cover, low premium rates, simplified procedure for settlement of claims, village to be made as the base unit for assessment of crop damage, providing cover to farmers for all types of risks including weather insurance is very essential. Tenant farmers are worst affected category of cultivators in case of crop failures. This is more so in fixed lease tenancy contracts. Hence, there is a need to give separate treatment to tenant farmers with the following provisions:

- Coverage of the crops cultivated by tenant farmers based on their declarations in the absence of documentary evidence.
- Low premium rates /Subsidized premiums to reduce the burden on tenant farmers.
- Liberalized settlement procedure and provision to cover individual cases of crop failures. Separate mechanism may be introduced to confirm genuineness of claims as in case of settlement of Personal Accident Insurance Scheme (PAIS) claims.

6.1.7. Health Insurance Scheme: Health hazards jeopardize the activities of the tenant farmers, as they are not in a position to bear with the unexpected financial shocks. If the cultivator himself falls ill, the situation not only leads to starvation of the family but also have a negative impact on crop yield. Therefore, in addition to PAIS, health insurance is very essential to protect the tenant farmers and save their families. Separate health insurance scheme may be implemented through GIC:

- Premium maybe subsidized on par with the premium for BPL families.
- All major and minor illnesses of the cultivator and also all his family members be covered.
• Scheme shall be user friendly so as to cover the treatment taken at local hospitals, nursing homes and also clinics run by the qualified doctors. A panel of hospitals, nursing homes and clinics maybe approved for this purpose.
• Settlement procedure may be simplified to ensure faster claim settlement. Liaison with the empanelled hospitals / nursing homes / clinics may be established to ensure treatment without having need for payment by the insured.

6.11. Contract Farming: Contract farming has the potential for expanding credit outreach, especially to the small/marginal farmers and oral lessees. Banks may increasingly consider associating with contract farming. Govt. has to provide proper legal and regulatory framework for contract farming. Legalizing and liberalizing leasing can facilitate Contract farming and agribusiness. Tenure should be for a reasonable length of 3-5 years so that improvement of land by the tillers and the landowners is encouraged. Appropriate legal framework may ensure under contract farming–
• Direct intervention role of the Corporate (like Amendment to APMC Act in the State)
• Provides transparent arrangements on production, input supply, technology involved, quality and quantity parameters
• Provides price protection for the farmers–pre-agreed prices but not less than the actual market price that may prevail at the time of sale
• Mutual trust for honouring respective commitments.

6.3.2. Market Price stabilization and insurance for price risk
Need for an appropriate Market Price stabilization mechanism so that the farmers do not become victims of price fluctuation and become poorer when there is glut in the market and they become forced defaulters, like tomato glut, potato, sugarcane glut, etc.

6.3.3. Appropriate risk mitigation against natural calamities like flood, drought, etc., and its longlasting impact on the farmers’ income. Extending the scope of Insurance coverage to price risk.

6.3.5. Appropriate legal framework and Govt. assistance in effecting recoveries.
Favourable Socio-political environment prevailing in the country with incentive for prompt payment and severe punishment for the willful defaulters.

6.3.6. Legislation on tenancy that assures the ownership rights to the land owners besides encouraging them to lease out the lands and provide legal framework for the tenant farmers access to credit from formal financial system
Incentives to private investment for supporting facilities like Cold chains, Requisite technical expertise backup, and Quality planting material at reasonable cost & Firm marketing arrangements for hi-tech agri projects.
Legalizing contract farming as it is practiced on a large scale- creating proper legal and institutional framework including amendments to APMC Act. Review of the land tenancy act, so as to permit leasing of land without the owner losing property rights so that tenant farmers have free access to Agricultural credit.
6.1.11. Contract Farming: Contract farming has the potential for expanding credit outreach, especially to the small / marginal farmers and oral lessees. Banks may increasingly consider associating with contract farming. Govt. has to provide proper legal and regulatory framework for contract farming.

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6.2.1. Creation of more irrigation potential:

Private participation / Joint venture participation through Special Purpose Vehicle (SPV) may be permitted for setting up of medium / large irrigation projects. This will spur investments in agriculture, which today faces a decline in investment. The financial sources for setting up these irrigation projects can come from financial institutions. Such financing should be eligible to be classified as Direct Finance to Agriculture.

6.2.6. Credit Counselling:

The very vulnerability of small / marginal farmers, the segment of tenant farmers including oral lessees and absence of any organized financial advisory services, credit counselling by Banks / Financial Institutions becomes imperative that Credit Flow should be complemented by credit advisory/counselling services.

The Financial Institutions may open up separate setup through personnel professionally qualified preferably under Social welfare or similar academic areas. This set up may provide counselling in other areas too like education, health, sanitation, civic rights etc. which can enable small and other vulnerable segments of farming community look for, beyond financial inclusion, inclusive growth.

6.3.7. Encouraging Financing Infrastructure Projects – according status of Direct Agriculture

High growth in Sector cannot be brought in by micro level initiatives alone without providing them necessary infrastructure and logistical inputs. If significant growth has to be achieved in agriculture sector, technology, infrastructure and other linkages have to be developed that can lead to increased production and productivity. Neither the tenant farmer nor the land lord who owns/ cultivates a small holding can afford to invest in technology, creation of infrastructure like irrigation systems in his farm
land. Such linkages could be facilitated by corporates through Public Sector or Private Sector participation who in turn derive their financial resources from Banks. Such ventures, as they are aimed to directly benefit the farmers, should be classified as direct agriculture. This will accelerate flow of credit from the Banking system to long-term agricultural investments.