

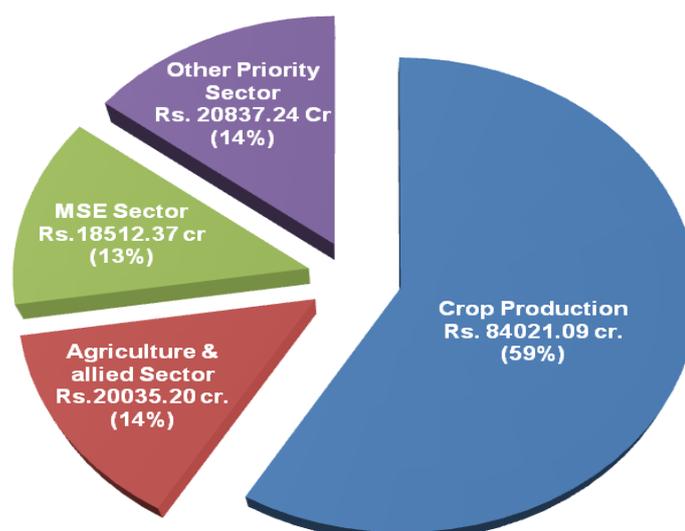
Broad Sector wise PLP Projections of Credit Flow in Uttar Pradesh for 2015-16

Estimated Credit Potential of the state

(Rs in crore)

Sl. No.	Sector	2015-16	XIIth Plan Period
1	Crop Loan	84021.09	306682.47
2	Term Loan for Agriculture and allied activities	20035.20	78195.12
3	Total of Agriculture Loan (1+2)	104056.29	384877.59
4	MSE	18512.37	71864.22
5	Other Priority Sector	20837.24	81707.46
6	Grand Total	143405.91	538449.27

Broad Sector wise Credit Potential 2015-16



Executive Summary

NABARD, as an apex level developmental financial institution, is intensely associated, inter alia, in the decentralized planning process with the preparation of potential based credit plan both at the district and state level on annual basis. At the state level, 'State Focus Paper' is prepared which presents an aggregation of the district level projections made in the annual Potential Linked Plans (PLP). The basic objective of such planning exercise is to assess the credit potential keeping in view the sector specific physical potential, infrastructure support, forward and backward linkages, local skill and natural resources, and credit absorption capacity of the sector. The credit projection is also fine tuned by factoring in the priorities and the policies of the GoI, State Govt. and the RBI. Keeping in view the importance of capital formation in enhancing production and productivity of the agriculture sector, the current edition of the State Focus Paper: 2015-16 has adopted the theme '**Accelerating the Pace of Capital Formation in Agriculture and Allied Sector in Uttar Pradesh**'.

Uttar Pradesh – Important Features

Uttar Pradesh, the fifth-largest State in India, accounts for 7.3 percent of total geographical area of the country. The State has been divided into four economic regions, viz. Eastern, Central, Western and Bundelkhand regions and nine Agro Climatic Zones. It comprises 75 districts, 313 Tehsils, 822 development blocks and 978141 inhabited villages. With vast land, water and human resources as well as diverse agro-climatic conditions conducive for production of various agricultural products, the State offers ample scope for development in all the sectors of the economy.

The State Gross Domestic Product for 2013-14 at constant prices (2004-05) was Rs. 465969 crore as against Rs.443191 crore in 2012-13, registering a growth of 5.1 per cent. The growth rate of primary, secondary and tertiary sectors in the GSDP of the State in 2013-14, was 2.4 per cent, 0.5 per cent and 8.1 per cent respectively, aggregating to an overall growth of GSDP at 5.1 per cent. The share of primary, secondary and tertiary sectors in the GSDP of the State in 2013-14, was 31.0 per cent, 18.6 per cent and 50.4 per cent respectively.

Agricultural scenario in the State

The Gross Cropped Area of the State is 257.28 lakh ha. with gross irrigated area of 199.01 lakh ha and cropping intensity of 154%. The total land holdings numbers 233.25 lakh of which small and marginal farmers constitutes 94% with the average land holding of 0.75 ha.

The State, with production of 515 lakh MT of food grains during 2013-14 accounted for 19.4 per cent of the country's production. While the State ranks no 1 in production of fruits and vegetables in the country, it ranked second in production of wheat (313.3 MT) and paddy (143.5MT). The productivity of wheat has increased from 25.91 qt/ha in 2002-03 to 32.01 qt/ha in 2013-14. Though the productivity of major food crops are

more or less same with the all India average, the same is substantially less in comparison to the productivity level of neighbouring states viz. Punjab and Haryana.

Though the State has the highest bovine population per animal productivity is very low at i.e. 3.0 it's per cow and 4.43 it's per buffalo. Despite potential the domestic production is insufficient to meet the demand for egg, fish and meat and hence depends upon the other states.

Banking Scenario

As on 31 March, 2014, the banking network in the State comprised of 37 Commercial Banks (26 Public Sector Commercial Banks and 11 Private Sector Commercial Banks); 7 RRBs, Uttar Pradesh Cooperative Bank Ltd.(UPCB) with 50 affiliated District Cooperative Banks (DCBs); and Uttar Pradesh Sahakari Gram Vikas Bank Ltd (UPSGVB) with 323 branches. Banking services in the State are provided through a network of 16,073 branches, of which 11,716 branches (72.89%) comprised rural/semi urban branches.

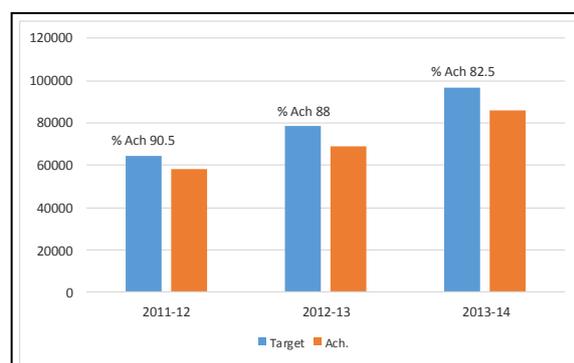
The overall CD ratio in the State was 52.62% as on 31 March, 2014, registering a decline of 3.52% from the CD ratio of 2011-12 (56.32%). With the National average at 79.1%, the matter is of concern. The CD ratio of RRBs showed an improvement from 51.08% as on 31 March 2013 to 55.96% as on March 2014; The CBs showed a sharp decline in the CD ratio over the previous year by -4.31%; Cooperative banks, have also witnessed a decline in the CD ratio from 61.99% in March 2013 to 59.65%, demonstrating a negative growth of (-2.34%). The CD Ratio in 16 districts was less than 40%; of which 4 districts have CD ratio between 20-30%. The reasons for low CD Ratio in the State are attributed to increase in NPA and lack of entrepreneur.

The recovery position of all the agencies under agricultural and the priority sector loans has been steadily declining and is a matter of serious concern. The recovery position in respect of overall priority sector loans has also declined from 59.45% as on 31 March 2013 to 58.42% as on 31 March 2014. The net NPAs increased from Rs.17022.94 crore as on 31 March, 2013 to Rs. 19791.69 crore as on 31 March, 2014. Further, % NPA level against total advances has increased from 5.65% as on 31 March, 2013 to 6.16% as on 31 March, 2014.

Capital infusion to the tune of Rs. 2375.42 crore has been approved by Gol for financially weak DCCBs in the country which includes 16 DCCBs of Uttar Pradesh. The same shall be contributed by the State Government (Rs. 1464.59 crore); Central Government (Rs. 673.29 Crore) and NABARD (Rs. 237.54) through share capital loan to the State Government. This is expected to make significant contribution in the ground level credit flow and in meeting the credit needs of the farmers served by these DCCBs.

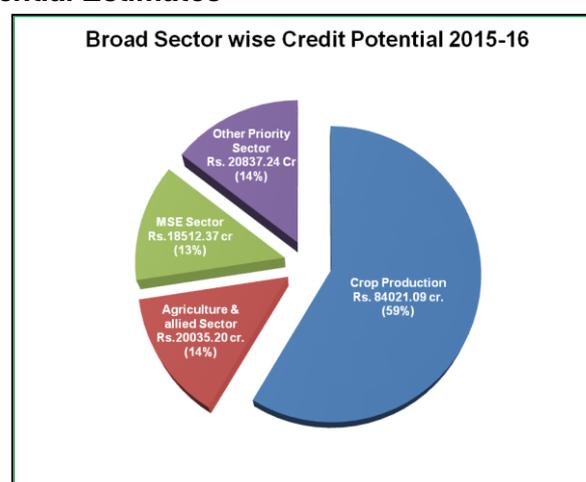
Ground Level Credit Flow

The ground level credit flow during 2011-12, 12-13 and 13-14 was Rs. 58371 cr., Rs.68852 cr. and Rs.87510 cr, respectively, thus registering an increase of 18% and 27% during the last two years. During 2013-14, under agriculture sector, the crop loan witnessed an increase of 29.8% whereas agriculture term loan registered a decrease of 2%. The disbursement under MSE and OPS sector logged an increase of 45.03% and 39% respectively.



State Focus Paper -2015-16: Credit Potential Estimates

The State Focus Paper envisages the credit potential for 2015-16 at Rs.1.43 lakh crore, out of which the share of crop loan, agriculture term loan, MSME and other priority sector has been estimated at Rs.84021.09 crore (58.6%), Rs.20035.20 crore (14.0%), Rs.18512.40 crore (11.4%), and Rs. 20837.2 crore (14.5%) respectively. The credit projection for 2015-16 marks an increase of 17.9% over the same at Rs. 1.21 crore, estimated for the current year (2014-15).



Trend in Agriculture Credit in UP: Nominal vs. Real Growth

The trend of agriculture credit including the short term and long term credit in the state has been worked out in nominal and real terms to isolate the impact of inflation on credit disbursement from 2004-05 to 2013-14. The CAGR for long term credit in nominal terms has been 16.3% as against only 4.2% in real terms, which is approximately one fourth of growth rate at nominal term. The analysis clearly reflects low growth of long term credit in real terms during last ten years and this trend has become more pronounced in the *post subvention* period calling for some kind of institutional support for long term credit also as is in vogue in the form of interest subvention for short term credit since the year 2006-07.

Capital Formation in Agriculture and Allied Sector: Need and Strategy to accelerate

Capital formation enhances the productive capacity of various factors of production viz. Land, labour, capital and entrepreneurs in all the sectors i.e. primary (including agriculture), secondary and tertiary. However, prospect of increased capital formation in the state of Uttar Pradesh is hampered by lack of public and private investment. While the planned expenditure in desired sector determines the level of public

investment, the per-capita income and propensity to invest determines the level of private investment induced capital formation in agriculture and allied sector.

A comparison of the per capita planned expenditure in UP vis-à-vis for all states of India reveals that UP's per capita plan expenditure (Rs.10911) is 33.4 % lower than all India plan expenditure (Rs.16393) during the 11th five year plan. Similarly, the per capita income of Rs.37630 in the State (2013-14) is almost half of per capita at the national level (Rs.74380). The complementarity of public and private investment in capital formation and also its effective linkage with poverty reduction programmes are of paramount importance to enhance the productivity and production in agriculture sector.

The draft Twelfth Plan (2012-17) for the State estimates the requirement of investment to the tune of Rs. 16.70 lakh crore of which 71% is envisaged through the private sector. Within the private sector investment, the role of credit particularly the long term credit availed by private farmers/entrepreneurs in the agriculture sector assumes more importance as it leads to capital formation. Various policy measures have been initiated by the State Government to create a conducive environment for attracting private investment.

Capital Formation 'in' Agriculture in UP: The Contribution of Agriculture Credit

The available evidences indicate that there is a strong association between the term loan disbursed and private sector capital formation in agriculture. The long term (LT) credit, leading to the capital formation in agriculture has increased from Rs. 2806.4 crore (2002-03) to Rs. 41374.7 crore (2013-14) in last 12 years at a lower compound annual growth rate (CAGR) of 17.0 % as against CAGR of 23.6% and 21.1% for short term (ST) credit and total agriculture credit respectively in the state. However, its share as percent to total agriculture credit has been continuously declining from 43.6% (in 2002-03) to 26.4% in 2013-14 which is a matter of concern for policy planners in the state.

During the period 2002-03 to 2012-13, at times banks have fallen short of achieving the target of term loan. However, during the recent years i.e. from 2009-10 to 2012-13, the banks have been able to achieve or exceed the target of term loan except in 2013-14 where, it could achieve only 81.5% of the target. Banks have to step up their efforts to finance identified investment projects in the farm sector as also through formulation and financing of area based schemes as outlined in district level credit plans prepared by NABARD for the year 2015-16.

Capital Formation 'for' Agriculture in UP: The Contribution of RIDF

NABARD has been extending financial assistance to the State Government for creation of rural infrastructure under RIDF since 1995-96. In Uttar Pradesh, a sum of Rs.16222.60 crore (9.0% of all India) for 66,750 (12.5% of all India) projects has been sanctioned to the State Government for creation of rural infrastructure. Against sanctioned amount of Rs.16222.60 crore, a sum of Rs.11694.55 crore disbursed to GoUP as on 31.03.2014. The major chunk (63.7%) of the sanctioned amount in the state has gone to irrigation sector which directly leads to capital formation in agriculture resulting in improved availability of irrigation facilities thereby contributing to productivity of farms. This is followed by rural roads (12.9%) and bridges (9.1%) which

enhances connectivity of rural habitations with multiplier effect for farm as well as non-farm sector.

State's Perspective on Infrastructure Development

In the context of Uttar Pradesh, the sectors which demand infrastructural development on a priority basis include irrigation (both surface water and ground water based), flood control, connectivity - roads and bridges, power generation and distribution, education, rural sanitation, health, agriculture research, extension services, rural market yards, warehousing, food processing, drinking water, information technology, etc. Accordingly, the State Planning Commission, Government of U.P., in its 12th Five Year (2012-17) Plan document has rightly identified these sectors and formulated sector specific strategies for their development.

The State Government may also explore the possibilities to leverage the funds available under Warehousing Infrastructure Fund and Food Processing Fund with NABARD to create suitable infrastructure.

Financial Inclusion

Banking facilities have been extended in all the 16388 villages having population above 2000. As against 76855 villages having population < 2000, as on 30 September, 2014, 37967 villages have reportedly been covered by banking outlets. Against the target of 3053 new branches in the State, 2382 new brick and mortar branches have been opened.

Lead Banks have set up FLCCs and R-SETI in all 75 districts. In addition, 189 Financial Literacy Centres (FLCs); viz. 64 by RRB at district level and 125 by DCBs at the block level have been established with NABARD assistance.

Pradhan Mantri Jan Dhan Yojana (PMJDY), launched in the State on 28 August, 2014 has given an impetus to the efforts of the banks to cover the unbanked households in the State. The State has been divided into 27628 SSA and allocated to the CBs and RRBs for coverage under PMJDY. As on 30 November 2014, in the SSAs allocated to the banks, 25496261 households have been covered by opening of bank accounts.

Revival, Reform and Restructuring Package for Handloom Sector

Under the "Revival Reform and Restructuring Package for the Handloom Sector", cumulatively Rs.108.83 crore have been released benefitting 1835 Primary Weavers Cooperative Societies (PWCS), 14 Apex Weavers Cooperative Societies (AWCS), 20916 Individual Weavers and 1174 SHGs in the state. Strengthening of benefitted Weaver Cooperative Societies by Capacity Building, Computerisation of PWCS and technological upgradation etc. has been initiated. A mobilization advance of Rs. 5.63 cr has already been released to State government towards computerization of 1849 societies.

Micro Credit Scenario

Out of 93.70 lakh rural poor households, the SHG programme has reached to an estimated 49.92 lakh poor households through 4.16 lakh SHGs (about 53% coverage) with an average of 12 households per SHG .

On a conservative estimate, there is an exploitable potential for around 3.65 lakh more SHGs in the State and there is an urgent need to formulate a strategy to exploit the potential as a business opportunity by banks.

The flagship scheme of Ministry of Rural Development, Government of India, Swarna Jayanti Swarojagar Yojana (SGSY) was closed on 31 March 2013 and Ministry has announced a new scheme viz., National Rural Livelihood Mission (NRLM), Government of Uttar Pradesh has set up State Rural Livelihood Mission, Uttar Pradesh and the state directorate has started functioning recently. The National Rural Livelihood Mission (NRLM) is being implemented by SRLM, UP in the state. During 2013-14, the programme is being implemented in 22 identified blocks of 22 districts in intensive mode and presently, setting up of District Mission Management Units (DMMUs) and Block Mission Management Units (BMMUs) is under progress. A target of promotion of about 45000 SHGs during the current financial year has been set by SRLM.

Joint Liability Groups (JLGs)

A total of 34317 JLGs have been credit linked during the year 2013-14 with disbursements to the tune of Rs. 7370.39 lakh. With this the cumulative no. of JLGs credit linked till 31 March 2014 is 82166.

Government of India has announced a target of financing 5 lakh JFGs of landless farmers across the country for the year 2014-15. Of this, 50000 JLGs are to be financed in the State of Uttar Pradesh.

As a proactive initiative, the State Government has issued instruction enabling co-operative banks to act as JLPs (Joint Liability Group Promoting Institutions) and finance JLGs of small & marginal farmers, sharecroppers, tenant farmers etc. through DCCB/PACS.

Promoting Producer Organisations

Recognizing the need for promoting farmers' organizations, the Union Finance Minister in the Union Budget for 2014-15 has announced setting up of "Producers Organization Development and Upliftment Corpus (PRODUCE) Fund of Rs. 200 crore to be utilized for the promotion of Producers Organizations (POs) in NABARD. The broad objective of the Fund is to promote and nurture 2000 Farmers Producer Organizations during the next two years.

The overall development perspective of the state must envision to factor in the broader issues like enhancing the income generating opportunities to 59.3% of population engaged in agriculture on sustainable basis, stimulating public and private investment to strengthen capital formation in desired sectors for enhancing their productivity, positioning a strong and viable line of community based organisation like SHG, JLG and Producers Organisation (POs), etc. to facilitate inclusive growth. The development process must ensure preservation/ upscaling of quality of natural resources as also development of human resources to make it a continuous endeavor.