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RAPPORTEURS' REPORTS

Agricultural Credit and Indebtedness

Rapporteur: N.V.Namboodiri*

I

INTRODUCTION

Credit has been considered not only as a key input to agriculture but also as an effective means to economic transformation. The need for agricultural credit arises due to lack of simultaneity between realisation of income and the act of expenditure and the problem of indivisibility of fixed investment. How agricultural credit contributes to agricultural development is a complex issue as credit is a means to an end (Dantwala, 1966 and Dandekar, 1993). But when it results into investments including working capital, labour, etc., it leads to growth in output. The rural credit environment is very typical with a number of inherent peculiar problems such as lower spatial density of clients leading to higher transaction costs, mix of economic activities with consequent higher level of risk, low level of human capital, bad debts, weak credit portfolios, poor repayment practices, and so on. On the other hand higher demand for credit is envisaged as a result of greater market orientation of the agricultural sector, for both inputs as well as output, potential for increasing the share in world trade of agricultural commodities. Thus it is feared that the supply-demand gap of agricultural credit from the formal institutions would widen unless the right kind of interventions are not being made. Despite high density of the retail outlets of formal credit institutions the presence of informal agencies for agricultural credit continued to exist although their share has been declining over the years. The informal agencies largely extend credit for consumption and social ceremonies and their interest and other terms of conditions of loans are onerous and yet they co-exist with the formal financial institutions mainly due to their proximity, feel-at-ease, timely and quick service, all time access, purpose free credit, flexibility in loan repayment and low transaction costs (Desai and Namboodiri, 2001). The key task is to ensure a convergence among credit availability, effective credit delivery systems and adequate credit absorptive capacity of the rural populace (Reserve Bank of India, 2004a).

PRESENT SCENARIO

The rural financial institutions (RFIs) have been successful to an extent in promoting banking habits, financial and credit deepening in rural areas. Notwithstanding the geographical spread and functional reach, the rural financial institutions at the start of the 1990s were found to be in a poor shape and characterised by several weaknesses such as decline in productivity and efficiency,

* Centre for Management in Agriculture, Indian Institute of Management, Ahmedabad – 380 015.

erosion of repayment ethics and profitability (Reserve Bank of India, 2004b). Some of the other major concerns today in the context of agricultural credit include credit inadequacy, constraints in timely availability, neglect of small and marginal farmers, low credit-deposit ratios, and continued presence of informal markets (Reddy, 2002). The outreach of agricultural credit continued to be far from satisfactory. For example, out of 166 million operational holdings in the country about 62 per cent of the holdings are marginal and about 19 per cent are small holdings. The RFIs have reached to hardly about 56 million farmers by mid-1990s, or almost 50 per cent of the holdings are yet to be reached by the formal financial institutions, and they mainly comprise of marginal and small holdings.

The institutional credit advanced by the co-operative institutions for the agricultural sector shows some disturbing trends. The annual rate of growth compounded during the first half of nineties was the highest ever with over 20 per cent per annum and the lowest was at 5.6 per cent during the second half of 1980s. It was around 10 per cent since 1970 during every five year periods. On the other hand the growth in credit advanced by the commercial banks was more impressive and the highest growth was recorded during the four year period 2000-01 to 2004-05 with an annual rate of growth of over 27 per cent and the previous peak was 24.6 per cent during the second half of 1990s. The Regional Rural Banks (RRBs) too performed better as compared to the co-operatives except during the second half of the 1980s. The mediocre performance in the flow of agricultural credit from the co-operatives in recent times has been one of the major concerns. Since 2000-01 the overall growth in agricultural credit has been impressive though it vastly differed among various institutions. The growth in the flow of credit to agriculture during the period 2000-01 to 2004-05 was at the rate of 10.1 per cent for the co-operatives, 27.3 per cent for the commercial banks, and 29.1 per cent for the RRBs with an overall rate of growth of 21.5 per cent. Data for the past decade indicate a fall in the share of co-operatives in rural credit market from around 62 per cent in 1992-93 to 34 per cent in 2002-03 in spite of an increase of just over 10 per cent per annum in the absolute disbursement on a compound annual basis (Government of India, 2004). Another disturbing feature was the deceleration in the growth of investment credit, more pronounced in the case of commercial banks, impairs agricultural borrower's credit absorption capacity (Reserve Bank of India, 2004a). For example, while short term credit by all agencies grew at around 14 per cent since 1970, the growth in long term credit came down from 20 per cent in the 1970s to barely 12 per cent in the 1990s.

Lending by the formal financial institutions to the poor has been unsatisfactory. The formal institutions, by and large, have failed to promote many of its social objectives (Desai and Namboodiri, 1996). It is true that they are facing a number of constraints in broadening their services to the poor. A large number of rural households are with limited land resources and small economic activity accompanied with poor technology. But their demand for credit has been rising due to growing family size, increased consumption requirements, social obligations and so on. But

the institutional agencies not only lack the required mechanism to assess their credit needs but often overlooked their demand for credit on the ground that their needs are for non-productive purposes (Namboodiri and Shiyani, 2001). Besides, perceived high risks, transaction costs in small scale rural lending and absence of collateral securities kept the poor away from the fold of formal financial institutions. To reach the poor, institutional innovations are needed that enable services to be expanded, while substantially reducing transaction costs for both financial institutions and clients (Zeller and Sharma, 1998). However, the unparalleled banking infrastructure in India offers a significant opportunity to accelerate, deepen and improve the quality of access to financial services for the poor, and to develop an inclusive, sustainable financial system (Thorat and Wright, 2005).

Innovation in Rural Financial System

Financial intermediation through NGO sponsored micro credit and saving programme, commonly known as Self Help Groups (SHGs), came into existence since the early 1990s. As of March 2005 about 15 million households have been covered under the SHG programme. The SHG-bank linkage programme has emerged as the major micro-finance programme and under this 563 districts have been covered through commercial banks, co-operative banks, regional rural banks and over 3000 NGOs. The number of SHGs linked to the banks aggregated at 1.60 million as of March 2005. During the year 2004-05 alone about 520,000 SHGs provided with bank loan amounting to Rs. 29,630 million. The NABARD-led SHG-bank linkage programme had a lending of over Rs. 30,925 million as of March 2005 and this is being considered as the largest and fastest growing example of micro finance in the world. The repayment rate is as high as over 95 per cent. Some of the new measures taken to strengthen this programme are through setting up micro finance cells at their central offices of each bank in the state of their operation. While recognising these positive developments in the rural credit sector, it is worth mentioning that the SHGs do not lend for agriculture but it may facilitate agricultural production. Some of the major challenges before the MFI sector includes: absence of legal framework conducive for sustainable growth, sustainable resource mobilisation and problems in attaining scale of operations. As a strategy for poverty alleviation, unless a large perspective framed within the concept of poverty alleviation through resource redistribution is developed, the micro finance intervention will end up creating another set of informal financial institution (Nair, 2001). Besides the SHG-bank linkage approach spearheaded by NABARD, there were other experiments carried out by banks and micro-financial institutions. These alternative roots to serving the poor community though appropriate financial delivery institutions such as MFI also have an institutional space where the banking infrastructure is weak and/or impressive (Thorat and Wright, 2005).

The Kisan Credit Card (KCC) scheme was introduced in 1998-99 with the basic objective of adequate and timely support from the banking system to the farmers for

meeting their credit needs for farming including input purchases. The KCC scheme has made swift progress by issuing more than 44 million cards so far. The major features of the KCC schemes are its revolving cash credit facility with unlimited withdrawals, to meet the production credit needs, limit based on operational land holdings, each withdrawal to be paid within 12 months, card validity for three years, provision for enhancing credit limit and issuance of credit-cum-passbook etc. The National Impact Assessment Survey carried out by the NCAER for the RBI shows that the KCC schemes have had the following major benefits. Augmentation of flow of credit to the agricultural sector, about 6 per cent decrease in the cost of borrowings for farmers after they were given KCCs, cost of borrowing for KCC holders from formal sources is about 3 per cent lower than those for non-KCC holders, significant decline in the number of borrowers depending exclusively on non informal sources for their short term credit needs, reduction in cost of borrowing from informal sources by about 3 per cent, significant saving in time spent in obtaining short term agricultural loans and finally decline in cost of delivering credit due to simplified procedures. Theoretically the KCC is well thought of and full of good intentions. To be more successful, education of both farmers and the bank officials about the scheme is very vital. It is true that the KCC programme has significantly improved access of farmers to formal credit, but the KCC programme needs to be modified to improve access to those who cannot sign by making their use through thumb impression (Desai, 2004).

The Rural Infrastructure Development Fund (RIDF) was created by NABARD in 1995-96 for investment purposes in agriculture and rural sector with an initial corpus of Rs. 2,000 crores. The contribution to RIDF was received by NABARD from commercial banks against their shortfall in priority sector lending/agriculture during the preceding year (the commercial banks were asked to lend at least 18 per cent to agriculture). The major projects taken up under RIDF were minor irrigation, soil conservation, watershed management and rural infrastructure. Investment was also made for projects under social infrastructure under RIDF.

Other measures proposed recently include new channels of disbursement by means of franchising village post offices to route bank credit, as announced in the National Budget Speech 2003 of the Government of India. It is also proposed under the special agricultural credit plan to finance at least 100 new farmers at each rural and semi-urban branch during the year 2004-05, resulting in an enrolment of about 50 lakh new borrowers. The 2005 budget proposed to explore where ever innovations are possible in agricultural credit. For example the issue of allowing banks to accept the agency model by using the infrastructure of civil society organisations, rural kiosks, village knowledge centre, to provide credit support to rural and farm sector; special financial assistance to wipe out the accumulated losses and strengthen the capital base of co-operative credit institutions; institutional restructuring to ensure democratic institutions; and change in the legal framework to empower the Reserve Bank of India to enforce prudent financial management. What is important is to put

these measures into realities. Few other measures which have potential to abridge the credit gap are to identify areas such as private market yards, public-private partnership, etc., for integration of farmers' production with domestic and global markets and to promote competitive private and co-operative agricultural markets. Scope for integrating investment and production credit and aiming at total credit needs of the rural households may also be explored. The rural financial institutions must also try to outsource some of their functions to other agencies operating at the village level, such as local input suppliers to expand their outreach. Strengthening the crop insurance scheme is yet another measure that would facilitate sustained flow of credit to agriculture. In this front, the National Agricultural Insurance Scheme got implemented since *rabi* 1999-2000 and which is applicable even when the loan was not availed by the farmers. The livestock insurance scheme has also been introduced and implemented by the public sector insurance companies. Since 2003-04 the Agricultural Insurance Company of India has to implement the Farm Income Insurance Programme with wider scope. This programme would target two critical components of the farm income, viz., yield and price through a single scheme.

Indebtedness

Indebtedness has various facets such as regional distribution, distribution among different farm size, distribution among different social groups, source of income, source of loan, purpose of borrowing and so on. In fact borrowing and debt are two sides of the same coin, while borrowing is the cause, indebtedness is the result. Therefore one requires concomitant analysis to comprehend the exact process. What is more significant is to recognise the sources of debt and purposes for which the borrowed money has been used. The debt burden may differ for tenants, for different size of holdings, also for the nature of the activities pursued by the borrower. As per the National Sample Survey Organisation, households who owe Rs. 300 or more at the time of survey during 2003 to any institutions or others are considered as indebted. The debt profile of rural households during 1999-2000, as per the Rural Labour Enquiry Report, revealed that 31.7 per cent of the rural households are indebted to money lenders. The main findings of the Situation Assessment Survey, 2003 (NSSO, 2005) showed that out of 89.4 million farmer households, 48.6 per cent are indebted and the percentage of indebtedness among farmer households was highest in Andhra Pradesh followed by Tamil Nadu; the most important source of loan in terms of percentage of outstanding loan amount was banks at 36 per cent followed by money lenders at 26 per cent; more than 50 per cent of the indebted farmer households had taken loan for the purpose of capital or current expenditure in farm business and marriage and ceremonies accounted for 11.1 per cent of the outstanding loan. The rising burden of indebtedness among farmer households across the country has been one of the major concerns in recent years. The inability to repay past debt, and therefore access to fresh loans, has been widely accepted as the most significant proximate cause of the farmers suicide that were widespread in Andhra

Pradesh, Karnataka and are apparently continuing in areas as far apart as Wyanad in Kerala, Vidarbha in Maharashtra and some areas of Punjab and Rajasthan (Chandrasekhar and Ghosh, 2005).

II

FINDINGS OF THE PAPERS

The subject on agricultural credit and indebtedness has received an overwhelming response from researchers. Out of 92 papers received, 83 papers have been accepted for discussion at the annual conference. Various issues looked at under this subject have been classified into nine broad categories, viz., the flow of agricultural credit in a macro perspective; credit use by size of holdings; impact of credit on income, employment and poverty; loan repayment overdue and causes of default; cost of credit; credit diversion; microfinance; the impact of Kisan Credit Card Programme and structure and factors determining indebtedness. Issues that have received very little or no attention at all include analysis of terms and conditions of credit namely collateral, repayment period, grace period, etc.; impact of legal provisions supporting coercive recovery of institutional and non-institutional loans; the farm and livestock insurance schemes, other risk schemes etc.; relevance of futures and forward trading in agricultural commodities; diversification of agriculture, and dry land farming and their impact on stability of farm income and agricultural indebtedness.

Flow of Agricultural Credit: Macro Perspective

More than a dozen studies have examined the flow of agricultural credit at the national, regional, state, and district as well as at the farmer level. Ramesh Golait and N.C. Pradhan examined the flow of agricultural credit during the 1990s covering both at the national and regional levels. Declining share of co-operatives, deceleration in investment credit, poor growth in the flow of credit in the North-Eastern states etc. are the major concerns expressed by the authors. The study advocates the need for facilitating agricultural credit through processors and input dealers that are vertically integrated with the institutional credit delivery system to accelerate the credit flow to the agricultural sector. The absence of proper land records in several states, particularly in the North-Eastern States, has been identified as one of the major impediments to growth in the flow of agricultural credit. Somewhat similar views were expressed by K.U. Viswanathan in his study and raised concerns on the deceleration in the flow of investment credit during the 1990s as opposed to the 1980s. While the production credit, which plays a catalytic role in the adoption of modern inputs, grew at the rate of 7 per cent during the 1990s at 1993-94 prices against 5.4 per cent during the 1980s, the same for medium to long term loans were respectively only 4 per cent and 5.4 per cent. Another distressing feature observed by the author was the declining share of direct agricultural advances of commercial banks in their net bank credit and the declining share of co-operatives from 49 per

cent during early 1990s to roughly 27 per cent during 2004-05. Kailash C. Sharma examined the flow of ground level agricultural credit through various institutional agencies during the 1990s and showed the slow growth in credit dispensation of term loan. It was argued that the achievement of the credit target set by the Government of India for 2004-05, except that of co-operatives, was largely met through achievements in production credit and that for investment credit was lagging behind. Brahm Prakash *et al.*, R.K. Panda, and K.A. Rasure studied the flow of institutional credit for the agricultural sector and pointed out the emergence of structural change in the composition of institutional credit delivery system where the co-operatives have been losing their share in total credit flow.

B. Jayaraman *et al*., in their study on rural credit in Karnataka addressed various issues pertaining to rural credit in the state particularly the financial health of rural credit institutions in the state, regional imbalances in credit flow, distress and credit and suggest for a new discipline in agricultural credit. Some of the major recommendations made by the authors include integrating investment and production credit, increasing scale of finance, addressing issues on collateral, viz., "collateral security" to "credit worthiness" of the borrowers, and the bankability of the individual or activity. The view expressed by K. Kareemulla in his study in Uttar Pradesh is that although the per hectare agricultural credit at the national level has been growing at a moderate rate, in Uttar Pradesh the present level of per hectare availability of agricultural credit is barely three-fourth of the national average. H.N. Atibudhi examined the flow of institutional credit in Orissa and made an attempt to identify the factors influencing the credit flow to agricultural sector and observed the declining trend in it during the 1990s and stressed the importance of commercial crops and development of irrigation facilities for sustained and continued growth in the flow of credit in the state. The role of institutional credit in the growth of agriculture in Bikaner district of Rajasthan investigated by P.S. Rao and D.P. Singh emphasised the importance of agricultural credit in the development of various districts particularly through minor irrigation and farm mechanisation loans. Large variation in the regional distribution of credit advanced by the commercial banks has been pointed out especially the study by K.C. Borah and D.K. Chakraborty and also the study on PACS in Karnataka by P.M. Honakeri.

Studies at the institutional level have received good response from many researchers. In all six studies have made an attempt to study the flow of credit from Regional Rural Banks. H. Shivappa examined the trend in the credit advanced by the selected Gramin Bank in Karnataka, A.K. Vitonde *et al*., examined the Yavatmal Gramin Bank, R.L. Shiyani and B.L. Dudhat looked at three RRBs from Gujarat, O.P. Shukla and R.P. Singh on Kanpur Kshetriya Gramin Bank, Gramin Bank in Ranchi was studied by R.P. Singh and A.K. Sah, RRB in Hoshangabad district was examined by A.M. Rajput and A.R. Verma. Some of the major findings of these studies include: better performance in terms of crop loans compared to term loans, small and marginal farmers, and tribal households finding priority in the loan

portfolios of the Grameen Banks. Some of the major weaknesses observed by these studies were the absence of credit targeting for weaker sections, how security related problems hinder the smooth flow of credit, and the practice of unplanned disbursements of loans by the institutions.

Three studies, viz., studies by D.P. Malik *et al*., J.S. Chawla and T.S. Chahal and J. Cyril Kanmony *et al*., examined the performance of PACS in credit disbursement at the national level, in the state of Punjab, and Tamil Nadu respectively. These studies gave an account of the poor coverage of weaker sections of the rural households in credit disbursement, lack of loan supervision, and suggested the need for cost cutting measures of PACS to make them financially viable. The studies by L.D. Vaikunthe, K.L. Jadhav and D.V. Kasar, and Hulas Pathak mainly looked at the flow of credit from the District Central Co-operative Banks to the agricultural sector and found that the agricultural sector shared about 87 to 93 per cent of its credit portfolio, the share of investment credit particularly for irrigation and agricultural marketing have been improving their share in bank's total credit portfolio. Deepak Shah while examining the co-operative credit system in Maharashtra demonstrated that the co-operative institutions have not only showed slower growth in their institutional finance, but with slower growth in their membership as against faster growth in their outstanding loans. The author observed that in order to rejuvenate the rural credit delivery system through co-operatives, the major problems facing the system are high transaction cost, poor repayment performance, mounting non-performing assets (NPAs), distributional aspects of credit particularly poor coverage of SC/ST members. Four studies have looked at the total flow of credit to the agricultural sector from various institutional sources. Sharma looked at the agricultural credit delivery performance of commercial banks, co-operative and RRBs during 1990-91 to 2003-04. While the credit flow from the co-operatives grew at the rate of 13.6 per cent during this period, it was at 23.6 per cent for the RRBs and 22 per cent for the commercial banks. P. Kataria and S.S. Chahal have examined the institutional flow of credit to agriculture and allied activities in India since Independence from various institutional sources. M.K. Borse *et al*., examined the targets and achievements of agricultural credit by the Central Bank of India which is the lead bank in Akola District of Maharashtra and found that although the bank performed well in terms of meeting the targets and allocating credit equitably to various sectors, the bank is plagued with high overdues. R.K. Sharma and Sonika Gupta studied the distribution of borrowing from institutional and non-institutional sources by the sample households in four Zones of Himachal Pradesh. The study observed that the share of non-institutional sources in total borrowing were in the range of 15 to 28 per cent. Low level of participation of the rural financial institutions in agricultural lending in the North-Eastern region is conveyed by the study by K.K. Datta.

Lending by financial institutions for various purposes such as irrigation, dairying, poverty alleviation programmes, etc. received attention by four studies. Baljit Singh

et al., studied the credit disbursement pattern of different formal institutions under different schemes using primary data and the study observed that the lending for dairying and kirana shops appeared as more rewarding particularly for the landless households. The study by S.R.S. Murthy and S.L. Kumbhare in Belgaum district of Karnataka examined the economic impact of borewells commissioned through institutional finance and found that the financial rate of return was as high as 25 per cent and generated more on-farm employment opportunities by the beneficiaries. However the authors suggested for public support in the event of well failure. Growth in institutional credit from various sources in Bikaner district of Rajasthan studied by Rao and Singh during the period 1986 to 1996 observed that the growth in crop loans, minor irrigation and animal husbandry recorded the highest growth rates. The impact of minor irrigation loan on farm economy examined by H.O. Sharma *et al*., found significant reduction in fallow land, increase in area under commercial crops, adoption of advanced technologies and increase in on-farm employment. The studies by R.K. Sharma and Sonika Gupta; and V.A. Thorat *et al*., examined the determinants of borrowing behaviour of farmer households and observed that the influence of demographic factors has very little impact in determining the quantum of borrowing. Among the economic factors, the level of irrigation and source of non-farm income emerged as the major determining factors. The study by P. Satish is unique in the sense that the study tries to isolate and identify the characteristics that distinguish the borrowers of commercial banks and co-operatives using primary data in four agro-climatic regions of Punjab. The study showed that in agricultural credit one can identify two classes of borrowers, viz., one with smaller land holdings and capital and who are in the lower end of economic prosperity and the other basically capitalistic farmers with more sophistication in farming. Considering the distinctive characteristics of these two categories of borrowers, the author suggests that the commercial banks should concentrate on the latter and the co-operative on the former. The study by Y.C. Sale *et al*., examined the credit utilisation in Western Maharashtra and observed that the use of credit for unproductive purposes were in the range of about 30 per cent across all size of holdings.

Credit Use by Size of Holdings

As many as fifteen studies have examined the credit use pattern by farm size using primary data. The study by R. Vijaya Kumari in the Northern Telangana Zone of Andhra Pradesh observed that the share of productive credit from institutional sources was rather low and it ranged from 18.1 per cent for small farms to 29.3 per cent for the medium farms and for large farms it was 55.1 per cent. So dependence on non-institutional sources for productive credit was quite high among the small and marginal farmers. K.G. Kshirsagar who studied the credit delivery system in Maharashtra noticed that access to formal credit was not constrained by the land holding size. The greater dependence on both formal informal sources by the medium and large land holding sizes indicates the inadequacy of institutional credit in the

state. Studies by Shivappa, Mishra, R.P. Sinha *et al*., and A.S. Joshi *et al.* and P. Samal and N.C. Rath, and Satyendra Prakash Gupta examined the flow of agricultural credit by farm from both institutional and non-institutional sources. They observed that the share of marginal and small farmers in institutional credit was comparatively low as opposed to medium and large size holdings. The lending by scheduled commercial banks was more for large farms, and the marginal and small holdings depended more on co-operatives. L.D. Hatai *et al*., studied the flow of credit by farm size from various institutional agencies in two districts of the East and North Zones of Uttar Pradesh . The study indicated the inverse relationship between intensity of credit use and farm size as far as production credit is concerned and direct relationship for the investment credit. R.K. Mishra also observed inverse relationship between per hectare credit for crop production and farm size and direct relationship between investment credit and farm size. However the study by R.N. Yadav *et al*., did not find any systematic relationship between farm size and per hectare borrowing. L.D. Hatai *et al.*, and Akhilesh Kumar Singh and S.K. Singh analysed the source of credit by farm size from various institutional agencies. P. Kataria and S.S. Chahal in their study observed that the number of accounts under commercial bank's lending to agriculture has declined during the 1990s compared to the 1980s in case of small and large farmers. A.M. Rajput and A.R. Verma examined the credit utilisation pattern and credit gap among various farm sizes and found higher level of input use among the borrower farmers, high cropping intensity, high levels of income from crop production. The credit gap worked out by the authors for the large farmers were as high as 60 per cent. This is as against 15 to 25 per cent for the marginal and small farmers.

Impact on Income, Employment and Poverty

More than half a dozen studies have made an attempt to study the impact of credit on income, employment and poverty. The study by Ramesh Prasad Adhikari showed that the credit financed inputs have greater impact on increased farm production and income, yet they are used at sub-optimal levels as the observed that the actual crop production was way below their potential production. The study by A.M. Rajput and A.R. Verma presents a comparative picture of the net income and cost-benefit ratios from crop production among borrowers and non-borrowers of RRBs. It was observed that the borrowers have higher net income and better benefit-cost ratios from crop production irrespective of their farm size. R.K. Mishra who examined the impact of institutional credit on farm income and productivity of rice production in Orissa found that increase in yield of rice among the borrowing farmers was mainly due to the use of credit financed inputs. Baljit Singh *et al*., showed that credit advanced for dairying and Kirana shops by the formal institutions enabled many sample households to cross over the poverty line. The study by K. Purna Chandra Rao and D. Kumara Charyulu argues that credit financed anfractuous investment on irrigation has not helped the sample households to improve their income, nutritional status and

they resorted to informal sources of borrowing in Andhra Pradesh. A study by Satish Nara *et al*., showed that the impact of crop loan on income of the borrowers was very substantial in the selected block of Rohtak district. A.C. Deorukhakar *et al*., showed the positive impact of credit on crop yield particularly among small farms and the nature of output-input ratios under costs A, B and C among the sample farmers were respectively 1.93, 1.3 and 1.1 for borrowers against 1.59, 1.14 and 0.94 for the non-borrowers.

Loan Repayment, Overdue and Causes of Default

The reasons for loan delinquencies are both internal and external. The loan waiver scheme has adversely affected the repayment ethics. The natural calamities like flood, droughts, etc. also adversely affect the repayment performance. But there are internal factors too affecting the loan delinquency rate such as lack of monitoring, borrower selection, non-availability of complementary inputs, untimely credit disbursement, under financing, low marketable surplus, repayment schedule and so on (Reserve Bank of India, 1993; Desai and Namboodiri, 1991). In all six papers have attempted to study the repayment performance and overdues of borrowers from the institutional sources, though no uniform concepts were employed in measuring the overdues. H. Shivappa examined the repayment performance by the borrowers of the selected RRB and analysed the causes of both regular and irregular repayment of loans and the factors in support of regular repayments have been identified as the desire for getting enhanced loans in the future, legal and moral duty and to minimise the loan burden. On the other hand, the factors identified for irregular repayment practices of those borrowers were crop failure or low yield, and inability to get remunerative output prices. The study by Satyendra Prakash Gupta compared the loan repayment performance in a watershed area with the control area. It was noticed that the repayment performance of the watershed area was superior irrespective of farm size to the control area. The study by Satish Nara *et al*., found that the repayment performance of small farmers ranged from 57 to 80 per cent in Kalanur block and 72 to 100 per cent in Sampla block. While the study by Singh and Sah found poor repayment performance mainly due to the expectations of loan waiver and found that the wilful default among large holdings were very common. While probing the factors that affect regular repayment of loans, the study by G.V.Krishna Rao and K. R. Chowdry found that better yield and desire for future loans are the major factors that prompted them for regular repayment particularly the small farm households. It was also observed that the non-farm income of the borrowers is also an equally important factor in making regular loan repayment.

The major causes of default reported by Kuldeep Kumar *et al*., and Krishna Rao and Chowdry in their studies are crop failure, low market prices, old debts, short repayment period, and delay in sales proceeds. The study by Sanjay Kumar classified the defaulters as wilful and non-wilful based on their socio-economic characteristics, while Mukesh Kumar Sinha and J.P. Dhaka identified factors leading to default as

low per capita income, low percentage of earning adults in the family. The study by L.D. Hatai *et al*., in their study observed that reasons for non-repayment of loans by willful defaulters are slackness in timely loan recovery by the banks, income diversion by the borrowers, and uncertainty about future loans besides political factors. On the other hand, for non-willful defaulters crop failure and low output were reported as dominant factors. The repayment performance of various types of loan studied by A.K. Vitonde *et al*., found that the recovery of non-agricultural loans were very poor compared to agricultural loans. The factors leading to high overdue rates identified by the study by Anand Kumar Singh *et al*., are family needs, low profit margin, crop failure and lack of non-agricultural income respectively in order of their importance. The major causes of default reported by Kareemulla in his study are crop failure and credit diversion. The study by U.K. Pandey *et al*., analysed the socio-economic characteristics of the chronic and non-chronic defaulters and found that the major factors that differentiate these two categories of borrowers are their cropping pattern, irrigation intensity, and the non-farm income status of the borrowing farmer households.

Credit Diversion

Credit diversion was another issue covered by as many as seven studies. Harpeet Singh and M.K. Sekhon studied the diversion of KCC limit in Punjab using primary data. The study found that 30 per cent of the KCC holders diverted the credit availed through KCC and which amounted to 10.7 per cent of their KCC limit sanctioned. The credit diversion among the small holdings was relatively high and the purposes for which they have been utilised are both farm and non-farm activities but the latter dominated. The major purposes for which the loans were diverted are settlement of old debts particularly by small and medium farms, followed by social ceremonies. It is interesting to note that majority of the large farms used their KCC limit for sub-lending. The study in Orissa by R.K. Mishra observed that on an average about 20 per cent of the credit availed from the formal institutions have been diverted and the rate of credit diversion was inversely related to farm size. The credit utilisation pattern studied by Y.C. Sale *et al.*, found that both crop loan and investment credit being diverted by the sample farmers to the extent of over 30 per cent. L.D. Hatai *et al.*, in their study in Uttar Pradesh found that the sample farmers used about 15 to 20 per cent of both production and investment credit for unproductive purposes. The study based on primary data in Punjab by Sukhpal Singh and M.S. Toor showed that the credit diversion was very alarming among sample farmers and it was as high as 71 per cent for the marginal farmers and 66 per cent for the small farmers as against 48 per cent for the large farmers. The major purposes for which the credit is being diverted by these farmers are family maintenance expenses, marriage ceremonies and purchase of consumer durables. The use of credit for non-agricultural purposes found among the small farmers in Bihar by R.P. Singh *et al.*, was to the tune of 50 per cent among the marginal and small farms and over 15 per cent among the large farms. The

study by Akhileshkumar Singh and S.K. Singh in Varanasi district of Uttar Pradesh also found large diversion of crop loan mainly by the small farmers and it was by over 50 per cent and for the medium and large farmers it was in the vicinity of 3 to 10 per cent.

Cost of Credit

Borrower costs are of two types, viz. interest and non-interest costs. The non-interest costs are the costs the borrower incurs to obtain documents to establish their credit worthiness, mortgage they offer as security, cost of travel to visit the institution, cost of time spent on other visits and cost of document preparation. There are three papers that have looked at the cost of credit related issues. The interest cost is studied by K.G. Kshirsagar showed that while the commercial banks charged on an average 13.5 per cent per annum, the same from co-operatives was 14.16 per cent. The interest rate charged by SHGs varied from 24 to 32 per cent and that of Chit Funds is as high as 60 per cent. Smita Sirohi's study on the credit requirement for improved dairying estimated the total expenditure incurred by the sample respondents in acquiring credit. It was shown that the total expenditure, besides interest cost, varied from 10.4 to 11.1 per cent of total loan availed per household and the average loan amount was about Rs. 8,500. The break-up of this cost are respectively 6 per cent towards travel cost, cost of time spent at 27 per cent and the rest is accounted for by miscellaneous costs. The study by R.K. Sharma and Sonika Gupta showed that the cost of credit, excluding interest cost, were at 5 to 10 per cent for commercial banks, 8 to 12 per cent for co-operatives, 10 to 11 per cent for friends and relatives, and for commission agents it varied from 4 to 27 per cent for the sample households in Himachal Pradesh. The financial viability of three RRBs studied by R.L. Shiyani and B.L. Dudhat showed the existence of scale diseconomy for one of the bank branches selected, and prevalence of scale economy for the other two branches. The study noticed that the unit transaction cost has been declining for all the RRB branches studied, but rising unit interest cost for all of them. The study by Vivek Bansal *et al*., showed the unstable transaction costs among the PACS in Haryana and Punjab resulting in large fluctuations in their operating costs.

Micro Finance

Eight studies have made an attempt to examine the impact of SHGs on rural economy. Virender Kumar by using secondary data examines the growth of SHGs in the Himalayan States. The study noticed that the number of SHGs per 1000 rural population was about 2.42 in Himachal Pradesh as opposed to 0.16 and 0.46, respectively in Jammu and Kashmir and Assam. The linkage with co-operative bank was more successful in Himachal Pradesh. The SHGs were found to be more active in districts where poverty was low and vice versa and this phenomenon was mainly due to lack of opportunities to undertake any remunerative economic activity. The study on SHGs in Madhya Pradesh by S.K. Gupta and A.M. Mishra showed the

innovative work done by the SHGs in developing lift irrigation system that brought prosperity to the entire village community. This effort has stopped the village people leaving native villages in search of employment elsewhere. The study by R.K. Khatkar *et al*., showed that by means of improved animal husbandry activities, and petty business finance through SHGs, the net income of the beneficiaries have gone up by 25 per cent. The merit of the SHGs over other institutions found by the sample respondents are their smaller in size, homogeneity, small scale operation, and availability of emergency loans. The study by H.N. Nanaware and T.J. Mahadik demonstrates how the members of the SHGs have been freed from the clutches of money lenders, and there is increase in their income and living standards. N Ramakrishna *et al*., studied 20 SHGs in Chittoor district of Andhra Pradesh and observed that the dairying activities that have promoted with the help of SHGs significantly improved the income of the beneficiaries. Yet the lack of knowledge among the members about sharing responsibilities, regularly attending meetings, rules of the group etc. remains very modest. The study by Debabrata Lahiri found that the revolving fund provided for group activity was by and large utilised only for individual business rather than any group activity and the very spirit of identifying key activities were seldom ignored. On the other hand the study by Gursharan Singh Kainth looking at the impact of micro finance initiative observed that the SHG movement has penetrated into the client groups and developed a new culture, paradigm of social collateral, serving people of diversity, reducing transaction costs for acquiring loans etc. Two studies attempted to evaluate the performance of Swarnajayanti Gram Swarojgar Yojana (SGSY). The performance of SGSY studied by A.K. Sarawgi and M.R.S. Baghel in Jabalpur district of Madhya Pradesh showed that the animal husbandry activities promoted by the SGSY programme significantly increased the employment and income of the beneficiaries. On the other hand the study by Singh *et al*., showed that the implementation of SGSY was not satisfactory because the implementation is process oriented in the sense that group formation, identifying key activities, capacity building of the group, gradation, etc. should have preceded the SGSY implementation.

Kisan Credit Card

Three studies have extensively looked at the impact of Kisan Credit Card on credit dispensation, their merits and weaknesses. The study by Harpeet Singh and M.K. Sekhon examined the impact of Kisan Credit Card in Punjab. As many as 73 per cent of the sample households who were KCC beneficiaries were satisfied with the present cost of accessing the KCC limit, and all the sample beneficiaries were satisfied with the operational efficiency of KCC. One of the major constraints in the working of KCC was too many intermediaries in obtaining suitable security and guarantor. The authors suggest further simplification of the procedure under KCC such as issuing a passbook with an authenticated record of the land and the borrowings which can be used as a relied document for the purpose of mortgage etc.

S.S. Sangwan studied the macro impact of KCC operated through commercial banks, their outreach, and acceleration in the growth of credit through the KCC system. The author states that KCC was a paradigm shift from the purpose oriented loaning through a credit product; it has enabled to have accelerated production credit compared to investment credit. The state level achievement of the KCC system revealed that states with higher percentage of smaller holdings as well as oral tenants have relatively much lower coverage. The KCC holders of commercial banks and RRBs found the KCC as most convenient in view of the time saved in sanction and disbursement of loan. The study by M.S. Kallur in a backward region of Gulbarga district in Karnataka found that all the sample farmers irrespective of land holdings with a good credit track record were covered under the KCC by the commercial bank. One of the major features was the coverage of personal accident benefit with nominal premium for the KCC holders. However, what is disturbing is the fact that in spite of timely sanction credit, the beneficiaries were least bothered in making prompt repayment which eventually threatens the very sustainability of the KCC system.

Two studies have dealt with the scope of lending to small and marginal farmers through contract farming. The study by S.R. Asokan and Anita Arya argued that this system will be able to meet the credit requirement of small and marginal farmers with comparatively less risks for the financing institution, while the study by M. Soundarapandian suggested that the seed production activities undertaken by the farmers through contract farming need higher level of scale of finance as its need for purchased inputs are manifold as compared to normal crop production practices. V.M. Rao studied the integrated credit structure in Andhra Pradesh observed that the transfer of long term credit portfolio to the PACS have resulted to not only decline in advances but also lapse in supervision and eventually poor recovery performance. Moreover not many PACS were involved in extending services such as processing, and marketing of consumer goods. However, the farmers indicated their preference to integrated system as the time spent in getting loan sanctioned considerably reduced. Finally how the non-availability of credit hampers efficiency in crop production has been demonstrated by studies by S.K. Srivastava and L.R. Singh, R.B. Singh and B.K. Gupta.

Structure and Factors Determining Indebtedness

The studies on this theme mainly dealt with the nature and purpose of debt, causes of debt, indebtedness by farm size, and socio-economic factors explaining indebtedness. In all 15 studies have dealt with this subject and used both primary and secondary data. A. Narayanamoorthy and S.S. Kalamkar studied the trends and determinants of indebtedness across states and the incidence of indebtedness is found to be higher in agriculturally advanced states, and the extent of indebtedness has also increased in these states. The determinants of indebtedness of farmer households carried out in the study observed that wherever the availability of credit per hectare of net sown area is higher, the extent of indebtedness is also higher. The study carried

out by R. Vijaya Kumari in Northern Telangana of Andhra Pradesh studied the structure of indebtedness and found that the major source of debt for the small, medium and large farms were money lenders, friends or relatives, and co-operatives respectively. The major factors causing indebtedness among the borrowing households are lack of technical know-how, declining irrigation facilities, lower yields, burden of higher family expenditure, insufficiency of institutional credit resorting to borrowing from non-institutional sources. The study by Sukhpal Singh and M.S. Toor examine the indebtedness among Punjab farmers and showed that the major source of credit from the non-institutional source, irrespective of farm size, was commission agents followed by commercial banks and co-operatives. The study noted that the use of credit for unproductive purpose varied from a low of 48 per cent to as high as 71 per cent with an average of 59 per cent and the major purpose for which it was spent was family maintenance, marriage ceremony, etc. The major factors determining indebtedness were dissimilar across various farm sizes. The perception of the borrower farmers regarding indebtedness was more towards low profit margin, more domestic expenditure and the government policies. The study by K. Kareemulla observed that the concentration of indebted farmers is relatively high among the marginal and small farms and the purpose of borrowing was mainly for non-productive purposes.

Five studies, viz., the studies by Arvind Avasthi, Jagannath Lenka, B.R. Atteri *et al*., B. Sambasiva Rao; Saundarjya Borbora and Ratul Mahanta looked at various aspects of indebtedness at the national, state and regional levels. These studies observed that most of the indebted farmer households belong to marginal and small farm categories. No systematic relationship was found between rate of indebtedness and economic prosperity. Diversion of institutional credit for non-productive purpose is one of the major reasons for high indebtedness, and suggests promoting non-farm earning opportunities to lessen the level of indebtedness of farmer households. Ramesh Prasad Adhikari examined the proportion of indebted families among the borrowing farmers, purpose of debt and volume of indebtedness in Nepal and observed that the proportion of indebted families increases from developed to low developed areas, the debt used to finance farm has been small. The debt per hectare of the cultivated holdings cannot alone gauge the relative burden of debt but what they receive out of sale of their produce is more relevant. S.R. Asokan and Anita Arya suggest that through contract farming the indebtedness among farmers can be alleviated to a large extent without jeopardising the financial health of the bank. Studies by R.K. Singh, *et al*., U.K. Pandey *et al*., observed that the size of indebtedness of different farm size groups depends on the sources of debt. Only one paper, viz., the paper by B. Jayaraman *et al*, made a mention about the suicidal cases and its causes. The suicidal cases in Karnataka indicated that the credit outstanding against the victims with the non-institutional sources were more than double than that from the institutional sources irrespective of farm size as compared to the control group.

The important contemporary issues on agricultural credit and indebtedness that are identified for deliberations by the Group are as follows:

1. Is greater autonomy possible at the grassroot level RFIs in matters such as screening credit worthy farmers, recovery scheduling etc. and flexibility in utilising the guidelines of scale of finance for crops?;
2. Legal and institutional changes relating to governance, regulation and functioning of co-operative structure and regional rural banks;
3. Potential for expanding credit outreach through contract farming;
4. Comprehensive public policy on risk management in agriculture;
5. Integration of production and investment credit particularly in the context of viability of the ground level institutions and convenience of members;
6. Review the scale of finance and its readjustment in line with requirement of modern market-oriented capital intensive agriculture;
7. Scope for reduction in cost of borrowing, increasing outreach through outsourcing, procedure simplification, bridging information gap, KCC and ATM enabled smart cards;
8. Measures to eliminate/minimise credit diversion by the borrower households.

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