SUMMARIES OF GROUP DISCUSSION

Subject I

Agricultural Credit and Indebtedness

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The demand for agricultural credit in India is anticipated to grow rapidly considering the envisaged high growth in the agricultural sector, greater market orientation, and the emerging importance of subsidiary activities. Meeting this growing demand is a challenging task. A large potential exists in both demand and supply of agricultural credit. However, the existence of potential is not a sufficient condition unless it is translated into actual demand and improving the present credit delivery system. In other words, the convergence of credit availability, credit delivery system, and the credit absorbing capacity of the farming households must be achieved. But, the rural financial institutions since the start of the 1990s were characterised by several weaknesses. The policy pursued today is to pump in credit to the indebted poor households without adequately addressing the problem of the not indebted ones. Can the poor be brought under the mainstream lending system? Several other concerns on the agricultural credit and indebtedness include neglect of small and marginal farmers, high transaction cost at the borrower and lender level, growing regional imbalances in credit flow, deceleration in the growth of investment credit, weak credit portfolios of the formal financial institutions and sub-optimal use of the existing resources.

A wide range of issues on agricultural credit and indebtedness came up for discussion before the group. They were classified under five sub-themes in order to have more clarity and better understanding of the issues. They were: major concerns on flow of agricultural credit at various levels; structure and factors determining indebtedness; the emergence of microfinance and Kisan Credit Card; loan repayment and credit diversion; and finally various issues on the cost of credit.

Flow of Credit: Major Concerns

It was observed that the investment credit has been losing its share in the total credit portfolio since the early 1990s. Co-operative institutions have showed relatively low growth in credit dispensation to the agricultural sector as compared with the commercial banks and regional rural banks. This has resulted in the decline in the share of co-operatives in total credit flow. Besides, there was decline in the number of small farm households covered by the formal credit institutions. Regional

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imbalance in the flow of credit has also been rising alarmingly. The outreach of formal agricultural credit institutions seems to be inadequate to the poor, small and marginal farmers as well as in the agriculturally less developed regions. The absence of proper land records, tenancy rights, etc. were reported as some of the major impediments to the flow of credit at the farm level. The sectoral allocation of funds for the agricultural sector appears to be biased against this sector. Within the agricultural sector, lending for subsidiary activities like dairying has not been getting its due share in spite of their better income earning opportunities. The tendencies of large farmers inclining more towards commercial banks for financial services appear to be due to the nature of financial products and services offered by these banks. The co-existence of both formal and informal sectors for agricultural lending is expected to continue although the share of the latter might continue to decline.

**Indebtedness**

In fact borrowing and indebtedness are two sides of the same coin, while borrowing is the cause, indebtedness is the result. It was felt by the group that the issue of indebtedness, as understood today, has several weaknesses. A clear distinction may be made between credit and indebtedness. Unless and until various facets of indebtedness, namely the sources of borrowing, the purpose of borrowing and the productive nature of the borrowed money are examined, one cannot have a comprehensive understanding of indebtedness. The nature of debt burden may differ across tenants, different farm size, and the nature of activities pursued by the borrowers. Besides, the relationship between absolute level of indebtedness and assets, usage of credit for agricultural and non-agricultural purposes may also be studied carefully. While studying the causes of indebtedness one should also look at farmers’ perception on the nature of indebtedness. In agriculturally advanced states, a significant amount of money is being invested for developing the irrigation infrastructure through private investment and they are not duly acknowledged while attempting to study the nature of indebtedness in those areas. Moreover the developed regions are bound to have high levels of debt due to their high financial requirements. This should also get reflected while assessing the nature of indebtedness. The relationship between indebtedness and suicidal deaths are often interpreted or reported incorrectly although the group felt that the economic causes are the predominant one. The need for methodological improvements in examining the causes of indebtedness was stressed by many participants during the course of discussion.

**Microfinance and Kisan Credit Card**

The discussion also focused on the new initiatives such as micro-finance and the Kisan Credit Cards. It was felt that though the SHG is not an instrument for dispensing credit, the National Bank for Agriculture and Rural Development
(NABARD)’s credit linkage programme could make some improvement, although it is highly skewed in favour of the southern region at present. It was suggested that suitable mechanisms may be evolved to see that the SHGs do not charge high rate of interest from their clients. It was suggested that the present KCC shall be termed as Cash Credit Card (CCC) as it fails to take care of the associated needs of the farming households. On the other hand the group acknowledged the positive features of the KCC such as its revolving credit facility, credit limit based on operational holdings, etc. However, under the KCC, although the credit limit sanctioned to the small and marginal farmers appear to be better but the security-oriented lending policies appears to be a major hurdle. The group also expressed concerns on the diversion of KCC funds for non-agricultural activities and failure in the timely repayment of credit availed through KCC in some parts of the country and in case of a large proportion of the farmers.

Loan Repayment Performance and Credit Diversion

The discussion also focused on the poor repayment performance of both willful and non-willful defaulters and diversion of credit for non-agricultural purposes. It was pointed out that the willingness to repay the loan is as important as the ability to repay. It was felt that the repayment performance was superior in the agriculturally advanced states. Willful default among larger holdings is quite widespread. To some extent, the political interferences do make an adverse impact on loan recovery but there were inefficiencies in the institutional system itself that lead to default. The poor loan recovery is often due to slackness in timely loan recovery by the credit institutions, particularly in the case of willful defaulters. On the other hand among the non-willful defaulters, crop failure was cited as one of the major reasons for default in the repayment of loans. The group also suggested the need for having a clear definition for unproductive use of credit while examining the extent of credit diversion. The group also suggested the need for monitoring the credit diversion for non-agricultural purposes by the formal credit institutions.

Cost of Credit

The group also debated extensively on the cost of credit aspects, both at the lender and borrower level and observed that the cost of borrowing is one of the major factors determining the flow of credit. The group felt that the cost of lending by the regional rural banks and the commercial banks appears to be on the higher side. Therefore outsourcing some of their activities related to credit dispensation may be tried out. Similarly in the co-operative credit structure the possibility to eliminate one of the tiers may be explored so as to reduce the cost of credit. It was pointed out that a large share of the non performing assets (NPAs) under the priority sector lending is mainly as a result of lending to small scale industries (SSIs) and the share of agricultural sector in these NPAs are rather low.
It was observed that the issue on autonomy to the grassroots level rural financial institutions (RFIs), legal and institutional changes relating to governance etc., have been duly addressed by the Vaidyanathan Committee Report, and has already been accepted by the Government of India. However inadequacies in the risk mitigation mechanisms today and hence the need for evolving comprehensive crop and animal husbandry insurance schemes were strongly felt by the group.

The major issues identified by the group for further in-depth studies are the following:

1. Why the indebtedness is very high in the agriculturally advanced states? What is the relationship between absolute level of indebtedness and ownership of assets, use of credit for non-agricultural purposes etc.?

2. Why the investment credit is decelerating? What is the nature of investments taking place in the agricultural sector and what are their regional dimensions?

3. How to make the Kisan Credit Card (KCC) more flexible and how the co-operative institutions could participate in it?

4. Information technology can play a significant role in credit delivery system and therefore the nature of technology suitable at various levels may be studied.

5. Role of institutional agencies in contract farming may be explored. Also in this context, how competitive are the prices offered to the farming households by the contracting firms may be examined.

6. The interface between research on agricultural financial services and policy formulation may be studied in the context of how meaningfully the research findings are and can influence the policy formulation.