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## **Total Financial Inclusion – Various Approaches**

**P.C. Chaudhri\***

Access to banking services only may not be adequate to ensure participation in economic activities on a sustainable basis yet it is one of the fundamental inputs to build an individual's capacity. A large proportion of the Indian population are deprived of even the basic necessities such as shelter, food, health care and education leave alone access to financial services. This failure can be ascribed to the inability of institutions to respond in the absence of facilitative infrastructure and also to the under-performance of many public systems. With better rural infrastructure the economy begins to grow rapidly and the rate of financial intermediation is expected to increase further. The Primary Agricultural Co-operative Societies (PACS) at the grassroot level of the co-operative system are of considerable magnitude comparable to an imaginary country wide web. Its outreach in the countryside is indisputably the largest. Despite many challenges they still remain to be the last refuge of the rural poor, PACS can be a very significant player in the operation to achieve the Total Financial Inclusion. The self-help groups (SHG) mechanism has proven its worth with the rapid pace of deepening and widening of its operations and also the acceptability by masses. At the same time certain points need to be retained in focus to keep to gear up this conveyor belt as an effective delivery system of banking facilities. The RBI has issued instructions to banks to open 'no frills accounts' which shields the poor from miscellaneous banking charges encouraging them to maintain a deposit account with banks. However, without sustainable income generation, many of such accounts may end up as inoperative accounts. Financial inclusion exists in many ways like gender exclusion, geographical exclusion, exclusion of landless, etc. While exclusion has many reasons for its existence, the root cause in remote rural areas is not the exclusion of person by itself but exclusion of the land he/she possesses which ultimately results in exclusion of the owner. It is hard to find a person, owning surplus generating productive land, not linked to some financial institution. This problem needs to be tackled simultaneously while making efforts for opening of savings bank accounts. The unproductivity of land of certain types can be addressed through interactions like Wadi Development, watershed development, appropriate agronomic technologies. Banks need to make wholehearted efforts in this direction as the possibility of doing profitable banking business in the rural areas has been established through various ventures. The Total Financial Inclusion, besides generating profitable business for banks, will go a long way towards bringing about prosperity to rural heartlands through proper channelisation of various schemes, subsidy, etc., to the target beneficiaries.

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## **Impact of SHG-Bank Linkage Programme on Financial Behaviour of Rural Poor – Evidence from Raebareli District in Uttar Pradesh**

**C.K. Tripathi and K.C. Sharma<sup>†</sup>**

The paper aims at addressing the issue of sustainable development of the rural poor through SHG-Bank linkage using participatory approach in Raebareli district of Uttar Pradesh. Specifically it attempts to evaluate the impact of micro-credit through SHG-Bank linkage on the financial behaviour of rural poor. The Raebareli district formed the locale of this study where Uttar Pradesh Bhumi Sudhar Nigam (UPBSN) had launched a pilot project of Micro-Credit Action Research (MCAR) since December 1999. The information collected from 220 households selected through multi-stage stratified random sampling has been used for impact assessment over the period 2000-2004. The sample households consisted of 220 households who were members of 20 SHGs which include 79 very poor, 125 poor, 14 middle income and 2 rich households based on participatory wealth ranking method adopted in the sample villages. The SHG-Bank linkage approach is bottom-up and people-led with decentralisation and empowerment as its essential processes. The assessment of impact of SHG-Bank linkage on the financial behaviour of rural poor showed that there is improvement in saving and credit usage by SHG members in a significant manner. A gradual shift has occurred from consumption loans to production loans by SHG members. There is reduction in interest burden on SHG members over time. Improvement in the recovery performance of SHG members is reported. There is increase in the income level and asset base of SHG members. An upward movement of rural poor on prosperity ladder is perceived.

## **Agricultural Finance through PACS in Ahmednagar District of Maharashtra**

**R.R. Nirgude, K.R. Wayker and N.A. Parajane\***

An attempt is made in the paper to assess the crop loan disbursement made by the primary agricultural co-operative credit societies in order to study the factors affecting repayment and non-repayment of loans borrowed by the farmers from Primary Agricultural Co-operative Credit Societies (PACS) in Ahmednagar district of Maharashtra. The study was based on fifteen years (1990-91 to 2004-05) secondary data from 24 PACS (eight each from audit class 'A', 'B' and 'C') from Rahuri

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(irrigated) and Pathardi (unirrigated) tahsils, which were purposively selected from irrigated and unirrigated area in order to have a realistic comparison of performance of PACS. In addition to this the primary data of 144 borrower farmers, 72 each from audit class 'A' and 'C' were utilised for identifying the reasons for non-repayment of loans borrowed. The data collected were analysed by using percentage change, Compound Growth Rates (CGRs) and Performance Index (PI) for estimating the Performance of PACS. The study revealed that all the PACS in Rahuri tahsil showed higher performance index as compared to the societies from Pathardi tahsil. The audit class 'B' societies, viz., Taklimiya and Takli Manoor in Rahuri and Pathardi tahsils respectively, had higher performance index. The audit class 'C' societies especially from Pathardi tahsil, viz., Mandve, Koradgaon and Kasar Kharwandi have shown the worst performance. The study further showed that the highest increase in loan advanced was in PACS of Rahuri tahsil. The growth in total loan issued witnessed a positive trend in both the tahsils. The higher performance index was observed in Rahuri tahsil, while in Pathardi tahsil the societies under audit class 'C' has shown worst performance. The important factors responsible for non-repayment of loans was the investment in non-productive purposes, reported by 91 and 100 per cent borrower farmers from Rahuri and Pathardi tahsils respectively, under audit class 'A' societies. All the borrower farmers under audit class 'C' societies, reported that failure of crops by natural calamities, lower support prices fixed for the crops, investment in non-productive purposes and due to the hope that Government will waive the loan were cited as the major reasons for non-repayment of loans. The other important reasons for non-repayment of borrowed loans were un-remunerative prices and no benefit from crop insurance scheme, reported by 75 to 83 per cent of farmers. Therefore, the study suggests that concerted efforts should be made to enhance the recovery of loans, so as to recycle the loans and to avoid the risk due to natural calamities, and crop insurance scheme may be strengthened.

### **Rural Finance and Inequality in Credit Flow through DCCBs in Maharashtra**

**K.L. Jadhav, D.B. Yadav and P.N. Shendage<sup>†</sup>**

The study examines the financial management, magnitude and direction of inequality in the flow of short-term credit amongst the different regions of the state and factors influencing the inequality in short term credit disbursement of District Central Co-operative Banks (DCCBs) in Maharashtra. The study is based on secondary data obtained from the annual reports of 30 DCCBs in Maharashtra covering the period of 16 years, i.e., from 1985-86 to 2000-01. The regionwise and

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periodwise performance in respect of growth in loans and advances were estimated with the help of compound growth rates. The annual rates of compound growth were estimated for three different periods, i.e., Period I (1985-86 to 1993-94), Period II (1994-95 to 2000-01) and Period III (1985-86 to 2000-01) which covered the entire study period. The coefficient of variation (CV), Theils Entropy Coefficient I ( $Y_i$ ), Gini ratio and Lorenz curve were used for measuring both intra and inter-regional inequality. In order to study the factors influencing inequality in per hectare short-term credit flow by DCCBs, a multiple linear regression analysis was attempted for all the regions and state as a whole, separately covering the period from 1985-86 to 2000-01. In the base year (1985-86) and terminal year (2000-01), the DCCBs from Western Maharashtra region had maintained the highest position in terms of disbursement of loans and advances. Over 80 per cent of the total loans and advances issued were in the form of short-term loans and the remaining being medium term and other loans and advances indicating focused emphasis on short term loans by the DCCBs from Maharashtra. The total loans advanced by the DCCBs in Maharashtra State increased by 12.76 per cent per annum for the entire period. The regionwise results revealed that the magnitude of compound growth of total loans in the Western Maharashtra was high (14.77 per cent) as compared to Vidarbha (13.69 per cent) and Marathwada (12.85 per cent). The better performance of DCCBs in Western Maharashtra, Konkan and Marathwada regions and State, as a whole was noticed for disbursement of loans, during Period I, while in Vidarbha region it was in Period II.

The trend analysis of Theil's entropy coefficient and coefficient of variation showed a significant decline in inequality in short-term credit flow in the Konkan region during the entire period. In the Marathwada region, the coefficient of trend equation indicated a slight but non-significant increase in inequality in short-term credit flow. The results of Gini ratio and Lorenz curve for short-term credit flow showed an increase in intra-regional inequality in the average year (1993-94) and subsequently reduction in inequality during the year 2000-01. The inter-regional inequality in the short-term credit flow showed subsequent reduction in inequality in the average year (1993-94) and terminal year (2000-01) in Western Maharashtra and Konkan region. In the Marathwada region, a slight non-significant increase in inequality in short-term credit flow was evident. The gross cropped area, average rainfall and deposits with the DCCBs were observed to be the most important factors influencing the regional inequality in the disbursement of per hectare short term credit in all the regions as well as the State as a whole. It is suggested that due importance needs to be given to borrower members, which will lead to increase in loan disbursement. It is also suggested that the official machinery of DCCBs should make efforts to minimise the inequality in disbursement of short-term loans.

## **Dynamics of Agricultural Credit in India: Contributions of Co-operatives and Public Sector Banks**

**R.P. Singh and K.P. Saha\***

The study attempts to analyse the performance and contribution made by the institutional credit agencies towards the development of Indian agriculture. The adoption of input-intensive mechanically operated agricultural operations during the Green Revolution has made India self-sufficient in meeting its foodgrains requirement but at the same time this has made it mandatory to invest colossal amounts in the agricultural production systems. The institutional credit agencies like co-operative credit societies and banks, scheduled commercial banks and regional rural banks have played a crucial role for meeting both the requirements, i.e., production and investment loans. The study is based on secondary data collected from different sources. Attempts have been made to calculate the compound annual growth rate for measuring the growth of different types of institutional credit during different periods. The study reveals that during the sixties, the public sector contributed about 25 per cent of the credit requirement as against 75 per cent by private institutions. But after the nationalisation of commercial banks, the share of institutional credit increased to 61 per cent in 1981 and further to 64 per cent in 1991. During 2003-04, the scheduled commercial banks and their sponsored regional rural banks contributed 62.4 per cent of the total institutional credit. After the Green Revolution period, the overall growth rate of short-term production loans from these public sector banks was higher than that of investment loan. There is also a significant growth of around 13-15 per cent for the loan advanced by the three-tier co-operative structure consisting of primary agricultural co-operative credit societies, district central co-operative banks and state co-operative banks. During the post-green revolution period the growth rate of about 12 per cent in the flow of agricultural credit from the co-operative sectors for both the production and investment purposes was also observed. As the Government of India has announced that a provision of Rs. 2,25,000 crores towards institutional credit to agricultural sector for the year 2007-08 would be made, the public sector banks have to make an outlay of Rs. 1,75,500 crores to take up this challenge.

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## **Agricultural Credit in Uttarakhand: Status and Prospects**

**A.N. Shukla, Ruchi Rawat and P.P. Dubey<sup>†</sup>**

The paper examines the quantitative and qualitative performance of commercial banks' agricultural credit in Uttarakhand using data from 2001 to 2005. In March 2001, the share of agricultural advances in total bank advances across the thirteen districts ranged between 6.11 per cent (Dehradun) to 44.23 per cent (U.S. Nagar). Only four districts recorded a share above the state level of 16.02 per cent. After four years in March 2005, the share of agricultural advances across the thirteen districts ranged between 2.44 per cent (Chamoli) to 44.25 per cent (U.S. Nagar). Only three districts out of 13 were found to register the share of agricultural advances above the state figure of 13.30 per cent. In general, out of 13 districts only 4 districts had almost the same level of share as four years ago. In all the other 9 districts the share of agricultural advances was much lower in 2005 than that in 2001. In 2001, 8 out of 13 districts had a share of indirect finance below 3 per cent only. The situation in 2005 indicated that state level shares, by and large, remained the same but in 8 out of 13 districts the share of indirect advances was below 5 per cent. Given the weak socio-economic infrastructure in hills of Uttarakhand there is scope for increasing the share of indirect finance to strengthen the distribution of fertilisers and other inputs, loans to electricity board, loans to farmers through PACS/FSS/LAMPS and other types of indirect finance. This will also be helpful in improving the C-D ratio which is very low at about 31 per cent in rural areas as against the norm of 60 per cent despite more than 52.7 per cent of total bank credit flowing to rural areas. The picture of branch distribution according to population group between 2000-01 and 2005-06 has, by and large, remained unchanged and so is the situation regarding population per branch. However, the population per branch at 10,385 in 2005-06 presents a much brighter picture compared to all-India figure of around 21,272 per branch. The per hectare credit flow indicates that at the state level there was an impressive increase from Rs. 2,508 in 2001 to Rs. 5,379 in 2005. There exist wide inter-district disparities as are indicated by the range of Rs. 355 per hectare (Pithoragarh) to Rs. 5,414 per hectare (U.S. Nagar) in 2001. Only 4 districts out of the 13 had per hectare credit flow above the state figure. The disparities seem to have increased in 2005 which is evident from the range of Rs. 714 per hectare (Bageshwar) to Rs. 13,262 per hectare (U.S. Nagar). Again, there were only four districts registering per hectare credit flow above the state figure of Rs. 5,379 per hectare. Thus the commercial banks' agricultural credit in Uttarakhand is characterised by low per hectare flow of credit, very low share of indirect finance, low C-D ratio and wide inter-district disparities.

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## **An Economic Analysis on the Profitability of Some Rural Financial Institutions (RFIs) of Nadia District of West Bengal**

**C. Sarkar, B.K. Bera, A.K. Nandi and B. Santra\***

The present study is restricted to the analysis of performance of the Rural Financial Institutions (RFIs) namely, the State Co-operative Bank of West Bengal [SCB (WB)] at the apex level, Central Co-operative Bank of one district viz., DCCB of Nadia) at the middle level and five Primary Agricultural Co-operative Credit Societies (PACS) of the Haringhatta block of Nadia district of West Bengal at the village level. The study indicates that the measures of net margin expressed per 100 rupees of working capital or loan assets or all assets are positive in both periods in the case of SCB (WB) and DCCB (Nadia). These two RFIs may be considered to be financially viable. In the case of these two RFIs, the magnitudes of interest/financial margins when supplemented by non-interest income are found to be sufficient enough to meet the operational cost of these institutions. Further, when the amount of interest income receivable and interest cost payable is added to the net margin actually received, the size of the net margin improves. However, it is somewhat distressing to note that there is a declining trend in the size of the net margin of SCB (WB) which acts as a standing threat to the future sustainability of this institution. But the DCCB (Nadia) has been able to improve its financial health in Period II over Period I. The study reveals that the measures of net margin of all village level RFIs (PACS) are found to be positive in Period I. In these cases also the measures of margin declined in Period II. In three of these PACS out of five, total costs exceeded their total incomes in Period II. Declining operating incomes accompanied by relatively larger increase in operational costs have made them non-viable in Period II. However, in the remaining two PACS, measures of net margin continued to be positive in both periods. In these two RFIs also net margins have declined in Period II. Thus, sustainability of these RFIs is eroded by rising cost of funds and inefficiency on the part of the management.

## **Financing Agriculture by Commercial Banks and Its Impact on Income and Employment of the Farmers in Gorakhpur District (Uttar Pradesh)**

**J.P. Misra and S.K. Maurya<sup>†</sup>**

The study attempts (i) to work out the credit needs and its availability to the sample farmers from commercial banks in Gorakhpur district of Uttar Pradesh, (ii) to study the impact of commercial banks finance on income and employment of the

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farmers and (iii) to examine the cost of borrowing, repayment performance and problem of overdues of the sample borrowers. Multistage stratified random sampling technique was employed to select the district, blocks, villages and respondents. For the purpose of study, 50 borrower and 50 non-borrower farmers were selected randomly from five villages of the selected block. The study concludes that the use of capital in agriculture is an important factor in increasing agricultural production and productivity. The capital formation in agriculture as well as modern input use are largely dependent on credit. On an average, per farm crop loan requirement was worked out to Rs. 5,355 and term loan requirement was Rs. 28,800. The availability of crop loan from financing institutions worked out to 72 per cent and term loan was 88 per cent respectively. The cost of borrowing per hundred rupees was higher on marginal farms as compared to other categories of farms because of illiteracy and poor security. Maximum repayment of crop loan was found on medium farms and highest amount of overdues was found on large farms. The maximum amount of term loan repayment was found on medium farms and maximum amount of overdues was found on marginal farms. It was observed that income and employment both on per hectare and per farm basis were higher on borrower farms than non-borrower farms due to credit facilities provided to the borrowers with higher investment on fixed capital of sample borrowers compared to non-borrower farms.

### **Trends in Agricultural Finance with Special Reference to Gujarat**

**Kanti Patel\***

The main objective of this paper is to show the trends in agricultural finance to farmers in Gujarat State after setting up of the National Bank for Agriculture and Rural Development. As per Invest India Economic Times 2004, money lenders' share in total credit is 70 per cent due to its simple procedures of lending, but very expensive, therefore the basic objectives of government policy are to ensure timely and adequate flow of institutional credit and gradually eliminate the money lender. NABARD was also set up to extend support and give guidance to credit institutions. In India from 1997-98 to 2004-05, as per *Economic Survey*, the percentage share of co-operative banks in total credit decreased from 44 per cent to 29 per cent while the Regional Rural Banks' (RRBs) share increased from 6 per cent to 10 per cent and commercial banks from 50 per cent to 61 per cent. But in the case of Gujarat the percentage share and total amount both have increased in co-operative banks from 38.67 per cent to 41.93 per cent during 1995-96 to 2003-04. RRBs' share also increased from 4.70 per cent to 7.53 per cent during the same period. The total institutional credit has increased more than three times during 1995-96 to 2003-04. In total credit the ratio of crop loans remain high as compared to term loan, crop loan

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increased from 72 per cent in 1995-96 to 78 per cent in 2003-04. In 1995-96 refinance by NABARD in Gujarat the share was 68.74, and this increased to 72.61 per cent in 2002-03. Overall in Gujarat the trends in agricultural credit has shown an uptrend. The production and productivity of the agricultural sector has also increased. Intensive agriculture and change in cropping pattern became possible, because of this increase in credit.

### **Trends in Priority Sector Lending by Public Sector Banks in India - 1981 to 2006**

**H.C.L. Das<sup>†</sup>**

An attempt has been made in this paper to evaluate the performance of public sector banks with regard to expansion of banking services to the unbanked areas in regional perspective and to evaluate the performance with regard to advances to the priority sector during the pre-and post-1991 periods. The study is based on data available from published sources. The regional disparity in the distribution of bank offices and population has been studied with the help of Gini's coefficient of concentration. At the national level the population pressure per bank office was observed to be 19.41 thousand persons in 1981. The corresponding figures for 2001 was found to be 22.17 thousand persons per office. The value of the credit deposit ratio at the national level were observed to be 77.89, 67.57, 65.24, 55.85, and 70.50 for 1969, 1981, 1991, 2001, and 2006 respectively. The coefficient of variation in credit deposit ratio were found to be 67.30, 33.88, 40.30, 19.54 and 25.32 for 1969, 1981, 1991, 2001 and 2006 respectively. The share of priority sector in total bank credit was found to be 40.4 per cent in 1991 which declined to 35.2 per cent in 2001 and 37.5 per cent in 2006. The coefficient of variation of states' priority sectors' share in total bank credit was found to be 23.12 per cent in 1991 which fell to 13.07 per cent in 2001, and further to 12.44 per cent in 2006.

The per capita deposit at the national level has shown an increasing trend. The coefficient of regional inequality in respect of per capita deposit was found to be 22.6 in 1981 which increased to 116.8 in 1991, but fell down to 0.13 in 2001. Similarly, the coefficient of regional inequality in respect of per capita credit increased from 22.03 in 1981 to 47.09 in 1991, but fell down to 0.11 in 2001. The value of growth rates of priority sector lending by public sector commercial banks were positive in all the 12 sub-sectors during the period 1981 to 1990. During the period 1991 to 2000, the lone negative growth rate was observed with the sub-sector of setting up of industrial estates. During the period 2001 to 2006, the growth rate in the case of

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small organisations for SC/ST for purchase and supply of inputs and marketing of outputs was found negative, and all the remaining growth rates were found positive. Highlighting the trends in the total amount of priority sector advances by the public sector banks during the period 1981 to 2006 it was observed that all the sub-sectors of the priority sector had positive growth during the periods 1981 to 1990 and 1991 to 2000, but was negative during the period 2001 to 2006. One implication of the financial sector reforms for the banking system and priority sector lendings has been revealed as the neglect of the priority sector by the public sector banks. The percentage share of the priority sector credit in the total bank credit provided by the public sector banks has been found increasing at the rate of 2.96 per cent and 0.32 per cent per annum during the periods 1981 to 1990 and 1991 to 2000 respectively, while it has been found to decline at the rate of 1.16 per cent per annum in the subsequent period 2001 to 2006. Thus the impact of the financial sector reforms on the priority sector lending has been very much adverse.

### **SHGs: A Viable Strategy for Rural Upliftment and Women Empowerment in Gujarat**

**Kalpesh Kumar and R.L. Shiyani\***

The study attempts to examine the progress and performance of self-help groups (SHGs) in Junagadh district of Gujarat. Eight SHGs (four women and four male groups) having at least “good” factor as per check list given by NABARD (2005), which are functioning for the past five years and which are linked to banks were selected randomly. A total of 40 beneficiaries and 40 non-beneficiaries were selected. Besides, the sample size of 40 members from the four defunct SHGs were also selected to study the reasons for these SHGs becoming defunct. The data were collected through personal visits during January and February 2007. Tabular analysis and multiple linear regression analysis was carried out to achieve the objectives of the study. The findings emerging from the study is that the number and amount of loan disbursed increased continuously during the last five years of study. However, it was substantially higher in the case of women SHGs. Similarly, the recovery performance and overdue status was also found relatively better in the case of women SHGs. The amount of total savings, working capital and the saving per member were found substantially higher in the case of women SHGs as compared to their counterpart in the study area. This leads to the recommendation that the developmental agencies should identify and form more number of women SHGs as they help for the economic upliftment of the family as a whole. The results of regression analysis revealed that the proportion of other income had greater bearing on the income of

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members. On the other hand, there was negative influence of the proportion of consumption loan and saving on the income of beneficiaries. The main reasons identified for the failure of SHGs included poor economical conditions of SHGs, financial irregularities and subsidy motive, non-availability of quality training, internal disputes, non-co-operation from family members etc. The study suggests that the developmental agencies should identify and form more number of women SHGs as they help in the economic upliftment of the family as a whole. There is a need to educate the rural folk about the developmental programmes aimed at the rural masses. Active monitoring by NABARD, NGOs, etc. would help to reduce the proportion of defunct SHGs to a great extent.

### **Evaluation of Kisan Credit Card Scheme in the State of Andhra Pradesh**

**K.H. Vedini and P. Kanaka Durga<sup>†</sup>**

In this paper an attempt has been made to evaluate the performance of Kisan Credit Card (KCC) scheme in the state of Andhra Pradesh. The evaluation is carried out mainly on three important aspects – quantum of credit borrowed from institutional and non-institutional sources, cost of borrowing between KCC holder and a non-KCC holder and across different categories of farmers, degree of awareness of various available benefits that would accrue to the farmer with KCC. For this purpose, two districts from each of the three regions of the state, viz., Coastal Andhra, Telangana and Rayalaseema have been selected and a total of 180 farmers comprising 30 farmers each from the two districts of three regions from different sizes of land holding have been selected. The relevant information is gathered with the help of a well designed pre-tested questionnaire. The results of the study indicated that as a result of KCC the share of non-institutional sources has come down. The cost of borrowing credit has shown a marked decrease among KCC holders. The impact is significant for small and medium farmers. Almost all farmers are well aware of the benefits that would accrue to them with this scheme irrespective of the level of literacy.

### **Impact of Microfinance Programme on Rural Welfare**

**M. Anjugam and C. Ramasamy\***

An attempt is made in the paper to analyse the impact of microfinance programme implemented by government agencies and NGOs on rural households in terms of household employment, income, consumption and asset creation among the

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members of self-help groups (SHGs). Coimbatore and Ramanathapuram districts in Tamil Nadu were selected purposively. Two SHG linkage models, viz., NGO-led SHGs and Government-led SHGs were chosen. Five SHGs per block in each model were selected and thus the total sample was 140 members who are participating in this programme. The information was collected by personal interview method using interview schedule. Based on the analysis it is concluded that participation in SHGs paved the way for the women to take up self-employment activities and generated additional employment to the rural women irrespective of SHGs led by NGOs and Government. However, significant difference in mean employment is observed between models and Government and NGO operated SHGs in Ramanathapuram district. The income of the households has not increased significantly between models. Moreover, the intervention of SHGs resulted in increase in asset position, namely, livestock and material assets in both the districts across models. Hence, it is suggested that more SHGs may be organised among the rural poor, training may be given to NGOs irrespective of linkage models on identifying the income generating activities and management aspects which in turn help the SHG members in selecting the enterprises to improve their income.

### **Working of Regional Rural Banks in India**

#### **H. Shivappa<sup>†</sup>**

Based on secondary data the study attempts to examine the growth in advances, deposits and financial performance of the Regional Rural Banks (RRBs). The data has been collected from *Report on Trend and Progress of Banking in India*, Reserve Bank of India, Mumbai and *Government of India, Economic Survey*, etc. The analysis of data revealed that in 1977-78 the RRBs had advanced Rs. 52.27 crore, which increased to Rs. 39,713 crore in 2005-06. In 2005-06 the share of agriculture and non-agricultural loans in total loans was 53.87 per cent and 46.13 per cent respectively. A sum of Rs.21,394 crore was issued to agriculture in 2005-06, of which the share of crop loans and terms loans was 68.66 per cent and 31.34 per cent respectively. The credit extended to agriculture by multi-agency approach was Rs. 2,35,372 crore in 2005-06, of which the share of major Scheduled Commercial Banks (SCBs), co-operatives and RRBs was 73.19 per cent, 17.72 per cent and 9.09 per cent respectively. The deposits collected by RRBs in 1977-78 were Rs. 32.11 crore which increased to Rs.71,329 crore in 2005-06. During the first decade, the RRBs concentrated on expanding credit services, which was reflected in the credit-deposit ratio of more than 95 per cent upto 1987. This was more than the capacity of SCBs to achieve. The credit-deposit ratio declined in the subsequent years but improved again in 2006. To strengthen RRBs, they were allowed to diversify their business.

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With a view to improving the operational viability and take benefit of economies of scale, the Government initiated state-level amalgamation of RRBs in September 2005. Consequently, the number of both profit and loss making RRBs declined to 111 and 22 respectively at the end of March 2006. The total assets, deposits and the net advances of RRBs increased by 78 per cent, 93 per cent and 15 per cent, respectively during 2001-06. The RRBs which incurred losses of Rs. 426 crore in 1995-96, started posting profit after various measures were introduced. The net profits increased to Rs. 769 crore during 2003-04. Although net profits declined thereafter to Rs. 510 crore during 2005-06, the overall health of RRBs has improved significantly over the years. The gross NPAs and net NPA ratios (to total assets) declined to 7.3 and 3.96 respectively in 2005-06 from 8.5 and 8.15 respectively in 2004-05. However, majority of the weaker sections are still dependent upon private money lenders due to inadequate loans for traditional activities and non-availability of credit for all non-traditional activities. The RRBs, therefore should make sincere efforts to overcome these grievances of weaker sections.

### **Institutional Agricultural Credit in Punjab: Growth and Inadequacies**

**Sukhpal Singh, Manjeet Kaur and H.S. Kingra\***

The study examines the growth in institutional agricultural credit in Punjab for the period 1990-91 to 2004-05 from secondary sources and the inadequacies of institutional credit in terms of transaction cost of obtaining credit and problems faced by farmers in availing credit from institutional sources through the field survey of 600 farm households selected from different agro-climatic regions in Punjab. The study revealed that the institutional agricultural credit advanced increased from rs. 1,638 crore in 1990-91 to Rs. 5,660 crore at constant prices in 1990-91. The growth rate of agricultural advances was 18 per cent at constant prices being the highest during the period 2000-01 to 2004-05. This was due to the liberal credit policies of the government and rumor regarding waiving of debt by the government and farmer organisations. The per hectare agricultural institutional loans advanced increased from Rs. 3,883 in 1990-91 to Rs. 13,476 in 2004-05 at 1990-91 prices. Although the institutional credit has increased very rapidly in the recent years in Punjab there are still several irritants and bureaucratic hassles before a farmer can obtain the institutional credit. The transaction costs worked out to be 5 per cent of the total loan obtained by a sample farmer from the commercial banks and 1.2 per cent of the total loan advanced by the co-operatives as the co-operatives are located right in the villages. About three-fifth of the farmers revealed that it is a complicated and time consuming procedure to procure loans from the institutional agencies. As many as 25 per cent farmers reported the bribe as common complaint. Similarly, factors like illiteracy and availability of only collateral loans make farmers incapable of

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approaching the banks for loans. On the other hand, 14 per cent farmers reported that there was no problem in availing the institutional loans. In spite of the significant increase in institutional lending the malpractices prevailing in the system make this lending more cumbersome and costly. Therefore, the farmers have also to resort to non-institutional sources hence there is a need to address these inadequacies of the institutional sources.

### **Who Uses Agricultural Credit in India?: A District Level Analysis**

**A. Narayanamoorthy<sup>†</sup>**

In this paper, an attempt is made to study the use as well as the determinants of credit in agriculture utilising data from 256 districts covering three time points: 1970-71, 1980-81 and 1990-91. The study shows that over three-fifth of the districts considered for the analysis use low level (less than average) institutional credit supplied by scheduled commercial banks at all time points. About 90 per cent of the districts using low level of credit are located in the agriculturally less developed states of Bihar, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Uttar Pradesh and West Bengal. The inter-district variation in credit use has come down in 1990-91 as compared to 1980-81. The analysis on the characteristics of the districts reveals that the growth and the infrastructural parameters of the districts using medium to high level credit are much better than those of the districts utilising low level of credit in agriculture. Among the various factors used in the regression analysis to study the determinants of credit use in agriculture, the expected income from crop cultivation and rural road facility turned out to be the important determinants. The bank branches also positively and significantly influenced the use of credit, suggesting the importance of increasing the bank infrastructure in the rural areas under the present supply-led approach.

### **Institutional Credit Flow and Regional Variation in Outstanding Loan in Farm Business in India**

**B.R. Atteri, Shiv Kumar and Amit Kar\***

Lack of knowledge of modern farming to sustain agriculture, low level of critical inputs use and many socio-economic constraints are the prime reasons for low agricultural productivity in the country. The average size of holding is less than 1.5 hectare which is too low to support commercial farming. The study attempts to examine the growth in institutional credit flow to agriculture in India, to explore and analyse the extent of variation in outstanding loan, and magnitude of indebtedness of

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farmers and to suggest measures for faster recovery of loans. The study concludes that the institutional credit has become a more popular source of finance to the farmers in India. Among institutional credit agencies the share of credit from co-operatives has decreased from 63 per cent to 28 per cent while that of commercial banks has increased from 30 per cent to 62 per cent. The total institutional credit has increased at the rate of 14.64 per cent per annum during liberalisation period in the country. Today, farmers take more loans from banks, compared to any other agency, depicting a fundamental change in the attitude among borrowing farmers. However, the money lenders and traders, who exploit the farmers are still the important sources of loan to the farmers as observed from survey data. Crop activity was the main source of farm income in all the regions except in southern region. It was observed that farmers pursuing the crop activity were more indebted than other activities. Only a few farmers opt for loans for the animal husbandry related activities as well as plantation and orcharding. Above 80 per cent of farmers, having land less than 2 ha and pursuing mostly crop activities, in most of the regions in the country, were indebted. The average amount of loan per farm in India, was about Rs. 12,500/-. The outstanding loan per farmer was the highest in case of holdings above 10 hectares in all the regions among all classes except the southern region where farms between 2-4 hectares had the highest loan outstanding per farm. In the central region the farms with < 0.01 hectare also had high amount of outstanding loan unlike other regions. The average amount of outstanding loan taken by the farmers increased by Rs. 7,100/- with the increase in farm size by one hectare under existing practices. However it varied from Rs. 2,807 in central region to Rs. 7,947 per hectare in the western region. The government efforts towards doubling the production by increasing productivity through more credit use for quality inputs will largely depend on more irrigation, timely availability of quality inputs and their use. Farmers' returns and repayment capacity will further increase by improved marketing structure and marketing infrastructure and not through credit only. Institutional credit agencies should ensure proper use of credit in farming to increase the crops' productivity. The banks themselves/government can tie up with the upcoming retail stores to ensure reasonable price to farmers by ensuring quality produce. This will ensure loan repayment.

### **Rural Credit - A Case Study of Self-Help Groups in Amritsar District**

**Paramjeet Kaur Dhindsa and Seozy Bhatia<sup>†</sup>**

The study examines the progress of self-help groups (SHGs) in Amritsar district of Punjab. Data were collected from 16 blocks of Amritsar district for the period 2001 to 2007. The study has suggested that there is dire need of NGO's (non-

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government organisations) to come forward and help in forming these groups and making them a success. As rural people are illiterate they have to be made aware of the benefits of forming such groups and making them a success. It is another form of co-operation which will help them in going for other supplementary sources of income and will help generate productive employment also. This kind of approach can also go a long way in empowering women by making them economically, emotionally and socially more independent.

### **Flow of Credit to Small and Marginal Farmers in Mandsaur District of Madhya Pradesh**

**S.K. Gupta, A.M. Mishra, H.O. Sharma and P.K. Mishra\***

An attempt had been made in this paper to examine the trend and flow of credit to agricultural sector by financial institutions in Madhya Pradesh and Mandsaur district. The credit gap, outstanding and overdues of agricultural loans and experience of borrowers were analysed. The study is based on both secondary as well as primary data. Daloda village of Mandsaur district was selected for the study. The primary data were collected from 25 households (5 landless, 15 small and marginal, and 5 large households). The secondary data were collected from financial institutions of Mandsaur district. The results indicated that in Madhya Pradesh the total financing by all the institutions in 1997-98, 1998-99 and 1999-2000 were Rs. 3,112, Rs. 2,363 and Rs. 2,570 crores, respectively. Of this, financing to agricultural sector were Rs. 2385 crores, Rs.1,658 crores and Rs.1747 crores respectively to total financing. The State Central Co-operative Banks and State Central Land Development Banks extended finance wholly to the agricultural sector, while Regional Rural Banks and commercial banks financed to agricultural sector in the range of nearly 40 to 61 per cent during these three periods. Agricultural finance provided by State Central Land Development Bank was totally for long term purposes where as State Central Co-operative Bank distributed more than 90 per cent of the loan for short term purposes. In Mandsaur district District Central Co-operative Banks financed more than 90 per cent of the total agricultural loans for short term purposes where as 4.85 to 10.09 per cent loans was for long term purposes. In all the three years the entire agricultural loans provided by District Central Co-operative Land Development Banks was only for long term purposes. In Regional Rural Banks and commercial banks more than 80 per cent loans was for long term purposes and the remaining 20 per cent was for short term purposes. Of the selected farmers of the district 36 per cent borrowed from Central Bank of India and 52 per cent from co-operative banks. All the landless households borrowed only from

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Central Bank of India and majority of the households belonging to small and marginal groups borrowed from co-operative banks. The most important purpose of loan in the district was investment on productive assets like tractors, tillers, etc., and formed 57.81 per cent of the total loan amount followed by short duration purpose of loan which formed 29.72 per cent. The total amount of credit demanded by the borrowers was Rs. 7,01,417 and the amount actually disbursed was Rs. 6,02,374. Thus the credit gap was Rs. 99,043 (14.12 per cent). The credit gap was found to be the highest in small and marginal groups followed by large groups and landless groups. The average amount outstanding per borrower was Rs. 18,759 and the amount of overdues was Rs. 2,361. Both the amount of outstanding loans and over dues were found the highest among large size groups. All the borrowers were comfortable with the borrowing experience and did not experience any problem including repayment. Most of the borrowers opined that loans were neither monitored nor the financial institutions provided extension services on the use of inputs.

### **Structural Changes in the Development of Co-operative Credit in Maharashtra**

**K.S. Birari, M.K. Borse, R.R. Chaugule and M.R. Patil<sup>†</sup>**

An attempt is made in this paper to examine the changes in the development of co-operative credit in Maharashtra. The study is based on the secondary data like number of societies and members, their working capital, advances and outstanding loans collected from published sources for the decadal period from 1960-61 to 2000-01 and subsequent annual data for the year ending 2004-05. The results of the data indicated that the number of co-operative societies increased by 484 per cent in the year 2004-05 over the year 1960-61. Among these the number of PACS was 67.80 per cent in 1960-61. However, it declined to 11.44 in the year 2004-05. A major increase was noticed in the case of social services and other co-operatives. The number of members of co-operative societies showed maximum change in case on non-agricultural credit societies followed by productive, social service and PACS over 1960-61. The proportion of working capital of the co-operative societies was maximum in the case of apex and central agricultural and non-agricultural credit institutions followed by PACS in 1960-61. However this proportion was changed as maximum in the case of non-agricultural credit societies at the end of study period. The analysis of compound growth rates indicated positive and significant growth in all the components like number of societies, members working capital loan advanced and even overdues in case of all the co-operative societies. The various co-operative

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societies showed significant growth and development in Maharashtra. The study advocates the need for minimising the quantum of overdues.

### **Contribution of Financial Institutions in Agricultural Credit: A Trend Analysis**

**A.K. Singh and Seema Joshi\***

The objective of this paper is to examine the share of commercial banks and co-operative banks in total credit advanced in the rural areas over the period. Secondary data has been used to study the flow of institutional credit to agriculture in India during 1950-51 to 2004-05. Data have been also procured for gross sown area, use of fertilisers and pesticides during these periods to examine the impact of these variables on credit use over the period. Trend analysis in the growth of share of co-operatives and commercial banks have also been done. The results indicate the contribution of co-operatives and commercial banks in total short term credit. Before the nationalisation of commercial banks and start of green revolution period, there was 100 per cent contribution by co-operatives in total loans advanced to the farmers but after the nationalisation of commercial banks and start of green revolution, the share of commercial banks increased over the share of co-operative institutions. During 1995-96 and onwards, there was consistent decline in the share of co-operatives and an increasing trend was observed in commercial banks' share in total credit over the period. Similarly in investment credit, the same trend was observed. If we analyse the recent trends, the agency-wise share of credit flow to agriculture shows that the commercial banks accounted for a major share followed by co-operative banks and RRBs. However, there is a declining trend in the share of the co-operative banks in the flow of institutional credit over the period which is indicative of the need for restructuring and reforming these co-operative banks. Further the growth trend in share of institutional agencies shows that the growth in share of commercial banks after 2000 was lower as compared to previous years. While in case of co-operatives, it was declining and registered a negative growth rate over the period. To examine the impact of gross sown area, consumption of fertilisers and use of pesticides on credit use and its growth over the periods, simple regression equation have been used and each variable is separately regressed with credit use and it was found that each variable has its impact on credit use but more impact was of gross sown area followed by fertilisers consumption. The government and Reserve Bank of India have been trying to increase the amount of credit to rural sectors and they have taken several steps including simplification of lending procedures, greater flexibility and discretion to banks in the matter of margin money, security and cash disbursement etc.

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## **Financial Viability and Profitability Trends of Regional Rural Banks in India and West Bengal – A Comparative Study**

**Kanak Kanti Bagchi and Abdul Hadi<sup>†</sup>**

Viability of Regional Rural Banks (RRBs) needs to be assessed in terms of increasing socio-economic gains for their clientele. From the age structure of RRBs in the state of West Bengal and their branches it does not seem realistic to assess their progress towards viability on the basis of experience of commercial bank branches. In the past, almost all the RRBs in the State were in losses and a number of factors contributed to these losses such as defective lending policies, high operational costs, restricted area of operation, poor recovery, etc. But, at the beginning of the 21st century all RRBs in the State turned into profit making institutions from losses and have been able to achieve viability on the basis of prudential norms introduced by the Reserve Bank of India. By using the method of ratio analysis, the paper has made a detailed comparative study about the financial viability and profitability position of individual RRBs in West Bengal over the period 1995-1996 to 1999-2000. It has then identified the reasons for low level of profitability of RRBs and the factors behind achieving economic viability. The study concludes with a note on the necessity of undertaking certain measures to achieve the desired objectives.

## **Impact Assessment of Self-Help Groups in Punjab**

**Sanjay Kumar, Gagandeep Singh and Jasdev Singh\***

A study was conducted in Hoshiarpur district of Punjab to study the impact of Self-Help Groups (SHGs) on members. A sample of 30 SHGs were selected and out of these two members were selected from each group thus making the total sample size of 60. To evaluate the impact of SHGs on various economic parameters, data were collected at two points of time, i.e., for the year preceding to formation of SHG (pre-SHG) and for the year 2005-06 (post-SHG). The SHGs in Punjab were formed by NABARD sponsored SHG-Bank linkage programme and Swarnajayanti Gram Swarozgar Yojna (SGSY) implemented by District Rural Development Agency (DRDA). The results of the study revealed that after joining the SHG, the average income of the member households increased to Rs. 54,474 from Rs. 30,962, average value of assets rose to Rs. 34,302 from Rs. 20,345 and average borrowing increased to Rs. 27,665 from Rs. 8,999 in the pre-SHG situation. The problems faced by SHGs included harassment during opening of bank account, marketing problems, lack of

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training and competition from multinational corporations. To increase the network of SHGs in Punjab, there is need for increasing the margins of NGOs, identification of economically viable activities according to the availability of raw material and demand for products in the area, increase in the amount of loan to the groups at lower interest rates. Members should sell their products in exhibitions or Kisan Melas as they provide a good market for such low demand products.

### **An Analysis of the Trends in the Institutional Agricultural Credit in Orissa**

**Raj Kishore Panda<sup>†</sup>**

The study attempts to measure the trends in the flow of institutional credit to agricultural in Orissa in the post-liberalisation period, find out the divergence in the institutional credit deployment at the State and all-India levels, and examine inter-regional disparity in the distribution of institutional credit within the state so as to suggest policy measures for raising credit inflow into the state's agriculture and improving upon the distribution of credit across different regions in the state for higher agricultural development. The study relied on secondary data obtained from various published records of different agencies involved in agricultural credit. The findings of the study revealed that the quantum of agricultural credit supplied by the institutional agencies though has improved in the state, the improvement is more noticeable in crop loans only. The annual growth rate in term loans is found to be very low. As compared to the all-India average, the credit deployed per hectare of gross cropped area in the state has remained very low and the gap between all-India average and that of Orissa has increased over the years. Amongst the major states, Orissa's rank on the basis of outstanding credit per hectare of net sown area has worsened over the years. Within Orissa, the credit disbursement of the institutional agencies is found biased towards the coastal plain, a relatively better-off region neglecting equally deserving regions like the central tableland and the eastern ghats. A need is felt for looking into not only upward revision of credit into state's agriculture but also credit distribution across different regions in the state which needs to be more egalitarian taking into account the share of each region in the gross cropped area and crop output in the state. This will help in more effective use of credit for developing agriculture in the state.

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## **Performance and Economic Viability of Primary Agricultural Co-operative Societies in Raipur District of Chhattisgarh State**

**A.K. Koshta, M.R. Chandrakar and D. Sadaphal\***

The study seeks to examine the (i) trend of banking performance indicators of Primary Agricultural Co-operative Societies, (PACSSs), (ii) pattern of banking business of PACSSs, (iii) economic viability of PACSSs and (iv) to suggest the policy interventions for betterment of PACSSs. The study is confined to Raipur district of Chhattisgarh state as the district covers 24 per cent PACSSs of the state. Raipur district has 15 blocks and 15 PACSSs were selected from their block names, i.e., Arang, Dharsiwa, Bilaigarh, Kasdol, Bhatapara, Baloda Bazar, Palari, Tilda, Chhura, Menpur, Fingeshwar, Devbhog, Sigma and Griyaband. Time series secondary data on the relevant aspects were collected from the official records of sample PACSSs for the post-reform period 1990-91 to 2004-05. The findings of the study reveal that the relative percentage change of all the performance indicators on triennium ending average years of 1991-93 (base year) and 2003-05 (current year) were found to be significant except credit: deposit (C: D) ratio, profitability ratio, interest earned ratio and interest paid ratio, which indicates the loan advances increased with the adoption of newer agricultural technologies. The rate of growth of deposit increased significantly by 15.58 per cent during 1991- 2005, followed by loans outstanding, total income, total expenditure and productivity per staff. The rate of growth of C: D ratio and profitability ratio were found to be negative and significant. The performance of banking system indicators was fairly good but overdues was the major hurdle in profitability of PACSSs. The results of break-even analysis for testing the economic viability of PACSSs indicate that nearly 53 per cent PACSSs were fulfilling all the five criterion for break-even analysis, i.e., deposit, advances, volume of businesses, C: D ratio and recovery and the rest were fulfilling one or more criterion of break-even analysis for viability of PACSSs. It can be said that PACSSs have much scope for banking business in rural areas of Chhattisgarh. To improve the performance and economic viability of PACSSs in new competitive market environment of post reform period the following policy initiatives are suggested (i) organise special training programmes to staff of PACSSs, (ii) appoint the inspection officer to look after the utilisation of loan advances, (iii) minimise the government interferences, (iv) improve the recovery, (v) stop the frequent announcement of non-repayment of loan overdues, (vi) follow up the recommendations of the Task Force under the chairmanship of A. Vaidyanathan and (vii) increase the limit of refinance.

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## **An Economic Appraisal of Growth and Performance of Primary Agricultural Credit Societies in Haryana**

**D.P. Malik, S.P. Singh and Sunil Dhanda<sup>†</sup>**

The objectives of the paper are to analyse the trend and growth in size and operation of Primary Agricultural Credit Societies (PACSs) and to study the important indicators, viz., C-D ratio, cost of management unit, transaction cost and delinquency rate of PACSs. The information pertaining to different components of credit structure of co-operative societies was scanned from different published sources for the period 1992-2004. Suitable statistical tools and techniques, i.e., percentage, average, compound growth rate, indices and delinquency rate were used to draw meaningful inferences. The results reveal that selected variables for the performance of PACS, i.e, membership, share capital, owned capital, working capital, borrowings, credit advance, credit recovery have registered significant positive growth rate over the span of the study period. PACS attained remarkable increase in the case of deposits. The increasing trend in credit outstanding and credit overdues is not a healthy sign of performance. The profit of PACS yielded positive growth rate and declining trend in the cost of management to the working capital revealed that managerial expenses were under control. The delinquency rate of PACS showed that the amount of credit recovery is more than credit outstanding. The mounting of credit overdues was reported due to poor repayment of cultivators and occurrence of natural calamities. Therefore, PACS should increase owned funds as well as Government share in working capital. The officials of the institutions should be trained for supervision, credit advancement, deposit attraction and recovery of credit. The managerial expenses should be curtailed through computerisation of society/banks and accountability of officials.

## **Structure and Performance of Primary Agricultural Co-operative Societies in Punjab**

**Amandeep Kaur and Kuldeep Kaur\***

The paper throws light on the structure and performance of Primary Agricultural Co-operative Societies (PACS) over the period 1993-94 to 2004-05. The step-wise regression analysis has been used to find the determinants affecting average profitability of PACS along with tabular analysis, ratios and percentages. The study

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finds that PACS in Punjab are doing well in the case of average loan per borrower and percentage of profit earning PACS as compared to national average. The decreasing percentage share of government in share capital is a good sign resulting in more autonomy. The performance is poor in case of membership per PACS and average deposits vis-à-vis all-India level. The percentage share of crop loans given to SCs, weaker sections and small and marginal farmers has declined which should be increased. The study concludes that PACS should try to increase its average deposits by introducing innovative schemes as the average deposits explains most of the variation in average profit per PACS in step-wise regression. It also suggests to improve the profitability by appointing full time paid skilled secretary in each PACS as it results in better management and supervision of the society. It has been found that membership per PACS is less than the national level thus PACS should try to improve membership so that more needy farmers can get cheap loans and rural development can be achieved. The study also suggests that PACS in Punjab should also undertake sale of inputs and commodities and provide other agriculture-related services to enlarge its membership to perform better.

## **Rural Credit in India – Status, Issues and Future Agenda**

### **Swami Prakash Srivastava<sup>†</sup>**

The paper tries to explore the issues of growth of institutional agricultural credit in India, its distribution in different regions and accessibility of credit to rural poor especially small and marginal farmers and economic viability of the operations of agricultural credit disbursement in terms of recovery performance and margins. The degree of indebtedness and factors causing indebtedness and suicides are also studied for states like Punjab, Andhra Pradesh, Maharashtra, Tamil Nadu and other states. A review of the performance of agricultural credit in India reveals that though the overall flow of institutional credit has increased over the years, there are several gaps in the system like inadequate provision of credit to small and marginal farmers, paucity of medium and long term lending and limited deposit mobilisation and heavy dependence on borrowed funds by major agricultural credit purveyors. These have deeper implications for agricultural development as also the well being of the farming community. Efforts are therefore required to address and rectify these issues. It is felt that the localised institutions like the co-operatives need special support to overcome their constraints due to design defects and limitations on operations caused by their supervision or regulators of limited vision and understanding. The multi agency approach adopted in our country is also a reflection of the need for different players in the field of agricultural credit. The experience also reveal that the performance of the commercial bank has shown the same kind of weakness in rural

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lending that afflicted the co-operative system. It has come out strongly in favour of revival and revitalisation of the co-operative credit system at public cost on the ground that the other financial institutions are neither capable of nor interested in providing adequate credit at reasonable cost to million of asset-less and asset-poor people in the rural areas.

### **Emerging Trends of Financial Resources of Primary Agricultural Credit Societies in Uttar Pradesh**

**Archana Shukla\***

An attempt has been made in the paper to examine the financial resource of Primary Agricultural Credit Societies (PACS) in Uttar Pradesh. In this respect, the internal and external sources of working capital of PACS have been analysed. The study has concluded that the problem of mobilisation of financial resources for PACS is very significant, but quite challenging in Uttar Pradesh. It is significant because without adequate financial resources, the PACS cannot perform the desired role in the development of agriculture in the economy of Uttar Pradesh. It is also challenging because in Uttar Pradesh, which lags behind many states of India in the race for agricultural development, the existing economic, social, political and administrative constraints render the task of mobilisation of adequate financial resources for the sound and fast growth of PACS very difficult, if not impossible. There has been some improvements in this direction, but there is an imperative need to adopt measures so that the PACS may become financially strong and to an appreciable extent, self reliant. It is true that external sources are important, particularly in the context of the fast growing demand for institutional agricultural credit. More determined efforts need to be made for mobilisation of financial resources for PACS through internal resources. From the point of view of internal sources of finance, there is ample scope for increase in the amount of share capital and deposits. For this, however, the various constraints have to be tackled so that the actual image of the PACS based on experience is made much brighter and more inspiring.

### **Growth of Agricultural Credit in India: Trends and Problems**

**Brahm Prakash<sup>†</sup>, Rajeev Kumar Srivastava<sup>‡</sup>, D.K. Sharma<sup>†</sup>  
and A.P. Khare<sup>†</sup>**

Agricultural credit is one of the essential requirements for the growth of agricultural production and productivity. Considering the importance of agricultural

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credit, an attempt has been made in this paper to study the sources of agricultural credit in India, to review their progress and to identify the constraints on disbursement of credit. This study is based on secondary data collected from different sources. The study revealed that the share of public investment in total investment in agriculture has been declining since 1980-81 and fluctuated between 17.1 and 18.4 per cent during the period 1999-2003, the fall in its share was particularly steep during the 1990s due to diversion of resources from investment to current expenditure in the form of increased output and input subsidies. The relative share of institutional agencies in total cash debt of rural cultivators increased from 31.7 per cent in 1971 to 63.2 per cent in 1981 and subsequently to 66 per cent in 1991. But the financial sector liberalisation has led to a reduction of credit available to the agricultural sector. The total direct investment agricultural credit which was Rs. 7.44 crores during 1970-71 increased to Rs. 41,385 crore during 2001-02. The share of non-institutional sources which was 92.7 per cent during 1951 declined to 30.6 per cent in 1991. The amount of credit has recorded an upward swing across all the size categories. During 1997-98 and 2005-06, the share of co-operative banks to total ground level credit has declined considerably from 44.0 per cent to 23.6 per cent while the share of commercial banks has increased significantly from 49.5 per cent to 67.4 per cent during the corresponding period, and the share of Regional Rural Banks has slightly increased from 6.4 per cent to 8.9 per cent. The total ground level credit flow for agriculture and allied activities which was Rs. 31,956 crore during 1997-98 increased to Rs. 1,57,480 crore during 2005-06 registering an increase of 392.8 per cent. A significant increase in credit flow was observed in the case of minor irrigation, land development and hi-tech agriculture, while moderate increase was observed in respect of farm mechanisation, fisheries and plantation and horticulture sector. The southern states stood out with a substantially higher share of agricultural credit followed by the Northern and Central regions. Per capita credit was also the highest in the Southern states followed by Northern and Western states. It was extremely low in the case of Eastern and North-Eastern regions. The constraints on co-operative banking system, commercial banks and regional rural banks have also been discussed in the paper.

### **Indebtedness Among Agricultural Labour Households in West Bengal**

#### **Rathindra Nath Pramanik\***

A study was conducted at the state and village level, to discuss the incidence and the extent of indebtedness among agricultural labour households, sources of debt, purpose of debt and terms and conditions of debt taken by agricultural labour households in West Bengal state as a whole, as well as in Uttar Dinajpur district of

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West Bengal. The study is based on intensive field investigation personally carried out in three sets of villages, viz., highly developed, moderately developed and least developed villages. The analysis is based on 180 agricultural labour households selected from the categories of landless agricultural labourers and marginal farmers-cum-agricultural labourers. The data have been collected by personal interview method through suitably designed questionnaires and informal discussion with many employers and labour households in the sample areas during the course of fieldwork. The incidence and extent of indebtedness of Uttar Dinajpur district at the village level is higher than the state level figures. The main cause of indebtedness is the borrowing for marriage and social ceremonies followed by medical purposes and household consumption at the village level in Uttar Dinajpur district. But at the state level, the main cause of indebtedness is the borrowing for household consumption followed by purchase of land and construction of building and productive purposes. However, as these loans are not economically productive in that they do not help in the creation of additional incomes. They are bound to borrow money from non-institutional as well as institutional sources year after year. At the state level, the main source of rural credit is friends and relatives followed by shopkeepers and money lenders. But at the village level, the share of subsidised loans provided by the Government under different anti-poverty programmes in total borrowing is higher than the share of friends and relatives and money lenders. Out of non-institutional sources, friends and relatives emerged as the main source of rural credit at the village level of Uttar Dinajpur district. Financial institutions alone not cannot meet fully the requirements of rural credit. In this context, the role of the Bangladesh Grameen Bank Model of micro-financing turned out to be extremely effective in supplying rural credit. This innovation of Self-Help Groups (SHGs) and the micro credit has helped the poor, especially women to gain better access to credit facilities. But the progress of formation of SHGs is not as expected in this district. As a result the poor people of this district are deprived of the institutional finance. Agricultural labourers mainly get institutional finance from the Government under different anti-poverty programmes.

### **Regional Rural Credit – An Analysis of NSS Data**

**S. Chatterjee and A.K. Giri<sup>†</sup>**

The paper tries to highlight in-depth some aspects of rural credit and indebtedness for different regions in India and for different social groups based on the NSS data of various rounds. Apart from the country situation for all rural households as a whole, the study focuses on the position of the indebted farmer households based on the Situation Assessment Survey (SAS) on indebted farmer households which was

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alone as a part of the 59th NSS Round during 2002-03. The analysis of NSS data revealed that institutional agencies as supplier of credit have increased over time and these sources provided more than 57 per cent of the fund required in the rural areas of the country, but there was substantial variation among the states. The states exhibiting rising percentage of institutional credit over time were Kerala, Gujarat, Madhya Pradesh, Maharashtra, Uttar Pradesh and Assam with their percentage contribution of 81.6, 75.7, 78.4, 62.6, 53.5 and 46.5 respectively. The states exhibiting declining contribution of institutional agencies were Punjab and Himachal Pradesh. Within the rural households, inter-social group variation in the availability of borrowed funds from institutional and non-institutional sources was more prominent in the case of rural households than in the case of urban households. The capital expenditure in farm business was in greater proportion than the current expenditure in all the three years prior to 2002-03, but during 2002-03 current expenditure surpassed the capital expenditure signifying less capital investment in agriculture. The expenditure incurred for non-farm business exceeded the farm business in the states like Manipur, Nagaland, Sikkim, Andhra Pradesh and Kerala indicating diversification of enterprises by the farmers of the concerned states. The bank was the prime source under institutional category followed by co-operatives in majority of the states. In case of Maharashtra and Gujarat, the situation is reverse – bank followed after co-operatives. Agricultural and professional moneylenders under the non-institutional categories dominated in almost all the states. Loan availability from multiple sources was observed in almost all states, prominent of which was Kerala, Andhra Pradesh, Madhya Pradesh, Punjab, Haryana, Tamil Nadu, West Bengal, Gujarat, Himachal Pradesh, etc. Major concentration of indebtedness among different regions against different size classes of land showed a skewed pattern towards smaller land size but with varying intensity.

### **Gender Divide in Institutional Credit: A Case of Priority Sector Term Loans**

#### **G. Gopakumaran Nair and Nirupam Mehrotra\***

The paper attempts to capture the gender divide in availing institutional credit and highlight some of the policy interventions that can set right the divide. The study based on field level results from Tamil Nadu indicates that the women borrowers constituted one-fourth in priority sector term loans and it was better in non-farm sector activities when compared to farm sector activities. The share of women borrowers was relatively low in the case of land-based activities. The share of women was very high in small size loans as compared to high size loans. Besides highlights the reasons for low share of women in institutional credit, the paper points

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to the importance of micro credit and refinement required for better access of women to institutional credit. The role of skill building/upgradation among women, redesigning extension programmes providing gender sensitisation training to bank staff, etc. have also been discussed.

### **Cost Efficiency of Institutional Credit Delivery to Rural Women through Micro Finance Approaches**

**V. Puhazhendhi<sup>†</sup>**

The objective of the study is to assess the efficiency of different approaches which have emerged in the recent years through comparing the transaction costs of lending both at the banks' level as well as from the borrower perspective. The study was conducted in three states representing different regions in the country, viz., Rajasthan, Tamil Nadu and West Bengal. The transaction costs were quantified based on primary data collected from the respondents across the chain of credit delivery for rural women. Time and cost allocation method was used to estimate the cost components in the loan transaction. Major data inputs used in the study were the financial statements of bank branches, NGO, salary and allowances of each person involved, average loan and deposit statistics, time allocation of persons for different functions. The time spent by each of the persons for the above identified functions was quantified through a pre-designed time allocation schedule and corresponding costs in terms of salaries and allowances were estimated in proportion to the time allocation for each of the functions. The transaction costs per loan account were worked out by multiplying the number of hours used by bank personnel for lending operations with the salary and allowances per hour. The study findings established that the intermediation of Self-Help Groups (SHGs) and non-government organisations(NGOs)/Self-Help Promoting Institutions (SHPIs) have reduced the time spent by bank personnel in the identification of borrowers, documentation, follow up, credit linking as well as credit delivery. The transaction costs of lending of the banks are the least under model where the Regional Rural Banks (RRBs) were undertaken both financial and non-financial role. This is so because the cost of group formation and nurturing (non-financial role) is less in case of RRBs than the NGO. The transaction costs of borrowers were the minimum under model where the bank perform both financial as well as non-financial role. The study recommends that NABARD and other financial institutions should continue expanding and deepening the SHG-Bank linkage programme and the rural financial institutions can rope in the SHGs for credit delivery as well as recovery as it reduces the transaction cost of lending. There is great scope for microfinance institutions to review their policy of charging higher charges both in terms of interest rate as well as risk costs, as their

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transaction costs are less when compared to their charges which many times interpreted as exploitation rather than real financial services to rural women. The financial institutions should try and simplify the bank linkage procedure and the expenditure on documentation should be brought down which affects the transaction costs of borrowing adversely. The SHGs, which have been linked to financial institutions, should be introduced to rating/grading/appraisal for their sustenance in the long run. The loan portfolio of the SHGs should be diversified so that resources mobilised by the groups are efficiently allocated.

### **Agriculture Credit through Three Tier Co-operative Structure – A Case Study of Bikapur Primary Agricultural Co-operative Credit Society (PACS)**

**S.K. Singh\*, Pratyush\* and Avaneesh\*\***

An attempt is made to study the structure and functioning of Bikapur Primary Agricultural Co-operative Society (PACS) based on a case study of 182 PACS operating in Ghazipur district of Uttar Pradesh. A detailed investigation was made to work out the size of membership for the year 1995-96 to 1999-2000, volume of loan advanced during this period, financial position, socio-economic profile of farmers (40 each from all four groups i.e., marginal, small, medium and large who were selected randomly belonging to two villages of the sample PACS), average value of farm assets owned by the sample farmers, credit taken by them during 1999-2000, productive and unproductive use of credit, etc. The study revealed that the co-operative is managed by a well trained secretary and assisted by the staff. There is also an elected body of 5 persons who are called the board of directors which manages the co-operative. The democratic set-up was found in the sample co-operative society. However, sometimes, the decision of the society is influenced by the dominated persons. The membership of sample PACS has increased from 400 in 1995-96 to 425 in 1999-2000 which shows increasing trend and growth of PACS. The credit provided by the sample PACS was found to be a mixed one. The financial position of the PACS was sound. The socio-economic profile of the sample borrower farmers shows the average holding to be 0.21, 1.47, 3.06 and 5.59 hectares in all four groups. The average members per family was 12. The literacy of the sample farmers was recorded at 68 per cent with most of them having primary education. The average age and earner per family was reported to be 56 years and 2 on an average. The cropping intensity and irrigated area among the sample farmers were found to be 201 and 99 per cent respectively. The asset owned by the sample farmers on an average were land, house, machinery, livestock and cattleshed which accounted for 60, 27, 8 and 3 per cent of the total value. The credit was provided in the form of

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kind (fertiliser) with a major share availed by the small group of farmers than large farmers. The unproductive utilisation of borrowed credit was found to be only 6 per cent on an average which shows that the co-operative officials have strict supervision on the over utilisation of credit. However, the marginal farmers misutilised the credit to about 17 per cent, this was because this group being under economic pressure had diverted their borrowed credit for unproductive purposes like ceremonies, consumption and to pay off old debt, etc. which needs to be checked.

### **Repayment Performance of Self-Help Groups – A Case Study of Jaunpur District of Uttar Pradesh**

**Ashok Kumar and Lakshmi Prasanna<sup>†</sup>**

In this paper an attempt has been made to analyse the determinants of repayment of self-help groups (SHGs) in Jaunpur district of Uttar Pradesh in order to assess of SHG programme. The study is based on primary data and in all 30 SHGs were randomly selected from four blocks of the study district. Tobit model was used for analysing the repayment performance of SHGs. The study district has 3.16 per cent female of the total state female population, with relatively higher female literacy, sex ratio and population density compared to State level. The share of net district domestic product of Jaunpur constitutes 3.54 per cent in total net state domestic product which is also quite high. However, the gap in percentage of SHG loan to total loan in the district is quite low as compared to percentage of SHG loan to total loan in the district is quite low as compared to percentage of SHG loan to total loan in the state. The analysis shows that higher amount of loan and socially and economically more heterogeneous groups may add to default in repayment of loan in the district. The coefficient of activity dummy is highly significant which indicates that there is a significant difference in repayment performance between the groups engaged in farm and non-farm activities. The groups engaged in non-farm activities were better repayment performers as compared to groups engaged in farm activities.

### **Impact of Self-Help Groups and Flow of Credit to Rural Sector in Uttar Pradesh**

**O.P. Shukla\***

The economy of Uttar Pradesh is predominantly agrarian and the performance of agriculture and allied activities such as horticulture, animal husbandry, dairying and

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fisheries are critical in determining the growth rate of the State. Primary sector contributed 34 per cent to the State's income in 2005-06 and provided employment to 64 per cent of total workers. However, the share of this sector in state income has been progressively reducing. Uttar Pradesh was the first state to launch 'Agricultural Policy' in 1999 even before the national agricultural policy announcement in 2000. The main objectives of the policy are to (i) encourage scientific agriculture, (ii) achieve an annual growth rate of 5.1 per cent, (iii) develop appropriate eco-friendly farming systems, (iv) maintain ecological balance, (v) diversify existing agriculture towards high value crops, and (vi) develop appropriate infrastructure facilities. The main focus of the policy is employment generation and poverty alleviation. In the State of Uttar Pradesh the programme of SHG was initiated in the year 1994-95 with very insignificant coverage of SHGs. By the end of the century the formation and linkage of SHGs increased to 12,953 in the State. The number of SHGs linked with the banks registered an increasing trend and the amount of loan for SHGs too. Availability of bank finance per SHG had registered an increasing trend. The State has all possibilities of massive growth of the programme of SHGs if efforts are made to keep their functioning successfully. Even other sources of institutional credit required to be revamped so as to fulfill the economic and social commitments towards the lowest strata of the population.

### **Source-wise Regional Distribution of Agricultural Credit in India**

**J.C. Karwasra, R.K. Khatkar and V.K. Singh<sup>†</sup>**

The study examines the growth and magnitude of rural financial institutions and agricultural loans in the country. Agricultural credit has played a vital role in supporting agricultural production in India. The green revolution characterised by a greater use of inputs like fertilisers, seeds and other inputs has increased the credit requirements which were provided by non-institutional and institutional sources-agricultural financial institutions. Although the role of financial institutions increased during the last fifty years after the start of planned development in the country but still it is out of reach to a large section of the rural people. During this period share of agricultural credit has been rising in proportion to agricultural and total gross domestic product but agricultural credit remains almost constant as proportion of total credit. Therefore there is still scope for higher allocation of credit to agricultural and rural sector to achieve the desired growth of the sector. Among the different regions of the country agricultural credit in the southern region always remains on the top in terms of ratio of agricultural credit to the net state domestic product and per capita credit while the north-eastern region always remains at the lowest level but now the Northern and central regions have made progress over time. Among the different

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regions of the country the percentage share of the southern region decreased over the period and on the other hand in the northern region particularly in Punjab and Haryana agricultural loan disbursement increased during this period. Institution-wise, the total credit flow from commercial banks, co-operative banks and regional rural banks increased by 30, 19 and 13 per cent, respectively during 2001-2006. Over the years refinance disbursement increased with the increase of credit demand. Agency-wise, commercial banks accounted for the highest share in the total refinance disbursed during the year and their share continued to increase, on the other hand, the share of co-operative banks declined. Capital investment in agriculture needs to be enhanced from present 10 per cent (during the last three plans) to at least 15 per cent. The study emphasises on new technology and on new area approach by providing technological packages altogether. The study suggests that for agricultural diversification and rural industrialisation enhanced credit needs be met by more liberal finance at concessional interest rates. Credit disbursement should be increased in the less developed or newer areas like the north-eastern regions of the country for balanced development.

### **Access to Kisan Credit Cards in Uttar Pradesh by Different Social Groups in Different Regions**

**Yogesh Kr. Dubey\***

The Kisan Credit Cards (KCCs) scheme which came into existence in 1998-99 mainly envisaged coverage of all the short-term credit needs of the farmers including crop loan and other items of production credit/working capital/short-term requirements for non-farm activities including household expenditures. The idea behind this approach was to ensure that farmers get adequate credit to meet all their short-term needs through the single window of KCCs. The study has focused on the adoption of KCC in Uttar Pradesh among different regions and social classes in the largest state of the country. KCC scheme was thought to be an innovative measure for timely and easy availability of seasonal finance to the farmers. But since there is uneven development of different regions as well of different social classes within the state, this study was designed to find out whether all sections of the society in the state and in different regions of the state have equal access to the KCC scheme. The study has brought out that the access to this one of the most important financial innovation is not even between different social groups of the state. Only land and household size have positive relationship with probability of a person of being a KCC holder and land is the most important variable. So, if the wasteland etc. is made cultivable to weaker sections of the society (even on lease or as a common resource pool) then there may be considerable improvement with respect to even distribution

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of KCC in the state. The scheme should endeavour to cover all types of crops so that it can utilise the entire credit limit under KCC. The implementation of the scheme should be more targeted and focused on the real needy sections of the society so that the benefits of the scheme can accrue to larger population.

### **Enabling Farmers to Access Commodity Derivative Market - Role of Aggregators: A Conceptual Exposition**

**Sunil Kumar<sup>†</sup>**

Commodity futures markets play an important role in price discovery and provide a mechanism for hedging price risk by farmers. In India, these markets have developed at a very fast pace after they were liberalised in 2003. However, commodity futures markets have been in the news for wrong reasons in recent times and futures trading in rice, wheat, urad and tur dal have been banned since the beginning of 2007 because of a strong view that these markets have provided a forum for and have contributed to unnecessary speculative trading leading to rise in food prices and inflationary pressures in the economy. The root cause of the problem, however, is the lack of credibility of commodity markets among influential stakeholders. These markets have not yet delivered the benefits of futures trading to the farmers bringing into question its very *raison d'etre*. The benefits of futures markets have so far remained confined to traders and processors in various commodities and have not reached the average independent producers (farmers). There is thus a need to evolve suitable mechanisms for extending the benefits of futures trading to farmers. This paper attempts to provide a conceptual exposition of the mechanism of 'Aggregator' through which it would be possible to ensure that the benefits of futures trading reach the farmers. The paper explores the possibility of using different market players as aggregators and argues that it is possible to use Agriclinc/Agri Business Centre, Primary Agricultural Co-operative Societies and/or warehouse/godown owners as aggregators after imparting suitable training to them.

### **Growth and Performance of Co-operative Credit to Agriculture in India**

**S.K. Goyal, K.S. Suhag, and Ram Singh\***

An attempt has been made to study the growth, performance and regional variations in various aspects relating to Primary Agricultural Co-operative Credit Societies (PACS) in India. The data was collected on institutional flow of credit to

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agriculture for the period 1980-81 to 2005-06 and on various other aspects of co-operative credit for the period 1993-94 to 2004-05. To study the regional disparity, statewise data was collected for the year 2004-05 and Herfindahl Index has been used for the purpose. The flow of institutional credit to agriculture and allied activities increased at an annual compound growth rate of 15.7 per cent. The share of co-operatives in agricultural credit was about 63 per cent in 1980-81 which went on declining year after year and reduced to only 22 per cent in 2005-06 while that of commercial banks rose from 37 per cent in 1980-81 to about 70 per cent in 2005-06. The decadal growth rate of agricultural credit disbursed by all the agencies indicate that the growth increased at the rate of 13.52 per cent per annum during 1980s which increased to 18.64 per cent in 1990s and this further increased substantially to 27.40 per cent during 2000-01 to 2005-06. On an average the loan advanced per borrower which was only Rs. 1,486 in 1993-94 increased to Rs. 8,700 in 2004-05 indicating about six-fold increase over this period. The amount of overdues increased at a compound growth rate of 14.80 per cent during this period. It is estimated that PACS are mostly concentrated in the Western and Eastern regions as 27.65 and 26.78 per cent of the total societies are operating in these regions, respectively. There was wide fluctuation in the flow of agricultural credit per hectare (ha) of gross cropped area in different regions and across the states. The recovery of loan was recorded to be 66.41 per cent for the country as a whole. At the regional level, the recovery performance was the highest in the northern region and lowest in North eastern region. Interregional disparity was found to be relatively more in case of loans per member, loans per society, loans per ha of gross cropped area, loans outstanding per ha gross cropped area and deposits per member as compared to the number of societies, overdues per member, overdues as percentage of demand, villages covered per society, cropped area per society. Over the years, the share of co-operatives in the total Kisan Credit Cards issued has been declining whereas the share of commercial banks and regional rural banks has been increasing.

### **Disparity in Credit Disbursement – A Comparative Analysis of Agricultural Credit Scenario of Orissa vis-à-vis All-India Level**

**H.N. Atibudhi<sup>†</sup>**

The main objectives of the paper are (i) to study the institutional credit flow to agriculture in Orissa and (ii) to compare the state credit scenario in the context of all-India situation. The study is based on secondary data collected from state level bankers' committee Orissa proceedings, various issues of *Economic Survey of Orissa* and Reserve Bank of India *Report on Currency and Finance*. It emerges from the analysis of the data that some of the poverty stricken states of the eastern region and

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north eastern region have been continuously neglected by institutional agencies to provide agricultural credit. Specifically one of the poorest states of the country namely, Orissa, is not getting due attention of the commercial banks. In the state, co-operatives is still the leading institutional agency providing agricultural credit followed by commercial banks and regional rural banks. In the national scenario commercial banks are the leading institutions providing farm finance. The state for a long time has been getting only 1.5 per cent of the total credit disbursed in the country. Recently it has increased to 2.29 per cent in the year 2005-06. The credit disbursed per hectare of gross cropped area was only 36 per cent of the credit availability at the national level. The lower level of credit disbursal per hectare of gross cropped area in Orissa as compared to all India level indicates the neglect of institutional agencies specifically credit disbursal by the commercial banks for agricultural sector in the state. Despite the claim of a well developed credit delivery structure, the outreach of institutional sources has remained restricted. In Orissa the ratio of agricultural credit to agricultural gross domestic product was 9.80 per cent which registered a slight increase to 12.31 per cent in 2004-05. Agricultural credit as a proportion of total credit has also increased from 4.63 per cent to 15.36 per cent during the same period. Thus the regional disparity across the country in the disbursement of agricultural credit by the commercial banks is very significant. The southern region continues to account for the bulk of the credit disbursement to agriculture followed by the western, northern and central regions. The share of eastern and north-eastern regions continues to remain abysmally low. Therefore it warrants attention of the policy makers for mitigating regional disparity.

### **Role of Location-Specific Branches of Scheduled Commercial Banks in Financing Punjab Agriculture: Issue of Outreach and Lending Volumes**

**Trinath Rayudu, P. Kataria and S.S. Chahal\***

The study attempts to examine the status of financing agriculture in Punjab, with particular reference to scheduled commercial banks (SCBs). The specific objective of the study is to study the financial performance, outreach and lending volumes of SCBs vis-à-vis location specificity of banks. The analysis of the study is based on the primary data collected from 14 rural, semi-urban and urban branches of the Punjab National Bank (PNB), selected from five districts of three climatic zones of Punjab. The overall financial position of all the branches is sound, but the rural branches are specifically characterised by significantly lower expenses as compared to semi-urban and urban branches. In the case of agricultural credit disbursal, the semi-urban branches had the maximum outreach followed by rural and urban branches. The

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outreach, in terms of number of accounts, of rural branches has been statistically at par with that of the semi-urban branches. The average outreach to agricultural sector for every Rs. One lakh spent as a net expense by the SCB, was recorded to be the highest in rural branches followed by semi-urban and urban branches of the SCB in Punjab. The agricultural credit accounted for 88 per cent of the priority sector advances by rural branches, whereas this percentage stood at 53 per cent for semi-urban and a meager 17 per cent for the urban branches. It can be concluded that the rural branches have an edge over their semi-urban and urban counterparts as far as financing agriculture is concerned.

### **Structural Changes in Borrowing Behaviour: A Case Study of Kot Village in Himachal Pradesh**

**S.P. Saraswat and Ranveer Singh<sup>†</sup>**

The paper analyses the structural changes that have occurred in the borrowing behaviour at three points of time, i.e., 1959-60, 1989-90 and 2004-05 in Kot village of Himachal Pradesh. Over the 45 years, the average holding size has reduced drastically from 2.9 hectares in 1959-60 to 0.65 hectare in 2004-05, the average number of livestock per household decreased from 3.2 to 1.21 probably due to decreasing pasture land. The incidence of indebtedness has decreased from 70 to 23 per cent during 1959-60 to 2004-05 in cultivating and non-cultivating households and among all castes. During 1959-60 nearly 35 per cent of the total loans were for consumption purposes while in 2004-05 no household availed loans for this purpose. The characteristic of the credit changed towards non-productive purpose from productive purpose. The direction of credit also changed from non-institutional sources to institutional sources. This may be due to increase in the number of banks and co-operative societies in the area and easy availability of credit from institutional sources.

### **Disbursement Trend, Recovery Performance and Overdues Positions of Agricultural Loans in Sriganganagar District, Rajasthan**

**N.K. Singh and Dularam\***

The study examines the growth and distributional aspects of institutional agricultural credit over time and repayment performance and the extent of agricultural loans advanced by the banks to different categories of farmers and overdues. The study is based on the secondary data collected from Oriental Bank of

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Commerce (OBC) in Sriganganagar district of Rajasthan. The OBC is the lead bank of the district in agricultural financing. The district was selected purposely as it is agriculturally advanced among the various districts in the state. Time-series data on annual distribution of loans was used to analyse the growth in agricultural loans over time in the study district. The study brought out that out of the total loans advanced to the borrowers about 68 to 80 per cent loan was advanced to the agricultural sector. The bank has also advanced loans for industrial purpose, for purchase of machinery and equipment and for personal use to meet the domestic requirements. The disbursement pattern of loan amount for various purposes was the same for all branches of the bank and agriculture sector occupied the top most priority. Among the agricultural sector, crop production was the main component and more than 55 per cent loan amount was disbursed for crop production. The distributional pattern of agricultural loan was the same in all branches of the bank. The number of borrowers under the small, medium and large categories approximately were the same. This reveals that the bank has given equal opportunity to all the size classes of farmers for obtaining the loan. The year-wise distribution of agricultural credit was found to have an increasing trend in the same ratio every year. The growth rate of agricultural credit was estimated between 25 to 43 per cent in the different branches. The overall growth in agricultural loans advanced in the district was recorded at about 69 per cent. The growth rates were found statistically significant which indicates that the financial institutions have a good opportunity to advance agricultural credit in future. The recovery performance of all branches of the bank was recorded to be very high in the range 75 to 90 per cent of the total loans advanced. The higher repayment performance indicated the proper utilisation of the borrowed funds by the farmers. The overdues of borrowed amount varied from 19 to 27 per cent among the various borrowers. High expenditure on social and religious activities, repayment of past debts and high consumption expenditure, non-compliant bank's personnel, large number of formalities, and insufficient period of repayment were identified as some of the major constraints for the inability to repay the loan amount as per schedule fixed by the bank. The study suggests that regular monitoring must be done by the banks so that the bank loans are utilised for productive purposes.

### **Socio-Economic Upliftment through Micro Financing in Watershed Programme in Nilgiris District, Tamil Nadu: A Case Study**

**Subhash Chand<sup>†</sup>, A.K. Sikka<sup>‡</sup>, R.C. Srivastava<sup>†</sup> and S. Rajkumar\***

An attempt has been made in this paper to understand the importance of micro financing mechanism among the Self-Help Group (SHGs) members formed in the

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Katterly watershed. This watershed was jointly implemented under the Indo-German Bilateral Programme “Watershed Management”, in Nilgiris district of Tamil Nadu State during 1995-2006. Agricultural Engineering Department and Mysore Resettlement and Development Agency (MYRADA) were the major players, implemented the watershed with people’s participation and contribution. The major problems of the area are incidence of soil erosion, landslides, flooding, and poverty. Under the project a number of soil and water conservation measures were executed to protect the soil and reduce the sedimentation in the Katterly reservoir. The data on capacity building, SHGs formation, education level, occupation, family size, source of loan, utilisation of credit, linkage with banks and repayment pattern were collected from 289 respondents belonging to different SHGs, MYRADA, Agriculture Engineering Department, Banks and SHGs members directly.

The MYRADA has formed more than 175 SHGs. The seed money was disbursed among the SHGs. The total number of members of SHGs grew upto 2332 till 2004-05. The majority of SHG members were resource poor and women. More than 85 SHGs were linked to the bank and the repayment capacity was reported to the extent of 55 per cent. The loan amount realised by the members were utilised for income generation activities, consumption purpose, assets creation and other purposes and more than Rs.12 crore loan was taken from the bank and about 70 per cent was repaid back till 2004-05. The bank officials revealed that loan repayment is regular. The community organisers are conducting regular meetings as expressed by the SHGs members. Since, community was involved in the project execution and management, the interventions have resulted in expected benefits to a greater extent. The society not only developed confidence in them but also cultivated the habit of saving and utilisation of collective wisdom to tackle their own problems and this has resulted in optimum utilisation of their resources. They have started by giving to children better education, food, health and better living standards. This study clearly indicates that if rural people are properly organised and given proper set up, micro financing as a support to agriculture sustainability is assured. Moreover, women are known to be having small saving habit and their eagerness to generate additional source of income through productive use of credit, certainly their contribution in the household/village/rural development is going to be significant.

### **Analysis of Non-Performing Assets in Priority Sector: A Comparative Study of Public and Private Sector Banks**

**Paramjit Nanda and Priyanka Mahajan\***

The paper attempts to (i) to compare the extent, size and trends in advances and non-performing assets (NPAs) of priority sector, agriculture and weaker sections of

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scheduled commercial banks as a whole (public, private and foreign banks) during the period 1997-2005, (ii) to undertake inter-bank comparison of extent and size of priority sector, agriculture and weaker sections loans and NPAs in public and private sector at two points of time, i.e., 2001 and 2005 and (iii) to find out the effect of priority sector, agriculture and weaker section loans on NPAs of priority, agriculture and weaker sections of public sector and private sector banks at two points of time, i.e., 2001 and 2005. The study reveals that the public sector banks witnessed higher gross NPA to total assets ratio, net NPA to total assets ratio, gross NPAs to gross advances ratio and net NPAs to net advances ratio as compared to private sector banks during the period 1997-2005. Within public sector banks, scheduled commercial banks as compared to SBI group and within private sector banks, old private sector banks witnessed higher ratios during the study period. However, as compared to 1998, public sector banks (scheduled commercial banks as well as SBI group), old private sector banks experienced decline in ratios in 2005 indicating improvement in assets quality of banks. Regarding the priority sector advances and NPAs, public sector banks gave more advances and as a result experienced more NPAs in 2001 as well as in 2005 as compared to private sector banks. As compared to 2001, advances to priority sector increased marginally in case of public sector banks, while in case of private sector banks, advances increased rapidly. Simple regression results indicated that advances to agriculture and weaker section significantly affected NPA in agriculture and weaker sections of public sector banks in 2001 as well as in 2005. In case of private sector banks in 2001, advances to priority sectors, agriculture as well as weaker sections significantly affected NPA but in 2005, only advances to agriculture significantly affected NPA of agriculture. Thus, priority sector advances played a significant role in affecting NPA of public sector banks and efforts should be made for efficient recovery of priority sector loans. For this purpose, there should be proper selection of the borrower. Banks should ensure proper end-use, proper post-sanction follow up, regular contact with the borrower, regular monitoring of the accounts and must hold recovery camps.

### **Institutional Credit and Farm Sector: Evidence from Rural India**

**K.K. Shrivastava and Padma Saxena<sup>†</sup>**

Based on secondary data the paper examines the trends in flow of institutional agricultural credit in India. The study pertained to the period 2001-02 to 2005-06. The paper analyses some issues like the share of various institutions in gross agricultural credit; share of kisan credit cards issued by various institutions and use of agricultural credit based on activities. Some major observations of the study are

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the share of local moneylenders in rural credit is still very high all India level. The share of state co-operative banks (SCBs) is constantly decreasing in agriculture credit and the share of Regional Rural Banks (RRBs) has remained stagnant. On the contrary the share of public sector commercial banks (PSCBs) has been constantly increasing. The same situation has emerged for issue of Kisan Credit Cards for SCBs. The share of SCBs is decreasing. The share of short term and production loan (crop loan) within total institutional loan is decreasing. It decreased from 65 per cent to 60 per cent while the share of medium term and long term loans (investment loan) has increased during this period. Another very important observation is that the ratio of irrigation loan to gross investment loan has remained very low and stagnant. The compound growth rates for crop loan and for investment loan has been 24 per cent and 29 per cent respectively. Steps need to be taken for improving the irrigation capacity and agricultural productivity. A suitable agricultural credit network should be evolved as it provides timely credit to the farmers and covers all the farmers in the credit delivery system.