Ind. Jn. of Agri.Econ.
Vol.62, No.3, July-Sept. 2007

RAPPORTEURS' REPORTS

Trends in Rural Finance

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I

INTRODUCTION

The significant contribution of institutional finance in agricultural and rural development and economic transformation is well documented. In the technology-led growth of agriculture over the last about four decades, non-technological factors such as prices, markets, and credits have played a critical role. Among these non-technological factors, credit has played a pivotal role. In the fast changing economic environment and agricultural scenario characterised by increasing market orientation and globalisation, rural financial system is confronted with new challenges to finance vast investment needs of high-tech high-value agriculture, income diversification in rural areas, risk mitigation and inclusive growth. Therefore, the recent renewed thrust on rural financial system needs to be accelerated with a more systematic approach to provide effective credit support to regions, farmers and other sections of the rural community, particularly those with poor resource base, to enable them to exploit new market opportunities and step up growth rate in agriculture.

In the existing multi-agency approach to rural finance, despite high density of the retail outlets of formal credit institutions, some recent innovations in delivery system, and some renewed thrust on rural finance the problem of outreach, availability of adequate credit, at the right time, at reasonable cost and almost at doorstep continue to be elusive for a vast majority of the farmers. Despite progressive institutionalisation of rural credit, non-institutional credit, even though exploitive in nature, continues to have a significant presence because of convenience features of its loan delivery system. Therefore, the prime concern remains how to achieve absolute convergence on a range of issues relating to credit availability, credit delivery systems and adequate credit absorptive capacity of the rural populace.

II

FINDINGS OF THE PAPERS

The subject on Trends in Rural Finance has received a good response from researchers. Out of 58 papers received, 53 papers have been accepted for discussion

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at the Annual Conference. These can be conveniently divided into following broad groups for the purpose of review though many of the papers cover more than one aspect of rural finance.

Flow of Agricultural Credit

Twenty-three papers can be placed in this category, which have examined the flow of agricultural credit over time at the national, regional, state and district/ farm level, though these too touch upon other aspects of credit.

The paper by Anjani Kumar *et al.,* based on NSS data for the year 1991-92 and 2002-03 brings out that the access and distribution of rural credit, in general, increased but is skewed in favour of more developed states and within these towards better off households. The poorer households are more dependent on the non-institutional sources of finance wherein the rates of interest are exploitive and exhibit an increasing trend, up from 24.2 per cent to 28.6 per cent at the national level. The share of institutional borrowings between two points of time increased from 55.6 per cent to 57.1 per cent. The use of Kisan Credit Card is encouraging and its distribution is less skewed. Age, male headed households, household size, farm size, level of education, and self employment in agriculture appear as significant variables positively determining the choice of institutional sources and also of having Kisan Credit Cards. A similar pattern on the flow of credit and indebtedness is noted by S.S. Chatterjee and A.K. Giri in the NSS data. The authors express concern over current expenditure surpassing capital expenditure in 2002-03, a reversal of trend existing in previous years, leading to adverse effect on private capital formation. The study by B.R. Atteri *et al.* based on CSO data reveals that 80 per cent of the farmers having land less than 2 hectares and pursing mostly crop activities, in most of the regions of the country, are indebted. The outstanding loan per farmer is the highest in case of holdings above 10 ha in all the regions except the southern region where holdings of 2-4 hacters have the highest outstanding loan per farmer. The authors emphasise upon the importance of availability of irrigation, timely availability of quality inputs and marketing infrastructure to convert the credit into productivity and returns. They suggest tie-up between banks and retail stores to ensure reasonable price to farmer.

A.K. Singh and Seema Joshi look at the contribution of co-operatives and bank credit in total credit using decadal data since 1950-51 through 2003-04 and notice that the co-operatives are losing their share in total credit flow. They conclude that gross sown area, level of fertiliser and pesticide use have significant contribution in increasing agricultural credit flow in the country. In another study J.C. Karwasra *et al.*, find that with increasing flow of institutional credit, agricultural credit as a proportion of aggregate gross domestic product increased continuously from the level of 0.5 per cent in 1950-51 to 15.1 per cent in 2003-04 except a dip in the nineties. The southern region recorded the highest average proportion of agricultural credit to net state domestic product (2 per cent) and the North-Eastern region recorded the lowest (0.2 per cent) during 1996-2001. The northern and central regions registered an average proportion of 1 per cent each with the western and eastern regions registering an average of 0.7 per cent and 0.5 per cent respectively. In term loans, hi-tech agriculture, farm mechanisation and minor irrigation carried the major share in 2004-05. The authors advocate increasing the outreach of institutional agricultural credit, particularly in less developed region for balanced development. Similar patterns are noted by Brahm Prakash *et al.,* in agency wise, region wise and farm size group wise flow of institutional credit at aggregate level over different points of time.

A. Narayanamoorthy analyses CMIE data on commercial bank agricultural credit for 256 districts from 13 states. He observes that over three-fourth of the districts use low level (less than average) of credit. About 90 per cent of such districts are located in the agriculturally less developed states. The inter-district variation in credit use is lower in 1990-91 compared to 1980-81. Infrastructural parameters are found to have significant influence on credit use in agriculture. K.K. Shrivastava and Padma Saxena look at the share of various institutions in total agricultural credit, in KCCs issued, and share of use based loans. They express their concern about still very high share of non-institutional credit (43 per cent), low share of investment credit (39 per cent), and low and stagnant share of minor irrigation (8.5 per cent) in investment loan. H.C.L. Das examines the trends in priority sector lending by public sector banks in India over the period 1981 to 2006. He concludes that the impact of financial sector reforms on the priority sector lending has been adverse. R.P. Singh and K.P. Saha study the contribution of co-operatives and public sector banks in India. It is noted that the growth rate of short term production loan from public sector banks is higher (19.21 per cent) than that of investment loan (17.05 per cent) during post- green revolution period. A significant growth of 13.15 per cent is estimated for the loans advanced by the three-tier co-operative structure in the corresponding period. The authors conclude that the performance of institutional credit has been impressive in the growth and development of agri-sector. Discussing the status, issues and future agenda of rural credit in India, Swami Prakash Srivastava expresses urgency to reduce the urban-rural credit gap, which is quoted to be 86:14 and concludes that the Regional Rural Banks (RRBs) are best suited to champion the cause of rural finance. H. Shivappa analysing the working of RRBs in India finds that in 2005-06, the share of agricultural and non-agricultural loans was about 54 per cent and 46 per cent respectively. It is noted that over the period 2001-06, the C-D ratio and the overall financial health of RRBs have improved significantly. He advocates for greater efforts to cover the weaker sections that are still dependent upon non-institutional sources.

A.N. Shukla *et al.* in their study of commercial bank credit in Uttarakhand observe that bank credit is characterised by low share of agricultural advances in total advances (13.3 per cent), low share of indirect finance (10 per cent), and wide inter-district disparities in the flow of per ha credit in the range of Rs. 355 per ha to Rs.5,414 per ha. The status of disparities in 2005 remained by and large the same as in 2001. The authors suggest the urgent need to improve the low C-D ratio (31 per cent) in the state by improving its credit absorption capacity through technological and infrastructural interventions for which there appears abundant scope. Sukhpal Singh *et al.* study the growth in agricultural credit in Punjab and points out that per ha institutional agricultural loans in the state increased from Rs. 3,883 in 1990-91 to Rs. 13,476 in 2004-05 at 1990-91 prices. The information from 600 farm households produces an estimate of 5 per cent of loan amount as loan transaction cost to the borrower in the case of commercial banks and 1.2 per cent in the case of co-operatives. About three-fourth of the farmers revealed that the loan procedure of institutional agencies is complicated and time consuming and 25 per cent farmers reported bribe to be a part of loan transaction cost. Kanti Patel reports that during 1995-96 to 2003-04, the total institutional credit increased by more than three times in Gujarat. The share of crop loans has been increasing and remains high (72 to 78 per cent) compared to term loans. The share of co-operatives increased during the period unlike the trend at the all India level.

Arun Pandit *et al.,* find on the basis of data from 439 farm families from four districts of West Bengal and three districts of Bihar, that only 20 per cent of cost of cultivation of capital intensive crop of potato in Bihar and 28 per cent in West Bengal is covered through various sources of credit. Only 6 per cent of the cost in Bihar and 20 per cent of cost in West Bengal is financed through institutional credit. Young age, large operational holdings, higher education and absence of off-farm income appear as conducive factors for accessing institutional loan. Complicated procedures and delay in loan disbursement, neglect of poor and lack of insurance (in Bihar only), insufficient amount (in Bengal only) appear as constraints in availing institutional loans. The authors suggest that banks should update their crop wise scale of finance and render counselling to the distressed farmers. K.L. Jadhav *et al.,* using secondary data from 30 District Central Co-operative Banks (DCCBs) in Maharashtra, notice that the share of short term (ST) loans in total loans was more than three-fourth of total loans in all the regions in period I (1985- 1994), and also in period II (1994 to 2001) except in Vidarbha region in period II when it came down to 50 per cent. A significant decline in inequality in ST loan distribution was noticed only in Konkan region. Gross cropped area, area under commercial crops, deposits with DCCBs, and average rainfall appeared as important factors influencing regional inequality in per ha. ST credit in all the regions as well as in the state. H.N. Atibudhi looks at credit scenario in Orissa and points out that the share of the state in all India agricultural advances slid down from 5.65 per cent in 1993-94 to 2.29 per cent in 2005-06. On per ha basis, credit disbursement in the state declined from 51 per cent of all India figure in 1992-93 to 36 per cent in 2004-05. Co-operatives as the leading institution in the state accounted for 53 per cent share in loans in 2005-06 against 25 per cent for all India. The author stresses on the need for removing the disparities for balanced development. Somewhat similar findings for Orissa are reported by Raj Kishore

Panda who raises his concern over the low Compound Annual Growth Rate (CAGR) in the state during 1994-95 to 2003-04 in term credit (6.12 per cent) compared to that in crop loan (22.3 per cent).

S.K. Gupta *et al.*, on the basis of micro level study of 25 households in Madhya Pradesh points out that loans are neither monitored nor extension services on the use of inputs are provided by financial institutions. N.K. Singh and Dularam in their micro level study of a commercial bank in Sriganganagar district of Rajasthan, find more than 80 per cent of the borrowers reporting inadequacy of loan amount, 71 per cent farmers complaining about non-cooperation by bank personnel. A large number of formalities are reported as another constraint. Based on a study of 299 farm/non-farm entrepreneur borrowers of institutional credit from 6 districts in Tamil Nadu, G. Gopakumaran Nair and Nirupam Mehrotra report that women borrowers constitute only one-fourth in priority sector term loan, but have higher share in non-farm activities, and in low amount loans. The authors emphasise upon the importance of micro credit, skill building/upgradation among women, redesigning extension programme and providing gender sensitisation training to bank staff to reduce gender divide.

Kisan Credit Card

Two studies have dealt exclusively with the KCC scheme. K. H. Vedini and P. Kanaka Durga, utilising the field data from 180 farmers drawn from six districts and three regions of Andhra Pradesh, observe a marked decrease in the cost of borrowing for KCC holders to the extent of 3 to 6 per cent for small farmers and 1 to 3 per cent for medium farmers. Almost all the farmers are found to be aware of the benefits of KCC irrespective of the level of literacy. In another study, Yogesh Kumar Dubey investigates access to KCC in Uttar Pradesh by different social groups in different regions. Land and household size appear to have positive influence on the probability of a farmer being a KCC holder. He recommends reclamation of wasteland and its distribution to weaker sections, on lease/as a common pool resource, and more effective implementation of the KCC scheme to promote even distribution of KCC in the state.

Micro Financing/ SHGs

Nine papers focus on the impact of micro financing/SHGs on economic conditions of members, while only one study is devoted to the issue of cost efficiency. C.K. Tripathi and K.C. Sharma evaluate the impact of micro credit through SHG- Bank linkage using primary data from 220 member households from 20 SHGs in Raibareli district, Uttar Pradesh over the period 2000-04. The study shows improvement in saving, gradual shift from consumption loans to production loans, reduction in interest burden, improvement in recovery performance, income level and asset base of SHG members. The study concludes that there is an upward movement of rural poor on the prosperity ladder as shown through participatory wealth ranking.

The study on SHGs in Gujarat by Kalpesh Kumar and R.L. Shiyani, over the period 2002-06 points out better performance of women SHGs in terms of number and amount of loan, recovery performance, savings, and working capital compared to their counterparts. Financial irregularities and subsidy motive, non-availability of quality training and internal dispute emerged as the reasons for defunct SHGs. M. Anjuman and C. Ramasamy note positive impact of SHGs led by NGOs or Government on income, employment and asset position of rural women in Coimbatore and Ramanathapuram districts of Tamil Nadu. The authors emphasise on the importance of training to NGOs for their capacity building. Similar results on the socio-economic upliftment and its sustainability through micro-financing/SHGs are reported by Subhash Chand *et al.*, through a case study in Nilgiris, Tamil Nadu, Sanjay Kumar *et al.* for Hoshiarpur district, and by Paramjeet Kaur Dhindsa and Seozy Bhatia for Amritsar district in Punjab. They make a plea for greater efforts and encouragement to promote SHGs. O.P. Shukla discusses the growth of SHGs and SHGs linked with bank over the period 2001-04 in Uttar Pradesh. In another study, Ashok Kumar and Lakhsmi Prasanna, analyse the determinants of repayment behaviour of SHGs in Jaunpur district of Uttar Pradesh. The authors conclude that higher amount of loan, and socially and economically more heterogeneous groups may add to default in loan repayment and that groups engaged in non-farm activities show better repayment performance compared to groups engaged in farm activities.

V. Puhazhendhi attempts to estimate loan transaction cost from lender and borrower perspectives using bank branch data and primary data from 120 rural women in Rajasthan, Tamil Nadu and West Bengal. Transaction cost to lender per100 rupee of loan turned out to be lowest (Rs. 11.48) for RRB formed SHGs (Model I), and highest (Rs. 16.18) for NGO formed SHGs (Model III) and Rs. 12.44 for commercial bank formed SHGs (Model II). Total transaction cost to borrower is estimated at Rs. 3.64, Rs. 4.67 and Rs. 11.93 per 100 rupee under Model I, II and III respectively. However, due to lack of some important methodological details, the latter estimates need to be revisited. The author advocates expanding and deepening of the SHG–Bank linkage programme, review of loan charges by micro financial institutions in the light of their transaction cost to avoid the charge of exploitation, and simplifying the bank linkage procedure.

Indebtedness

Two papers report on indebtedness. Rabindra Nath Pramanik reports declining incidence of indebtedness in West Bengal from 40.2 per cent in 1977-78 to 36.4 per cent in 1999-2000, based on Rural Labour Enquiry Reports. Further, the micro level study, based on field survey of 180 households, indicated that only 1.74 per cent of indebted agricultural labour households took loan from banks and co-operatives.

They mainly got institutional finance from the government under different anti-poverty programmes. The author emphasises on the greater need of SHGs and micro credit. S.P. Saraswat and Ranveer Singh, through a village case study in Himachal Pradesh, notice declining incidence of indebtedness across all sections of the village community between the period 1959 to 2005. No case of consumption credit was noticed in the village in 2004-05. The changing shift from non-productive to productive and non-institutional to institutional credit is found to be encouraging.

Performance and Profitability of RFIs

Fourteen papers can be placed in this category. Deepak Shah examines co-operative credit in Maharashtra. The study shows a slow growth in credit through co-operatives and also in their membership during the decade of economic reforms (1991-2000) as against the preceding decade (1980-90) but, the decade of reforms is marked with higher growth in deposit mobilisation of these credit institutions. A disquieting feature is the outstanding loan of PACS per ha of GCA growing at a faster rate than loan advances per ha of GCA during both the periods in all the regions except Vidarbha. However, post-reform period indicates slowing down in the growth of per ha outstanding loans and overdues in all the regions except Vidarbha. The study shows the lowest magnitude of credit delivery through PACS in Vidarbha region during the TE 2002-03.Cotton crop having single largest share in co-operative loans accounted for about 45 per cent share in Vidarbha region compared to other regions where the share ranged between 11-12 per cent. The author recommends focusing on strategies to tackle issues of sustainability and viability, operational efficiency, recovery performance, small farm coverage and balanced development. R. R. Nirgude *et al.*, using annual reports of 24 PACS in Ahmednagar district of Maharashtra rank societies on the basis of a performance index. Investment in non-productive purposes, unremunerative prices and crop failure are reported as the major causes for non-repayment of loans of PACS. In another study in Maharashtra, K.S. Birari *et al*. looks at the performance of co-operatives using decadal data from 1960-61 to 2004-05. Significant positive CAGR in the range of 1.04 to 1.20 is noted in a number of societies, their membership, working capital, advances and outstanding loan in all types of co-operative societies. He concludes that a slightly higher rate of growth in outstanding loans than that in loan advances indicates the problem of overdues.

C. Sarkar *et al*., assess the profitability of State Co-operative Bank of West Bengal, DCCB of Nadia District and its five PACS, over 1990-95 (Period I) and 1996- 2001 (Period II). The SCB and DCCB are found to be financially viable in both the periods. While SCB and PACS show declining profitability in period II with three PACS becoming non-viable, DCCB shows improvement in profitability in period II. The authors conclude that sustainability of these RFIs is highly eroded by rising cost of funds and operational inefficiency. K.K. Bagchi and Abdul Hadi observe that the number of profit making RRBs in West Bengal increased over time in all the nine RRBs in 2000-01. Per RRB and per branch productivity in the state was higher than that at the national level but per employee productivity showed a reverse trend. The analysis shows that operational efficiency declined at the state as well as at the country level during 1995-96 and 1999-2000 but it was still higher in the state. Credit-deposit (C-D) ratio also declined but state level picture was poorer than at the country level. The authors emphasise upon strengthening of personnel policies, greater freedom in governance and recovery climate to improve profitability of RRBs.

A.K. Koshta *et al.,* find significant negative rate of growth in CD ratio and profitability of PACS in Raipur district of Chhattisgarh state over the period 1990-2005. The loan overdues appear as the major roadblock in the profitability of PACS. D.P. Malik *et al.,* using secondary data for the period 1992- 2004, observe unsatisfactory ratio of profit to working capital as well as profit per PACS and irregular fluctuations in the growth of profit in Haryana. The deposit performance appears good but declining C-D ratio is seen as a matter of concern. The authors advocate for training of officials and computerisation of society to improve the situation. Amandeep Kaur and Kuldip Kaur throw light on the performance of PACS in Punjab over the period 1993-2005. It is observed that PACS in Punjab are doing better in terms of average loan per borrower and per cent of profit earning PACS but poorer in the average deposits than national average. Decreasing share of Government in share capital resulting in greater autonomy appears as a good sign. The authors call for innovative schemes to increase deposits which are noticed as the most important determinant of average profit per PACS, besides appointment of full time secretary. The authors suggest sale of inputs and commodities and provision of agri-related services by PACS to enlarge their membership. Archana Shukla examines the financial resources of PACS in Uttar Pradesh over the period 1996-2006. She concludes that there is ample scope for increase in the amount of share capital and deposits to strengthen internal sources of capital. S.K. Singh *et al.,* in a case study of PACS in Ghazipur district of Uttar Pradesh find the PACS in good position. S.K. Goyal analyse the performance of co-operative credit to agriculture in India over the period 1993-94 to 2004-05. The authors conclude significant growth in loan advanced per member and per borrower, deposit per member and per society and loans per ha of GCA, but with high inter-regional disparity. The authors note with concern that overdues increased at the same rate at which loan advanced increased.

The study of scheduled commercial banks- 27 public, 31 private and 31 foreign banks during the period 1997-2005 by Paramjit Nanda and Priyanka Mahajan shows that priority sector advances significantly affect non-performing assets in public sector but not in private sector banks. The authors suggest that for efficient recovery of priority sector loans, proper selection of the borrower, end user, post sanction follow up, regular contact with the borrower and, monitoring of accounts and holding of recovery camps are important. A study of 14 rural, semi-urban and urban branches of Punjab National Bank from five districts of three agro-climatic zones of Punjab by Trinath Rayudu *et al.,* reveals that the overall financial position of all the branches is sound. For every one lakh rupee of net expenses, the average outreach noticed is the highest in rural branches (10 accounts) followed by semi-urban (4 accounts) and urban (2 accounts) branches. Agricultural credit accounted for 88 per cent of priority sector advances by rural branches, as against 53 per cent and 17 percent respectively in case of semi-urban and urban branches. J.P. Misra and S.K. Maurya in their micro level study of commercial banks in Gorakhpur district find the highest amount of overdues of crop loan on large farms and that of term loans on marginal farms.

Savings Products

Savings are the basis of all financial services but presently rural deposits constitute only about 15 per cent of total bank deposits. The only paper by Sanjeev Kapoor, using field level evidences from Kanpur, Uttar Pradesh, identifies the key requirements in developing savings products for the rural sector in terms of product, promotion and delivery channel. The paper clearly establishes that ample opportunities for mobilising savings and possible opportunities for MFIs to deliver the saving services exist in rural areas. Interestingly, interest on savings does not appear a very important attribute for any category of households.

Credit Policy

Three papers can be placed in this category which dealt with some policy issues. Arvind Awasthi, using production function based rationale, estimates that between 1981-82 to 2000-01, on an average 1 per cent decline in the ratio of investment credit to production credit caused value of agricultural output per unit of production credit to fall by 2.5 per cent. He estimates the ideal range of investment credit to be around two-third to three-fourth of the production credit. He demonstrates that substantial downward deviation from the ideal range beyond 1995-96 significantly decelerated growth of capital formation and adversely impacted growth rate in the Ninth Plan period. He advocates for a more systematic approach of agricultural lending.

P.C. Chaudhari argues that financial exclusion is a key policy concern. He points out that lack of information and scattered rural population are its major causes. Higher transaction costs, minimum level of deposits and absence of delivery tools are among other contributors toward financial exclusion. He observes that the poor need a range of financial services and not just loans. The exclusion has been a result of non–availability of livelihood opportunities and/or capacity to generate surplus. He emphasises upon the importance of rural infrastructure, availability of water, effective marketing mechanism and risk mitigation measures for farmers, financing through joint-liability groups to landless people and, desirability of area/need specific products. He strikes a note of caution about the mass lending operations in haste, like the loan melas of 1990s, which left many banks gasping.

Sunil Kumar attempts to provide a conceptual exposition to the mechanism of "aggregators" through which it could be possible to ensure that benefits of futures trading reach the farmers. The paper argues that it is possible to use Agriclinic/Agribusiness Centres, PACS and/or warehouse/godown owners as aggregators with a suitable training imparted to them.

III

ISSUES FOR DISCUSSION

The review of papers in the preceding sections and the challenges before the rural financial institutions bring out the following issues for discussion.

1. The proportion of farming population within the fold of RFIs is low, particularly that of small and marginal farmers and scattered and wandering population of landless agricultural labour. How to increase the outreach of RFIs to weaker sections of rural community without unfavorable effect on their viability?

2. Borrowing and debt are two sides of the same coin. Without removing other serious constraints on development relating to price incentives, farm production and input supply systems, access to markets, adequate and reliable supply of irrigation water, security of land tenure, risk insurance, etc., provision of credit at an artificially low price increases the seriousness of these other constraints and exposure to financial risk more rapidly than their opportunities to reap benefits. This may increase the indebtedness leading to unforeseen outcomes. What can be done for effective linking of credit with marketing and insurance?

3. Below market interest rate/low interest rate policy is advocated for rural finance, but it is the total of interest and transaction cost to borrower that is of ultimate concern. It appears the farmers would not mind paying higher interest rate provided adequate loan is available at the right time in a hassle free manner as is evidenced by significant presence of informal credit. Can the real cost of institutional borrowings be cut by pricing the loan at market interest rate but reducing unit transaction cost by simplifying the loan procedure? Will charging market interest rate attract banks to lend more to agriculture and be helpful in increasing their outreach and at the same time maintaining their viability? What innovations/mechanism can be evolved to simplify the loan delivery system of RFIs?

4. Micro finance is an intervention which has emerged in response to the need to address the challenge of financial inclusion. Interest rate charged by MFIs hover between 20-40 per cent. At these high rates, is micro finance a viable alternative to bank loans, especially for small borrowers, given the fact that the transaction cost in the form of loss of productive hours, travel and documentation requirements are more in bank loans or is it only to act as a deterrent to lending by exploitive local moneylenders who charge even much higher interest rate?

The repayment rate in micro finance is reported to be as high as over 95 per cent. If this repayment is made out of incremental income accruing from loan investment and there is upliftment in condition of borrowers, does this imply that rate of return on investment in agriculture and allied activities is more than 20 per cent (interest rate)? If not, then what price and other incentives are required?

5. An imbalance is emerging in credit-mix due to faster growth in production credit and deceleration in the growth of investment credit. This adversely affects private capital formation, and production credit-elasticity of output. What approach can be adopted to keep the credit-mix in the desirable range?

6. Developed regions attract more institutional credit than underdeveloped regions reflecting inter-regional disparities in the flow of credit. This gives rise to two issues.

   - Is per ha flow of credit an appropriate measure of inter-regional disparities or other measures such as per cent coverage of cost of cultivation by institutional credit in different regions or total credit flow as per cent of net state domestic product?

   - Developed regions have better credit absorbing capacity. Therefore, will pushing up the flow of credit to underdeveloped regions, without noticeable improvement in all those parameters which determine credit absorbing capacity, be beneficial?

7. Even among weaker sections of rural community, there is usually the capacity to save seasonally, but there are no savings products available that would suit the needs and preferences of different categories of rural populace. What systems are required to reach out to these savings?

8. RRBs are considered to be best suited to champion the cause of rural banking and finance. Should RRBs continue to function as rural subsidiaries of commercial banks or they should be delinked from banks and reorganised to function as a separate independent rural banking institution providing wide ranging financial services besides rural finance?

9. Lack of awareness is found to be a major cause for non-participation in the institutional rural financing and insurance programmes. What additional extension support is needed for widening and deepening of awareness among the rural populace?

10. Is there a need for bringing private moneylenders under some kind of regulatory framework for checking the exorbitant interest rates charged by them?

11. When institutional agencies are ordered to charge low interest rates, they need and expect periodic capital injection from the national budget. This expectation often leads them to tolerate poor repayment performance, rather than to exercise due follow-up of loans, particularly against the large borrowers who are the main beneficiaries of subsidised credit. Therefore, would it be desirable to keep cost of borrowing low by keeping interest rate artificially low or through reduction in unit transaction cost?

12. There is need for avoiding any duplication in efforts to serve the rural areas through institutional finance while at the same time ensure that the rural households will have one alternative institutional source, if the co-operatives are not able to serve them. How the problems of inter-institutional co-ordination for financial and technical support to rural borrowers can be further ironed out?

13. Declining share of co-operatives in rural finance and their viability are a matter of serious concern. In this regard, states need to act upon reforms suggested by Vaidyanathan Committee on revitalisation of short-term co-operative credit. A report on investment credit is awaited.