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RAPPORTEUR'S REPORT ON INSTITUTIONAL CREDIT—RURAL

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Rural credit has been recently subjected to a good deal of re-assessment and re-appraisal: the in-depth studies on rural credit and credit institutions at present commissioned by the Reserve Bank of India and the World Bank are evidence of this process of re-thinking on the subject. In a way, the problems that have now cropped up in the area of rural credit may be regarded as second generation problems—problems that have arisen in the wake of significant headway that institutional credit to the rural sector has already made. That is why perhaps, the Indian Society of Agricultural Economics thought it appropriate to discuss the subject again in this perspective, although the subject was discussed only two years back at the 1986 Annual Conference.

I

ISSUES FOR DISCUSSION

It would therefore be more fruitful if this Conference could focus its analysis on these second generation problems, which include, *inter alia*, the following:

1. At the outset, at the *macro* level, a basic question may be posed regarding the relative contribution of agriculture to the total national income. By the end of the Seventh Plan, a structural transformation in the economy is anticipated to take place; agriculture and related sectors are expected to contribute 33 per cent of GDP in 1989-90, while the share of mining, manufacturing, construction, electricity and transport will be 34.4 per cent. By the end of the Seventh Plan, therefore, the contribution of the agricultural sector, industrial sector and the services sector, in terms of income generated, will be roughly of equal proportions, that is about one-third each. This aspect of growth has important implications for sectoral allocation of the total flow of institutional credit: Would a declining share in national income necessarily mean a relatively lower share in total credit for the agricultural sector? For instance, would the present target for commercial banks of 40 per cent of incremental credit to be allocated to the priority sectors, as also the targets of credit-deposit ratios in respect of rural and semi-urban branches be revised downwards ?

2. It is necessary to draw a profile of what might be called the 'institution-mix' of financial institutions catering to the rural sector. At present, there are at least three financial institutions engaged in financing agricultural/

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rural development activities: Commercial Banks, Co-operatives, Regional Rural Banks (RRBs). This is, of course, consistent with the multi-agency approach adopted for rural development. It would be useful therefore to draw up a blueprint of the 'institution-mix' for different States/regions, assuming that the multi-agency approach would continue to be followed. Obviously, there cannot be any unique formula for the country as a whole. Different 'mixes' would have to be evolved for different regions, depending upon the strength of the Co-operatives in the region, the potential for agricultural/rural development, the nature of development activities and other related factors. This process of evolving the region specific 'institution-mix' would also involve the revitalisation of the co-operative credit structure, some restructuring/merger of these institutions with a view to strengthening the viability of the financial system as a whole.

3. Concurrently, the question of harmonising the activities of these three institutions needs also to be examined. Their functions should be so fashioned in the future set-up that there is minimum of overlap and, taken as a whole, they are mutually supportive. For instance, could the RRBs act as agents of Commercial Banks for meeting the credit requirements of large borrowers? Again, Commercial Banks could support the range of marketing co-operatives operating at the district/regional level. The Hate Committee did look into some aspects of the financial linkages between Co-operative Banks and Commercial Banks, but only at the periphery. A more positive and conscious attempt to forge links among these three institutions appears to be called for with a view to promoting optimal use of financial resources in the economy as a whole.

4. The role of 'owned resources' of farmers in financing agricultural production is an area which has not received adequate attention. In the agriculturally affluent regions like the Punjab-Haryana region, such 'owned resources' do account for a significant proportion of total financial resources used in agricultural production. In fact, the relatively lower credit-deposit ratio in the Punjab-Haryana region is attributed to the sizable 'owned resources' of the farmers. In various estimates of the demand for credit, this factor is generally ignored. In the second generation problems, it is important to consider this point because part of the resources, which would have been otherwise allocated to such agriculturally affluent regions, would become available for being deployed in the less developed regions.

5. On the credit delivery system, the Reserve Bank of India has recently commented: "The strength and weaknesses of the credit delivery system in the rural sector need to be reassessed." And further, "The paramount need at the present juncture is to ensure higher productivity of institutional credit and better recycling of funds" (Annual Report, 1987-88, p. 67). The new phase of 'service area approach' scheduled to commence from 1989, is expected to improve the system of credit delivery. Under this system a specific area is assigned to each bank branch so that branches could concentrate on 'productive lending'.

6. There is a revival of interest in the District Plan in the context of the formulation of the Eighth Plan. If the District Plan emerges as an operational reality, would it facilitate institutional credit planning for the rural sector ?

7. Lastly, the ability of financial institutions, particulary the Co-operatives and RRBs, to enlarge substantially the size of rural credit depends, in no small measure, on the degree of success with which they are able to mobilise resources from the rural sector. The track record of these institutions in this area has been far from satisfactory, although the marginal propensity to save is estimated to be quite high in the rural sector.

II

CURRENT ISSUES: FURTHER DISCUSSION

The issues listed above perhaps represent the problems which could arise in the process of chalking out the future course of development of rural credit institutions. In addition, there are the problems, at present being faced by rural credit institutions, which also need to be discussed. Most of these current issues have been covered by the 50 papers accepted for discussion at this Conference and, for convenience of discussion, these issues could be grouped into the following categories: (*a*) Regional and Class Disparities in the Distribution of Rural Credit, (*b*) Growth and Equity, (*c*) Structure of Institutional Credit, and (*d*) Overdues: Recycling of Resources.

(*a*) *Regional and Class Disparities in the Distribution of Rural Credit*

It is well-known that the distribution of rural credit has been uneven, both regionally and in terms of size-groups of farmers. Using the data from the 26th (1971-72) and 37th Round (1981-82) of National Sample Survey (NSS), T. Haque and Sunita Verma show that (*i*) although over the period, the share of institutional credit in total credit has recorded a remarkable rise in most parts of the country, non-institutional credit continued to play a dominant role in States like Andhra Pradesh, Assam, Bihar, Rajasthan and Tamil Nadu, accounting for 57 to 69 per cent of total credit; and (*ii*) the distribution of institutional credit is highly skewed in favour of the relatively progressive States and better-off sections of the population. The second aspect is further corroborated by A. K. Giri and Tamal Dasgupta who have examined the distribution of loans by primary agricultural credit co-operative societies (PACS). They add that the disparity in the distribution of credit by co-operatives is, to some extent, compensated by flow of credit from commercial banks and RRBs.

Disparities acquire a multi-dimensional image in R. V. Dadibhavi's paper which provides a more detailed analysis of the disparities which, according to him, have widened over the period 1970-71 to 1984-85. The short-term credit of commercial banks is more unevenly distributed among regions than medium and long-term credit, and the disparity in the distribution of co-operative credit is much greater than that in the distribution of commercial bank credit. In terms of distribution of credit according to size of holdings, short-term credit of commercial banks is more unevenly distributed among small holders, as compared with the position of co-operative credit. In terms of credit requirements, Dadibhavi identifies the following States as deficit States: Assam, Bihar, Haryana, Jammu & Kashmir, Punjab, Rajasthan, Uttar Pradesh and West Bengal. Punjab seems to be in odd company! This is perhaps because the exercise does not take into account 'the owned resources' component of credit—a feature to which a reference has been made in Section I.

Following a study of regional distribution of credit extended by Land Development Banks, M. M. Bhalerao *et al.* conclude that the degree of inequality in the distribution of credit has increased during the period 1968-69 to 1980-81. An analysis of institutional rural credit disbursal according to different size-groups of farmers reveals that the distribution is biased in favour of medium and large farmers. This is borne out by the field investigation conducted in Ludhiana district by R. S. Prihar and Narinder Singh, who found that small farmers depend on non-institutional credit, to a relatively greater extent, than the medium and large farmers. This aspect of credit distribution is further corroborated by K. J. S. Satya Sai who conducted a field study in a relatively well-developed region —West Godavari district in Andhra Pradesh. He finds that in the case of marginal and small farmers, institutional credit meets only 41 and 63 per cent respectively of the crop production requirement. Interestingly enough, institutional credit extended to medium and large farmers far exceeded the production requirements.

In contrast to the general trend, Hemchand Jain who conducted an investigation in Mandla district of Madhya Pradesh finds that institutional credit has conferred maximum benefits on the small borrower-farmers in the tribal belt. In a similar vein, A. K. Sharma and Kuber Ram found in an investigation in Saharanpur district of Uttar Pradesh that the percentage of borrowers was the highest in the group of marginal farmers; and the small farmers' group was next in importance.

Here the question really is that though numerically the marginal and small farmers may claim a higher percentage of the total number of borrowers, is their relative share in the total quantum of credit adequate? Rajkishore Panda addressed himself to this question and found that in the case of borrowings from the primary credit societies in Orissa, the large farmers received a disproportionately greater share of total credit.

(*b*) *Growth and Equity*

In the rural sector, institutional credit has emerged as an instrument of promoting growth with equity. If these twin objectives of policy were to be achieved, what should be the criteria of allocation of the available quantum of production credit among different categories of farmers? In their interesting daper M. L. Sharma and S. K. Tewari have provided an illustrative exercise making use of the data at the block level. How far this approach could provide an operative apparatus is an issue which could be discussed.

Commercial banks have endeavoured, in the post-nationalisation period, to ensure that the small farmers also benefit from bank credit. If this endeavour has not succeeded, K. Munidoraswamy Naidu and K. B. Surendrababu argue that the explanation lies in what they call the 'credit need' approach adopted by banks. They put forward the proposal that this approach be replaced by the 'debt capacity' approach which is defined as "the amount of credit than an individual, enterprise, organisation, activity, industry or sector can obtain." From the brief discussion in the paper it is not clear how the two approaches make such a difference to inter-group disbursement of rural credit. In fact, the distinction between 'repayment capacity' and 'debt capacity' is also unclear.

(*c*) *Structure of Institutional Credit*

With the emphasis being given to non-farm rural activities in lending programmes like the Integrated Rural Development Programme (IRDP), credit needs of this category have acquired larger dimensions. The need to shift the focus of rural credit from farm production to the non-farm rural sector has been emphasised by M. N. Upadhyay. Although the National Bank for Agriculture and Rural Development (NABARD) has given a new thrust to the non-farm activities, he feels that non-farm categories like artisans and handloom weavers are unable to benefit from these lending schemes because they are not properly organised.

The structure of rural credit is, in some respects, a function of the production-mix of the rural sector; for instance, if processing industries begin to acquire greater importance, part of the available credit would need to flow to this sub-sector. Technology also becomes relevant in this context. Aswini Kumar Sarma and Roop Narayan Pandey have undertaken an exercise to estimate the credit requirements for modernisation of agricultural production in Haryana by the year 2000. This exercise which cover both crop and livestock production is done with reference to six different levels of technology.

(*d*) *Overdues: Recycling of Resources*

One of the major stumbling blocks in the efforts to enlarge the flow of institutional credit to the rural sector is the mounting overdues in the case of commercial banks and co-operatives. This phenomenon prevents the recycling of available resources. Several factors responsible for the poor recovery performance have been discussed: defective assessment of input costs and value of output, misutilisation of loan, diversion of income to other purposes, lack of efficient supervision and follow-up, natural calamities and so on.

Premji M. Patel has carried out an investigation into three primary societies in the Sabarkantha district of Gujarat. Two of these societies were engaged in the production of improved seeds and as a result the recovery position in respect of these improved remarkably. The third did not undertake this activity and hence its overdue position deteriorated. Patel concludes that increasing the income-earning capacity of the farmers is the key to reduce the overdues.

Analysing the data relating to repayments to State Bank of India branch in Shahpura block of Jabalpur district in Madhya Pradesh, J. K. Gupta finds that the repayment performance is better in respect of term loans—extended for irrigation purposes—than that in respect of crop loans.

T. N. Datta found that 80 per cent of the total borrowers under the tube-well financing scheme in Nadia and Malda districts of West Bengal were defaulters. This high degree of default, according to Datta, is attributable to the faulty repayment schedule of financial institutions which do not take into account the inter-regional variations in incremental income.

III

MISCELLANEOUS ISSUES

Some papers have attempted to present an omnibus picture of rural credit in specific areas/regions/blocks: supply of and demand for credit, credit gap, short-term and long-term credit, credit for farm and non-farm activities, credit for aquaculture, credit management problems, repayment pattern and so on. Useful as they are for providing a sort of 'situation report', it is difficult to extract from them specific issues which have larger relevance for the main theme. Many papers dealing with the working of IRDP, RRBs, Service Co-operatives, LAMPs, fall into this category. Nonetheless, some questions arising from the assessment of the performance of these institutions could form the subject-matter of discussion.