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Rapporteur's Report on Agricultural Finance in the Context of Technology-led Development of Agriculture

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During the last thirty years or so Indian agriculture has been on a steadily increasing growth path. This growth has resulted due to technological improvements introduced in the sector through various schemes. The adoption of new technologies has increased the use of working capital (due to changes in cropping patterns and enhanced use of purchased inputs per unit of land) and induced investments in irrigation, machinery and land improvement. To meet these financial needs of the farm sector formal rural credit has been constantly under review. Beginning with the nationalisation of 14 major commercial banks in 1969 (six more added in 1980) various policy instruments were introduced to ease the availability of cheap credit for agricultural development. Some noteworthy are the policy on expansion of rural branches, schemes to rejuvenate the Primary Agricultural Co-operative Societies (PACS), formation of Farmers' Service Societies (FSS) and Large-Sized Adivasi Multi-Purpose Societies (LAMPS), setting up of Regional Rural Banks (RRBs) and National Bank for Agriculture and Rural Development (NABARD), priority sector lending, district credit plans, and selective area approach. As a consequence, since bank nationalisation, great strides have been made both in the volume and reach of credit to the agricultural sector, unparalleled anywhere in the world. The rural branches of the banks increased from a mere 1832 in 1969 to 35,313 in 1992. Population per rural branch came down from 65,000 to 11,000. Credit outstanding to agriculture from the institutional agencies (banks, co-operatives, RRBs) amounted to Rs. 38,657 crores in 1992 of which direct finance was Rs. 30,550 crores.

There is no gainsaying the fact that the expansion in the volume and reach of the formal finance to agriculture has helped in the speedy adoption of modern farm technology. The area under high-yielding varieties (HYVs), consumption of chemical fertilisers, pesticides, number of pumpsets and tractors in the farm sector registered a phenomenal growth. This has led India from an importer of foodgrains to a surplus producer and sometimes as exporter.

However, every success has a cost and agricultural finance is no exception. Concessional credit, mounting overdues, unviable branches, increasing service and transaction costs have eroded the profitability of the banks. In the wake of the new economic policy, the banks are under great pressure to perform. Under the circumstances they would be glad to accept the recommendations of the Narasimham Committee to reduce priority sector lending, do away with concessional credit, merging rural branches with RRBs, etc.

On the other hand, although many institutions have been created and schemes formulated to supply credit to the poor and weaker sections of the society, the sheer magnitude of the problem dwarfs the achievements leading to the rising crescendo of criticism that the institutional credit has failed to bring about the desired changes.

In the light of these circumstances it would be apt to discuss the future of institutional finance to agriculture and allied sectors.

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Twenty-one papers have been accepted for discussion. They can be divided broadly under two main themes: (a) Impact of institutional credit at the farm level and (b) Performance of rural financial institutions.

IMPACT OF CREDIT AT FARM LEVEL

There are 13 papers which deal with this theme.

K.A. Khunt *et al.* analyse the data of four bank branches in Navsari taluka in Gujarat regarding loan, repayment and delay in repayment. They found that allocation of credit increased significantly over the period but the rate of recovery lagged behind the rate of credit allocation. They found that the percentage of borrowers who delayed the repayment continued to increase after the introduction of Agricultural and Rural Debt Relief Scheme, 1990. Their sample farmers interestingly were not in favour of such a scheme.

Balishter and Pankaj Kumar studied 75 farmers of Bichpuri village in Agra district of Uttar Pradesh and found that the per hectare use of credit was higher in the case of marginal farmers compared to the small and large farmers. Commercial banks topped in providing credit to the farmers followed by PACS and Land Development Banks (LDBs). The diversion of credit to unproductive purposes was as high as 46 per cent. It was the highest for the marginal and small farmers. Naturally they had a higher share in the overdues estimated at 45 per cent of demand.

G.N. Singh *et al.* have explored the functioning of the financial institutions in Azamgarh district of Uttar Pradesh. They found that the cause of overdues was the weak financial base of the farmers in the area. Political leadership was responsible for wilful default. They opined continuation of direct lending for another 10 to 15 years.

H.C. Jain *et al.* have assessed the effects of Madhya Pradesh Farmers' Debt Relief Scheme and Madhya Pradesh Agricultural Production Incentive Scheme, 1990 in Patan block of Jabalpur district. The relief was mainly for crop loans. All the borrowers of co-operatives irrespective of the size of holding were eligible for the benefits of the scheme. The repayment of fresh loans did not show any improvement due to loan waiver. The scheme succeeded in the redemption of old debts but recovery of fresh loans was a major problem faced by the co-operatives.

R.S. Tripathi *et al.* in their paper have found that the impact of credit on the returns from the crops were highly significant. The marginal value of productivity of crop loan was the highest in high-hill zone. They concluded that there was scope for increasing production with higher use of credit.

R.K. Sharma *et al.* have analysed the Rural Labour Enquiry Reports for 1964-65 and 1987-88. They found that the non-institutional debt amounted to 65 per cent even in 1987-88. Rajasthan ranked first in both the periods in terms of total debt. Debt due to borrowings for productive purposes was the highest for Haryana. They found that the disparity in the use of credit among the states has decreased due to the increased role of institutional sources.

H.N. Atibudhi and J.P. Singh have studied the credit utilisation by the farmers in two blocks of Orissa and found that the flow of credit to the small and marginal holdings was less than proportionate.

S.P. Gupta found considerably higher adoption of new technology among the beneficiaries compared to the non-beneficiaries of institutional credit in a block in Raipur district of Madhya Pradesh. The income level of the farmers was much higher than the latter in the

Chhattisgarh region.

S.N. Tilekar *et al.* have estimated the capital requirements for the four regions of Maharashtra for the years 1994-95 and 2000, assuming an inflation rate of 6 per cent per annum throughout and growth rates of 0, 1, 2 and 3 per cent per annum.

N.K. Singh *et al.* found that there was no significant change between pre- and post-Service Area Approach in a block in Ballia district of Uttar Pradesh.

C.L. Dadhich has found that though the distribution of land is highly skewed, the distribution of credit was somewhat fair. The supply of credit has increased the disparity of income and wealth between borrowers and non-borrowers especially in the case of small farmers due to negative real interest rate and higher leverage. He argued that a policy to curtail concessional credit to the priority sector would reduce the availability of funds to the weaker sections and it would in turn worsen the distribution of income and wealth in the sector.

G.C. Srivastava found that the institutional credit supplied by the RRB of Sitamarhi district and LAMPS in Dumka district of Bihar was not rationally utilised. He has suggested the need for changing loaning priorities in favour of crop production by RRBs and cattle and crop loans by LAMPS.

Tarvinder Singh Chahal in his paper has tried to find out the viability of the long-term credit for different sizes of farms in Punjab. The repayment capacity of the small as well as medium farmers was negative in all the zones at the existing level of credit use and they could repay by covering risk only at the recommended level. Only the large farmers have the risk bearing ability to repay the loan under all situations.

PERFORMANCE OF INSTITUTIONS

Of the eight papers which deal with this theme, the paper of R.L. Shiyani and J.K. Patel analyses the physical and financial performance of Banaskantha-Mehsana RRB for the two periods, viz., the period of establishment and the period of development. They found the volume of business of the bank increased at a relatively faster rate during the period of development.

Kandarpa Kumar Barman conceptually analyses the implications of the financial sector reforms. The author feels that a high lending rate to the agricultural sector together with a reduction in the priority sector lending as proposed by the Narasimham Committee may jeopardise the rural credit system. Better identification of borrowers and recovery may be helpful rather than reducing the priority sector lending or increasing the interest rate.

Amalesh Ch. Banerjee argues for the merger of rural branches of commercial banks and emphasises the need to revitalise the RRBs and co-operatives. He also recognises the need for setting up a National Co-operative Bank for the hill regions and Rural Infrastructure Development Bank for the development of rural infrastructure.

T.P. Gangadharan brings out that the simplicity of the procedures is the strength of informal credit in rural areas. Formal credit can overcome many of the constraints through financing Self-Help Groups.

S.L. Kumbhare *et al.* have evolved a methodology to derive the service cost and transaction cost and tested the same for the rural financial institutions in three districts, namely, Thane district of Maharashtra and South Arcot and Kamarajar districts of Tamil Nadu. The transaction cost in respect of RRBs, LDBs and PACS ranged between 2.59 and 7.38 per cent, between 3.2 and 4.22 per cent and between 1.53 and 6.15 per cent respectively for the three districts. Service cost for RRBs and PACS varied between 2.4 and 3.88 per cent and between 0.71 and 1.81 per cent respectively. High transaction and service costs in Thane were due to low business. One alternative to reduce both these costs is linking of Self-Help Groups with credit institutions.

Sheila Sinha *et al.* analyse the financial viability of a Central Co-operative Bank and a RRB in Singhbhum district of Bihar. They found that the financial performance of the Central Co-operative Bank was better than the RRB.

By analysing the data from co-operative credit institutions in Tamil Nadu, N. Ajjan found that the Business Development Plans for the PACS in the state showed encouraging results.

Sushila Srivastava *et al.* while studying the role of RRBs in supplying rural credit, have listed the bottlenecks and measures taken to implement the recommendations of the Narasimham Committee.

ISSUES FOR DISCUSSION

Though several of the issues emerging from the papers included under this subject are interlinked, yet it would be useful if the discussion is organised around the following points taking one at a time.

1. How to ensure continuous flow of credit to agriculture and allied activities in the wake of new economic policy and financial sector reforms?

2. How to ensure adequate credit to the weaker sections of the society under Differential Rate of Interest and Priority Sector Lending without affecting the viability of the financial institutions?

3. How to simplify the lending procedures to lessen the hold of non-institutional sources on the rural poor?

4. How to meet the increasing credit needs of the hitherto neglected dryland areas and hill agriculture?

5. How to minimise the transaction cost for the rural financial institutions?

6. How to improve the profitability of the rural financial institutions?