Chapter 2

Review of Literature
CHAPTER-2

REVIEW OF LITERATURE

In this chapter we have tried to review the available literature on institutional agricultural credit for discussing the performance and problems of institutional credit to agriculture, its inter-regional variation and credit gap amongst various sizes of land holdings in agriculture specifically after post-reform period. A brief review of agriculture credit since 1950 is also being given here. The study has been divided into three phases. The first phase is from 1950 to 1969 when co-operative credit societies were the primary vehicle of institutional agricultural credit. The second phase is from 1969-1990. During this period, the nationalization of 20 major commercial banks was undertaken. The banks were hence forth assigned an important task of providing agricultural credit to supplement the credit provided by the co-operatives. In 1975, Regional Rural Banks were established to provide credit to small and marginal farmers and weaker sections of society. In the third phase, beginning with the financial sector reforms of the 1990s, emphasis shifted in favour of prudential regulations, and the focus on social banking got diluted.

2.1 The First Phase (1950-51 to 1968-69)

The All India Rural Credit Survey (AIRCS) report was released in 1954 by the Gorwala Committee. The committee was appointed by the Reserve Bank of India which gave a new dimension to the entire cooperative rural credit structure. One of the important recommendations of the committee was that the Imperial Bank of India should be nationalized and designated as State Bank of India (SBI) and charged with special responsibility for expanding the coverage of rural credit. The survey further observed that agricultural credit as supplied by different agencies fell short of the right amount, not of right type and by the criterion of need often failed to reach the right people.

The report revealed that, despite the existence of co-operative credit societies for over 50 years, it accounted for only 3.1 per cent of the total borrowings of the cultivators whereas commercial banks accounted for a meager 0.9 per cent. Thus, the cultivators continued to depend on the non-institutional sources for more than 93 per cent of the estimated credit requirements in 1951-52 (Table 2.1).


Table 2.1: Relative Share of Borrowing of Cultivator Households from Different Sources in 1951-52

<table>
<thead>
<tr>
<th>Source of Credit</th>
<th>Non-Institutional, of which</th>
<th>Institutional, of which</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Money Lenders</td>
<td>Relatives</td>
<td>Landlords</td>
</tr>
<tr>
<td>1951-52</td>
<td>69.7</td>
<td>14.2</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: All India Rural Credit Survey, 1954

Amongst all the constituents of non-institutional sources, moneylenders held the predominant position. This was due to the fact that there was no other major source of institutional credit and the farmers were forced to borrow from moneylenders even at high rate of interest (Misra and Puri 2008).

Hira and Rajvir (1968) discuss the “Farmers’ Attitude toward Use of Credit” and they found that the farmers turned to moneylenders mostly when they needed small sums urgently or because when they did not have enough security to borrow from credit co-operatives. The terms of repayment to moneylenders was more flexible and could be postponed in bad times even though they knew that the interest rate charged by them were very high. Besides, borrowing for unproductive purposes was also one of the factors responsible for dominance of moneylenders in rural credit.

According to the results of the 8th Round Survey of the National Sample Organization (NSO) Report, in 1953-54, 70.71 per cent of operational holdings were of size-group below 2 hectares and covered only 16.79 per cent of the total operated area. The major part of the amount borrowed by small cultivators was mainly for meeting family expenditures or for the expenses of cultivation.

The AIRCS pointed out that the major portion of the loans from co-operatives went to the bigger agriculturists while the medium and small cultivators, constituting about 75 per cent of the total cultivators of the country, received only a tiny fraction. The committee summed up its findings in the celebrated dictum “co-operation has failed, but co-operation must succeed.” Taking the importance of credit in achieving the targets on agricultural production into account, the committee recommended new
initiatives like state partnership at different levels and co-ordination between credit and other economic activities, especially processing and marketing. Further, it recommended the structural changes of co-operative agricultural credit societies to facilitate the credit requirement of farmers. The structural changes should be in the form that the state level co-operative credit institutions should consist of State Co-operative Bank, Central Land Mortgage Bank and State Co-operative Marketing Society in each State. The institutions of District Central Co-operative Bank, Primary Land Mortgage Bank and District Marketing Society should be formed at the district level. At the village level, Primary Agricultural Credit Societies and Large Area Multi Purpose Societies (LAMPS) should be formed for better allocation of agricultural credit.

The basic need of the small cultivator is for short-term credit, though occasionally he may need medium-term credit for buying plough, cattle or implements. Usually they do not opt for long-term credit because they do not have any security of tenure and absence of any tangible security to offer. Owing to the small sizes of their holdings and low productivity of agriculture, many small farmers do not produce enough to meet their consumption needs. In this context, Roy (2006) has pointed out that institutional credit is the major need of the day because it frees the cultivator from the clutches of moneylenders and enables him to obtain credit that is cheaper, systematized and productive. If the rural credit market is not adequately captured by the formal institutions, the natural beneficiaries would be the informal lenders (Rajeev and Deb, 1998).

In 1956-57, the Reserve Bank of India gave the General Review Report on the Rural Credit Follow-up Survey. The Survey indicates that as far as state partnership in management was concerned the steps taken by the Co-operative departments of State Governments were extremely inadequate. In November 1958, the National Development Council in its resolution on co-operative policy recommended that the responsibility and initiative for social and economic development at the village level should be placed fully on the village co-operative and the village panchayat. They were to be considered as the primary agencies for improving all aspects of rural life through the efforts of the people.

The RBI undertook a re-survey called the All-India Rural Debt and Investment Survey 1961-62, to assess the changes made since the Rural Credit Survey of 1951-
52. It pointed out that, over the period of 10 years, borrowings from the co-operatives had increased from 3.1 to 15.5 per cent but the private moneylenders still predominated. The survey further pointed that majority of the cultivators were borrowed for household expenditure which accounted for almost half of the total cultivators' borrowings from the co-operatives. Many a times the cultivators took new loans for securing ready cash for marriage and religious ceremonies. However there were some perennial weaknesses also, such as small membership, weak capital structure, inadequate loan operations, heavy over dues, failure to harness local savings and to promote thrift continued much as before.

Naidu (1968) found that the major drawback of co-operatives credit was considerable unevenness in the development of credit amongst the states. He further observed that in 1960-61, out of the total credit of ₹ 202.75 crore made available to the members by all agricultural credit societies in the country, 20 per cent was provided to Maharashtra, 15 per cent by Uttar Pradesh and 10 per cent each by Gujarat, Madras, Andhra Pradesh and Madhya Pradesh. The remaining nine states together contributed about 25 per cent of the total credit disbursed. Loans advanced per member were the highest at ₹ 277 in Gujarat, followed by Maharashtra, Madras, Mysore and Punjab. It was below ₹ 20 in Assam and Bihar.

Venkatappiah (1976) gave three important factors responsible for the changes that occurred between 1954 and 1969:

1. Agricultural technology had acquired a new dimension with the development of new varieties of seed which made possible multi-cropping on both medium and small farms besides large farms.

2. Agricultural prices had gone up. Farming seemed to be on the way to becoming a business. Larger production and higher prices implied more credit requirement and more insistence on the need for such credit.

3. The demand for credit was from a wide range of small and marginal farmers as well. This was due to the changes in technology which helped increase the productivity of the small farm and therefore the potential viability of the small farmer.

The other institution in the area of rural credit was Land Development banks which had not performed their role adequately as far as rural credit was concerned. In
this way a new dimension to the rural credit was occurred with the entry of the Agricultural Refinance Corporation (ARC) in 1963. This corporation was primarily a refinancing agency providing long-term accommodation to those agricultural development projects which cannot be financed by the existing credit agencies, that is, Central Land Development banks, State Co-operative banks and Scheduled commercial banks (SCBs). Areas so far not covered within the purview of the normal lending operations of the Land Development banks received particular attention and special schemes were drawn up by these banks for financing with assistance from the Corporation. ARC was to help in augmenting the resources available for provision of medium-term and long-term finance for agriculture.

2.2 The Second Phase (1968-69 to 1990-91)

During the 1950s and 1960s there had been a big industrial push with inadequate attention being given to the agriculture sector. However the drought in 1965-67 brought matters to a head and required concentrated attention to the agriculture sector (Mohan 2004). The Green Revolution during the late sixties, forced the need for providing adequate credit to the farmers that could enable them to purchase inputs such as fertilizers, high yielding varieties of seeds, pump sets for irrigation and so on. In this context Roy observed that credit would not only remove a financial constraint, but it might also accelerate the adoption of new technologies (Roy, 2006).

The Government of India introduced the scheme of Social Control over commercial banks in the early of 1968. Under this scheme the banks were expected to diversify bank credit more widely and extend credit to priority sectors like agriculture and small scale industry. This brought the commercial banks in the field of agricultural credit.

In October 1968, a study group was appointed under the chairmanship of Prof. D R Gadgil to determine the priorities of bank credit among various sectors of the economy of the National Credit Council (NCC)\(^1\). The study group found that out of the total institutional credit to agriculture sector i.e., 39 per cent, the share of commercial banks was meagre at 1 per cent which proved that the banking needs of

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\(^1\) The National Credit Council was set up in 1968 to assess the demand for bank credit from various sectors of the economy and to determine their respective priorities in allocation.
the rural areas in general and backward areas in particular were not being taken care of by the commercial banks. Therefore, the study group in 1969 recommended the adoption of an ‘Area Approach’ for the development of credit and banking in the country on the basis of local conditions to bridge the spatial and structural credit gaps. It further suggested earmarking of the districts to commercial banks so that they could act as pace setters in the districts allotted to them in providing integrated banking facilities. The RBI accepted the recommendation and formulated the Lead Bank Scheme in December 1969, under which a bank was designated as the lead bank in a district. It was introduced to attain decentralization of rural credit down to the district level. The Lead bank was to act as a consortium leader for coordinating the efforts of all credit institutions in each of the allotted districts for expansion of branch banking facilities and for meeting the credit needs of the rural economy.

Besides this, in 1969 the report of the All India Rural Credit Review Committee was also released. It was set up by the RBI to make a comprehensive review of the co-operative movement in India. The committee concluded that the non-institutional sources still accounted for 81 per cent of agricultural credit in 1961-62 as against 93 per cent in 1951-52. The Committee noted that in spite of impressive quantitative growth at the All-India level, the co-operative credit system had made slower progress in several parts of the country such as Assam, Bihar, Orissa, West Bengal and Jammu and Kashmir.

The Committee opined that though the co-operatives were the pioneering institutions in agricultural credit and has increased their coverage in terms of area, number of farmers and quantum of loans since 1950, it is imperative to have other financial institutions to act as supporting agencies due to growing demand for institutional credit in the field of agriculture. Hence it recommended a multi-agency approach to rural credit.

The breakthrough in farm technology and adoption of new strategies in the mid-1960s, for sustaining the growth of agricultural production brought a tremendous spurt in the demand for credit by the farmers (Datey, 1976). Therefore, as Taylor et al., (1986) has concluded that if credit is made available to facilitate the purchase of such modernized production inputs, the productivity, and hence incomes, of traditional farmers in developing countries will improve and the journey towards improved agricultural production processes will begin. As a result of the growing
demand of agricultural credit, in July 1969, fourteen major commercial banks were nationalized and 6 more in 1980. This brought a radical change in the policy and operations of agricultural credit mainly in two directions, one, multi-agency approach to agricultural credit and two, more finance to weaker sections of the community. One of the main objectives of bank nationalization was to embark on a branch expansion programme, particularly in the rural areas, with a view to carrying the banking habits to the underdeveloped and unbanked areas. These banks were convinced to the process of reducing regional imbalance and of affording adequate financial assistance to priority sectors (agriculture, small industries and exports) would be accelerated (Patel, 1976). Nationalized banks were able to pay the much needed attention to the credit needs of weaker sections, farmers, artisans and self-employed.

Bhasin (2006) discussed the banking development in India after independence and observed that the biggest achievement of nationalisation was the reallocation of sectoral credit in favour of agriculture, small scale industries and exports which formed the core of the priority sector. Within agriculture, credit for the procurement of food grains (food credit) was a major item. He found that after nationalisation there was a shift of emphasis from industry to agriculture.

Although in 1969, single agency approach had changed into multi-agency approach the commercial banks failed to fulfill the expectations because of the numerous problems faced by the agencies, like mobilization of savings, more cost, lack of trained personnel and unjust distribution, etc. (Lekhi and Singh, 1996). Therefore, with a view to provide guidance for helping the rural sector of the economy, a Banking Commission was appointed by the Government of India in February 1969 headed by Prof. A. M. Khusro, to study all the important aspects of the working of credit institutions in India. The report submitted in 1972, covers the entire field of institutional and functional aspects of the institutional credit to agricultural sector (co-operative banks, commercial banks, etc). It noted that although co-operative credit institutions were more widespread from the geographical viewpoint and has better knowledge of local conditions but the main problem was their organizational and financial weaknesses.

The important recommendation of the Commission in the field of co-operative was to create a new type of banking at the field level in the form of ‘rural banks’. It would essentially be co-operative in nature and provide services of a much wider
range than are now offered by primary agricultural credit co-operatives. This brought the emphasis on providing alternative sources to provide credit to the weaker sections of the rural society.

The need for setting up of some kind of new institution of rural banks for providing rural credit and replace money lenders was again thought of after launching the 20 Point Economic Programme. Hence, the Government of India appointed a working group on Rural Banks headed by M. Narasimham Rao. It submitted its report in 1975, recommending the setting up of state sponsored region based, rural oriented commercial banks. It would blend with the rural touch, local feel, familiarity with rural problems and low cost profile which cooperatives possessed in a large degree. Hence the Regional Rural Banks (RRBs) were established in 1975. It was expected that this agency would combine the advantages of both the co-operatives and the commercial banks leaving out the disadvantages of both.

RBI appointed a committee under the chairmanship of M.L. Dantwala in 1977, to examine the working of Regional Rural Banks. The committee pointed out that the Regional Rural Banks can become a very useful component in the rural credit if some modifications in their organization and functioning are made. It further pointed that the programme for establishments of more RRBs should be accelerated. The committee was of the opinion that "the credit gap, both quantitative and qualitative, is so large that given a spirit of understanding both Regional Rural Banks and Central Cooperative Banks can function side by side without a clash of interest. This means that the most relevant criterion for the selective extension of RRBs is the state of the cooperative credit structure at the district level."

In March 1979, another committee was appointed by the RBI headed by Mr. Sivaraman for reviewing the institutional credit for agriculture and rural development, known as Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development. The final report was submitted in March 1981. The committee noted that commercial banks could play a significant role in the various programmes of rural development, and suggested measures to improve the quality of lending through these banks. It has recommended the setting up of a national level institution for providing all types of production and investment credit needs of agriculture and rural development. In pursuance of its recommendation, National Bank for Agriculture and Rural Development (NABARD) came into existence on
July 12, 1982. It was set up as a development bank with a mandate for providing and regulating credit and other facilities for the promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also had the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas (NABARD 2009). It took the agriculture credit functions of the Reserve Bank of India and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC).

A working group was constituted by the Government of India under the chairmanship of S.M. Kelkar in 1984 for comprehensive review of the various aspects of RRBs functioning so as to find out ways and means for strengthening their organizational structure and improving their overall capabilities. It submitted its report in 1989. A number of recommendations were made in the report to improve the viability, operational efficiency and managerial effectiveness of RRBs. However the most important recommendation was for the continuance of RRBs but that they should not finance bigger borrowers and should retain their present image of a small man’s bank. The loans should be advanced for the ultimate benefit of the borrowers falling in the target group of the RRBs so that the sense of local feel in the operations is not allowed to dilute. Viability of RRBs will have to be considered in terms of increase in business per branch, recovery rate, productivity of staff, cost-effectiveness of operations, closer monitoring and socio-economic upliftment and improvement in the standards of living of the clientele.

Regional Rural Banks and commercial banks have to be viable in the long run for the success of co-operative banks. It is imperative that they either raise the interest rates on lending or reduce cost of funds or reduce transaction costs or improve loan recoveries (Satish and Gopalakrishna 1997). Gadgil (1992) observed that during the decade 1975 to 1985, the formal agricultural credit system in India was characterized by a substantial quantitative growth but accompanied by deterioration in the quality of lending. There were many factors responsible for decline in the relative importance of co-operative credit. One such factor was directed lending for governmental programmes, such as Integrated Rural Development Programme (IRDP). The viability of the credit institutions was eroded due to rigidly regulated interest rates. Another important factor responsible for the malaise affecting the institutional credit system in
India during this decade was rising overdue. It was in this context that the Khusro Committee (Agricultural Credit Review Committee) was appointed in 1986. It was asked to review a wide range of aspects of the Indian agricultural credit system and make recommendations for improvement. The report was submitted in 1989.

According to the Committee, many of the major ills of the rural credit institutions have arisen on account of over administered rural banking system. It confirmed that a major weakness of the co-operative system has been the negligence of the base level institutions and the tendency of the higher level institutions to look after their own interests often at the cost of the primary co-operative credit society. The co-operative credit system woefully neglected its basic responsibility towards mobilizing deposits, with the lower tiers looking up to the higher tiers for refinance at all levels. Focusing on these drawbacks it recommended the creation of National Co-operative Bank at the national level to function as an apex institution. Its role was to provide leadership in banking operations to the state level institutions and operate as a balancing centre at the national level. It further recommended the continuance of directed lending for agriculture but suggested that concessional interest rates should be charged from the small and marginal farmers also and the interest rates on loans to other farmers within the ceiling of 15.5 per cent.

The Committee further noted that the performance of RRBs was not up to expectation. The most worrying aspect was erosion of their profitability. The major factors which contributed to this erosion was their lending exclusively to weaker sections, low interest rate margins and high operating cost involved in handling small loans with no scope for cross-subsidization. It suggested the merger of RRBs with commercial banks. This will offer a solution to the problem of insolvency and the in-built non-viability of the majority of RRBs.

For the commercial banks, it concluded that if they are to emerge as a strong system to be able to purvey credit effectively and efficiently in the rural areas, the targets for financing weaker sections and the rural poor should be reasonable.

2.3 The Third Phase (1990-91 to 2009-10)

In early 1991, a major economic crisis surfaced in India. The country faced high fiscal deficit, which was 6.6 per cent of gross domestic product (GDP), foreign exchange reserves dropped to levels which were not sufficient to finance imports of
even ten days and current account deficit at 3.69 per cent of GDP (Misra and Puri, 2008). Faced with such a crisis, India adopted reforms involving macroeconomic stabilization and structural adjustment programs. It aimed at improving economic performance and accelerating the rate of economic growth through a transition from an inward-looking strategy to an outward-looking one (Bhattacharyya and Sivasubramanian, 2001).

Financial sector reforms were one of the comprehensive liberalization measures under taken in the structural reforms. The government of India appointed an expert committee—"Committee on Financial System (CFC)" chaired by M. Narasimham in 1991. The committee undertook the task of financial sector reform by placing emphasis on the steps needed to improve the financial health of banks and development of financial institutions to make them more viable and efficient so as to better serve the emerging needs of the real economy.

The major recommendations of the financial sector reforms were reduction in statutory liquidity ratio (SLR) and cash reserve ratio (CRR), abolition of branch licensing system for opening new bank branches, a step-up in the interest rates on deposits. It further recommended that directed credit to be abolished and banks should be given more autonomy, phasing out of concessional rate of interest rates applicable to priority sector lending. The priority sector targets for credit should be redefined to include only, small and marginal farmers, tiny industry, small business and transport operators, village and cottage industry, rural artisans and other weaker sections and refixation of credit target for this group at 10 per cent of aggregate bank credit. The dual control of RBI and Finance Ministry on banks should be abolished and RBI should function only as a regulatory authority of banking system in the economy, etc. In short, the Narasimham Committee recommended that banking policy be guided more by the market forces rather than by regulations of public authority. Regarding the cooperative banking or credit system the committee has not made any specific recommendations.

Many of the recommendations of the committee were not accepted. Sahu (2004) observed that the government did not favour the abolition of directed lending, delinking of the rural branches of public sector commercial banks and merging them into rural banking subsidiaries. It also did not accept the gradual deregulation of
lending rate and reducing priority sector target (retained it at 40 per cent of net bank credit).

However, despite the governments' reservations some of the recommendations were also accepted. They included various measures in the area of agricultural credit such as deregulation of interest rates of co-operatives, and RRBs; deregulation of lending rates of commercial banks for loans above Rs. 2 lakh; recapitalization of select RRBs; introduction of prudential accounting norms and provisioning requirements for all rural credit agencies; increased refinance support from RBI and capital contribution to NABARD; constitution of the Rural Infrastructure Development Fund in NABARD for infrastructure projects; introduction of Kisan Credit Card Scheme (KCCS) and stipulation of interest rate not exceeding 9 per cent for crop loans up to Rs. 50,000 extended by the public sector banks (Mohan, 2004).

2.3.1 Performance of Institutional Credit to Agriculture

Institutional credit to agriculture in India is surveyed by the multi-agency network comprising Scheduled Commercial banks (SCBs), Co-operative Banks and Regional Rural Banks. The policy of agricultural credit is guided mainly by the considerations of ensuring adequate and timely availability of credit at reasonable rates through the expansion of institutional framework. The focus in this section is to study some of the relevant literature related to the performance of these agencies.

Agarwal et al., (1997) in their study focused on the gearing up of rural credit for the twenty-first century in India. The study was divided into two periods, 1973-75 and 1986-94. They concluded that the short-term credit to agriculture sector grew at a rate of 13 per cent during the period 1973-75 and a lower growth rate of 10.7 per cent during the second period of 1986-94. As far as long-term credit flow was concerned it showed a somewhat better growth rate at 17.5 per cent compared to the short-term credit flow in the first period. However its performance in the second period was less impressive. Out of the total short-term credit disbursed by the institutions in 1973-74, co-operatives accounted for about 87 per cent. But it declined to 60 per cent in 1994-95. During the same period, the share of commercial banks increased from 13 per cent to 34 per cent. Regional Rural Banks, which entered the business in mid-1970s, accounted for only 6 per cent of the disbursements and 7.8 per cent of the outstanding amount by 1994-95. Thus by 1994-95 co-operatives had a major share in the
disbursements of short-term credit. On the other side, Commercial banks emerged as major players in purveying term credit. They accounted for 55 per cent of the disbursements in 1994-95 compared to their share of 33 per cent in 1973-74 whereas co-operatives accounted for 39 per cent of the disbursements of term credit in 1994-95. Thus, commercial banks and co-operatives had attained distinct market shares in terms of the various types of credit. That is, commercial banks have major market share for long-term loans and co-operatives for short-term loans.

Bhattacharya and Sivasubramanian (2001) studied various aspects of banking sector reforms in India. They found that the share of agriculture in the total bank credit was rising, albeit with fluctuations, until 1990, when it reached a high level of 15 per cent. Thereafter, a steady decline was occurred and the share reached to a low of 10.6 per cent in 1998. During the period of 1970s, the agricultural sector witnessed higher rates of growth of bank credit (15 per cent) than the industrial sector (5.8 per cent) to the total rate of growth of bank credit. But this growth was declined during the period of 1980s and was 9.8 per cent. However, in 1990s, the rate of growth of credit to agriculture sector has considerably slowed down. It was only 0.5 per cent of the total bank credit whereas the industrial sector rate of growth of credit was 5.7 per cent.

Iqbal et al., (2003) highlighted the impact of institutional credit on agricultural production in Pakistan. They suggested that in case of large-scale crop failure the farmers with good loan records must be extended consumption loans by the institutions. These loans may be granted in addition to the credit required for their farm operations. Moreover, a crop insurance scheme may be launched to provide cover to farmers against losses from drought, pest attacks, hailstorm, thunderstorm, heavy rains, and other natural hazards on payment of small premium in addition to credit mark up. They opined that agricultural credit card scheme should be initiated with generous credit limit (Kharif and Rabi seasons) for each farmer based on productivity of the land he/she is cultivating and other assets as collateral. At least 20-25 per cent of this limit may be allowed to him/her as consumption loan especially, during the bad years.

Mohan (2004) while analyzing the status, issues and future agenda of agriculture credit in India found that the overall flow of institutional credit to agriculture has increased after bank nationalization in 1969 and the role of informal
agencies including money lenders has declined 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, limited deposit mobilization and heavy dependence on borrowed funds by major agricultural credit purveyors. All these have a major implication for agricultural development as also the well-being of the farming community. He emphasized efforts which are therefore required to address and rectify these issues.

Shetty (2004) evaluated the distributional issues in bank credit: multi-pronged strategy for correcting past neglect. He observed that the share of agriculture in total bank credit has steadily increased after bank nationalization and reached 18 per cent towards the end of 1980s. But thereafter the achievement has been almost completely reversed and the agriculture’s credit share has dipped to less than 10 per cent in the late 1990s – a ratio that had prevailed in the early 1970s. Even the number of farm loan accounts with SCBs had declined in absolute terms from 27.74 million in March 1992 to 20.84 million in March 2003. To correct the past neglect of the agricultural credit he suggested that the flow of bank credit to agriculture has to be rapidly expanded. For this, some comprehensive and enduring strategy for credit delivery has to be put in place and the loss of momentum spawned by the neglect of developmental goals by banks now for over a decade has to be regained. He further suggested that it is necessary not to permit loan melas (fair) and banks must be told to work within the guidelines and directives issued to them regarding target to be met keeping in mind that if lending loans is their responsibility then recovering the loan is also their responsibility. For this to be effective a sound system of monitoring the banks’ performance in regard to their credit delivery is required in the same rigorous manner as the monitoring of banks’ prudential norms.

Ansari (2006) stated in his work on bank financing and agricultural development that after the nationalisation of SCBs in the country, the attention of banks shifted towards rural sectors in order to reduce regional imbalances and cater to various agricultural and non-agricultural credit requirements of farmers and other rural population. In subsequent years after nationalization, credit to agriculture sector has increased tremendously. During the period 1975-76 to 1980-81, credit to agriculture sector by all the agencies has increased by 52.4 per cent. In 1990-91, the agricultural credit was ₹ 8,846 crore, which registered an increase of 62.1 per cent
compared to the supply of agricultural credit in 1980-81. The flow of credit to agriculture by all agencies went up to ₹ 18,744 crore in 1994-95 i.e., an increase of 52.8 per cent within a span of three years. However, the total credit to agriculture sector in 1995-96, increased by 14.9 per cent, followed by 16.5 per cent in 1996-97, 17.3 per cent in 1997-98 and 13.3 per cent in 1998-99.

Roy (2006) attempted to estimate the flow of agricultural finance during the VII and VIII Five Year Plan (FYP)\(^2\) period in India. The result revealed that in terms of total credit flow to agriculture, the share of co-operatives has increased from 53.1 percent in VII FYP period (1985-90) to 56.4 per cent in VIII FYP period (1992-97). However, the share of commercial banks to total credit flows to agriculture has declined from 41.5 per cent in the VII FYP period to 37.8 per cent in the VIII FYP period. On the other hand, the share of RRBs in the total credit flow to agriculture has increased marginally from 5.4 per cent in VII FYP period to 5.8 per cent in VIII FYP period.

Golait (2007) study was on current issues in agriculture credit in India. He observed that despite their wide network, co-operative banks, particularly since the 1990s have lost their dominant position to the commercial banks. The share of co-operative banks (22 per cent) during 2005-06 was less than half of what it was in 1992-93 (62 per cent), while the share of commercial banks has increased from 33 to 68 per cent, including RRBs 5 to 10 per cent, i.e., almost double during the above mentioned period.

Kumar, Singh and Kumar (2007) evaluated the performance of rural credit and factors affecting the choice of credit sources. They observed that one of the indicators of improvement in the rural credit delivery system was the reduction in the dependence of rural households on non-institutional sources of credit. The share of non-institutional sources in the rural credit had declined from 91 per cent in 1951 to 44 per cent in 1991-92. But the most dramatic achievement was increased in the share of formal credit institutions in rural credit from less than 9 per cent in 1951 to 56 per cent in 1991-92. Later on this trend seemed to stagnate and the role of exploitative

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2 Five Year Plans (FYP) are centralized and integrated national economic programs. India launched its First FYP in 1951, immediately after independence under socialist influence of India's first Prime Minister Jawaharlal Nehru. Indian economy is based on the concept of planning. This is carried through her five-year plans, developed, executed and monitored by the Planning Commission.
sources of credit surfaced. The share of institutional sources in the total rural credit increased only slightly thereby to 57 per cent in 2002-03. They suggested that if immediate corrective measures are not undertaken, the situation may get worse in future.

Ramkumar and Chavan (2007) discussed the growth and the factors involved in agricultural credit while working on revival of agricultural credit in the 2000s. In their study, they infer that an increase in indirect finance is highly necessary for improving the capacity of farmers to absorb more direct finance. However, they caution that the promotion of indirect finance should not lead to the undermining of direct finance. According to them, about one-third of the increase in credit flow to agriculture in between 2000 to 2006 was a result of the increase in indirect finance. This did not originate from growth in traditional components of indirect finance, such as loan for the supply of input, power and credit to agriculture sectors. But was a result of definitional changes effected since the second half of 1990. The high growth rate of credit to agriculture in the 2000s was due to regular increase of credit in every year after 2000, and not just after 2004 {the United Progressive Alliance (UPA) government in 2004 announced its intent to double the flow of credit to agriculture over a period of three years}. Shah et al., (2007) evaluated the rural credit in 20th century in India and observed that the reforms has adversely impacted on the availability of affordable rural credit to the poor. Low interest rates, high transaction costs and low loan recovery rates, depress bank profits. As a result, the moneylenders made a definite comeback. Between 1977 and 1990, branch expansion exploded in unbanked regions, while declining in already banked locations. After 1990, exactly the opposite trend started to happen. Mergers and swapping of rural branches, rather than expansion, became the norm. The number of RRBs that rose to 196 by 1990 had fallen to 104 by 2006. It is clear that in the period of banking sector reforms, and relentless pursuit of profits, rural banks have forgotten what their primary mandate was and continues to be.

Patil (2008) examined the crisis and revival of agricultural indebtedness in India. The findings of the study revealed that after nationalization of banks the institutional credit for agriculture expanded from ₹ 1,865 crore in 1971-72 to ₹ 2, 03,296 crore in 2006-07. Yet the credit needs of the agriculture sector were not fully
met and a large number of Indian farmer households were still not able to borrow from the formal institutional system. Therefore, he suggested that the government should step in and provide a need-based financial support especially to the cooperatives credit and RRBs so as to cover cases where the farmers' ability to meet loan obligations has been affected severely owing to factors beyond their control. However he cautioned that though this support may be liberal, it should not be based on vividly defined conditions. He further stated that agricultural income in India is seasonal and cash flows are not continuous. All the farmers, big or small, face this problem. The banks should finance consumption requirements etc, liberally within the repaying capacity, to reduce farmers’ dependence on moneylenders/traders etc. But in doing so the banking system needs to look at the cash flows of farmer households more carefully and link their financing to total cash flows of the family.

Devereja (2011) analyzed the institutional finance and agricultural credit policy in India. He observed that Kisan Credit Card Scheme had emerged as the major policy developments in addressing the infirmities associated with the distributional aspects of credit in the recent years. It is the most effective mode of credit delivery to agriculture in terms of the timeliness, hassle-free operations as also adequacy of credit with minimum of transaction costs and documentation. Around 59.09 million KCCS were issued till end-March 2006. The co-operative banks (51.5 per cent) had a major share followed by commercial banks (36.9 per cent) and RRBs (11.6 per cent).

2.3.2 Problems of Institutional Credit to Agriculture

Credit is not only one of the important inputs in agriculture but also an effective means of rural development. One of the objectives of the credit policy has been minimize the role of non-institutional sources, mainly the moneylenders in the flow of agricultural credit. The farmers in India faces many problems in repaying the debt due to high risk involved in the agricultural productivity (because of seasonal and annual fluctuations), no other sources of income, high transaction costs, unskilled staff, complicated lending procedures, low recovery rate, etc. Here various international studies have been undertaken to throw some light on the related literature about the problems of agricultural credit.
Shrestha (1992) estimates the impacts of institutional credit on the growth of the agricultural sector in the Nepal economy. He concluded that institutional credit programs used in Nepal as well as in many other less-developed countries have excluded deposit services and consumption lending from their activities. The deposit services are generally viewed to encourage rural savings and increase the supply of loanable funds. Many farmers need consumption credits as much as or even more than production credits, hence institutional sources for consumption credits along with production credits, at low transaction costs and flexible repayment terms, would relieve farm households in less-developed countries from the clutches of exploitative private moneylenders and would thereby reduce possible misuse of production credits.

In his study on the role of the State on financial market, Stiglitz (1993) observes that there will be some potential borrowers who will be unable to get the credit even if they want to pay higher than the market rate due to the presence of asymmetric information. Therefore, he infers, the government intervention in the financial market will help this market to function better as well as also improve the performance of the economy.

Swinnen and Gow (1999) in their study on agricultural credit problems and policies during the transition to a market economy in Central and Eastern Europe found that the low farm profitability is a key factor in agricultural and rural finance problems, restricting the demand for, and supply of, credit in transitional economies. Hence, interventions solely aimed at correcting the inefficiencies of rural financial markets may not be sufficient to stimulate a flow of financial resources into the agricultural sector unless profitability improves and restructuring progresses as well. Further they noted that credit is improving in some transition countries primarily due to two factors, namely, the improved profitability in agriculture since 1995 and the emergence of institutional innovations, such as leasing, contracting, etc. The finance situation remains most problematic only in those countries which have postponed reforms and have continued to use the banks to channel subsidized credits and loans to the large scale farms with heavy government discretion in loan allocation and widespread use of state guarantees. The result has been low repayment, reduced incentives for farm restructuring, accumulation of bad debts, government budget deficits and in some cases, collapse of the agricultural banks.
Ishige (2004) in his report on measures for enhancing efficiency in the delivery of agricultural support services in Japan for agricultural credit observed that loans to agriculture sector especially to the active farmers with excellent entrepreneurship spirit were insufficient. As a result, the number of part-time farmers increased and enlargement of farmland per farmer might not have been well achieved. Also, many farmers faced heavy debt problems basically caused by their over investments in the past.

Llanto (2007) observed in his article that a large number of subsidized agricultural credit programs have collapsed in both Asia and Latin America. In the case of the three Latin American countries i.e., Guatemala, Peru and Bolivia, the government banks that were used to channel subsidized credit to target clientele were unable to sustain financial losses brought about by the non-repayment of loans and had to close down. The infusion of artificially cheap credit weakened banking systems, imposed huge fiscal burdens on the governments, and eroded the financial discipline of rural borrowers. This forced governments to rethink their rural credit policy and programs.

Oboh and Ekpedu (2011) attempted to evaluate the determinants of formal agricultural credit allocation to the farm sector by arable crop farmers in Nigeria. They observed that the factors that significantly affected the rate of credit allocation to the farm were farmers' age, educational level, farm and household size. Other factors were length of loan delay and visit to farmers by bank officials. Further, they suggested that in order to reduce the rate of loan diversion towards non-farm sector, loans should be disbursed on time, and bank supervisors should visit beneficiaries regularly. In addition, pre-disbursement training is recommended for all successful loan applicants for efficient loan allocation and management.

Various other studies are also made in Indian context to understand the related literature about the problems of agricultural credit.

Rajasekhar and Vyasulu (1990) evaluated the rural credit delivery system in Pali district of Rajasthan and they found that some of the rural poor obtained agricultural credit from the institutional sources but they found that the credit was neither timely nor adequate for their credit needs.
Rao (1994) in his study policy issues relating to rural credit in India observed that the asset position of a borrower and the rate of interest at which he gets a loan are inversely related. On this ground the asset-poor sections of the rural population is still dependent on the informal sources of credit. Further he found that the agricultural lending rates set by the government were lower than the commercial and industrial rates. Therefore, commercial banks could not cover the cost of their advances of agricultural loans which led to the cross-subsidisation of agricultural operations. He raised the policy issues relating to the viability of credit institutions, equitable access to credit, redefinition of priority sector, and enhanced role of rural banking institutions to cope with the emerging challenges.

Rajeev and Deb (1998) attempted to evaluate the flow of institutional and non-institutional credit to agriculture in Hugli district of West Bengal. The finding of the study stated that if the rural credit market is not adequately captured by the formal institutions, the natural beneficiaries would be the informal lenders. Commercial banks are mainly guided by two objectives: minimization of transaction costs and meeting the stipulated target of priority sector lending. These two motives induce them to prefer big farmers and go in for other kinds of priority sector lending which they perceive to be profitable. When a farmer opts for multiple cropping it is difficult to repay his previous loan for another crop in the same year and hence he is compelled to depend on the informal sector. Thus, a small farmer may have to borrow a higher amount than is actually needed by him. The study further revealed that any perception, about waiving a loan in future has adverse effect on today’s incentive to repay.

Karla and Singh (2000) discussed regional rural banks economic viability and equity issues in financial institutional reforms in Punjab. They attempted to examine the causes of limited access of the rural poor to the institutional credit. According to them, the institutional agencies, keeping in view of the asymmetric information on the borrowers, base their lending decision on size and composition of borrowers’ wealth. In spite of the various measures and reforms introduced in the banking sector such as mandating the funding to agriculture sector, it continues to be alleged that the benefits of the institutional credit expansion have largely accrued to the well-off farmers and a majority of the rural poor have remained outside the institutional network. Thus, they
believe that reformation in the institutional credit system for rural areas is necessary and of utmost concern. So, they suggested that improving the access of the rural poor to the institutional credit as one of the solutions to bring about the reduction in rural poverty and inequality.

Bhattacharya and Sivasubramanian (2001) examined the aspects of banking sector reforms in India. The study concluded that although the overall rate of growth of bank credit has slowed down in the post-reform period, the contraction has been felt mostly in the agricultural sector. The industrial sector has been relatively immune from the impact of the decline in the rate of credit expansion. They believed that part of the reason for the industrial sector getting a larger share of the bank credit is due to the banks' perception that the loans to the industrial sector are less risky than those to the agricultural sector.

Chattopadhyay and Chattopadhyay (2002) during their study on non-performing assets in rural lending institutions revealed that the institutionalization of rural finance was one of the major attempts made to substitute non-formal lending. They observed that still the organizations and functions of the rural finance institutions had not equaled to the organizations and finance of the rural moneylenders in respect of efficiency. This is because the moneylenders are expert in agrarian matters such as the knowledge of crops, climate, soil and entrepreneurship of the borrower viability, which routine-driven formal organizations can obtain not only at great cost but also with great devotion to duty. Further, they concluded that the credit to agriculture had not been productive particularly for the lack of infrastructural facilities and entrepreneurial development.

Samal (2002) study was on the revisited institutional credit flow to West Bengal agriculture. He revealed that the access of small and marginal farmers to credit was limited due to several institutional and non-institutional factors which he broadly divided into supply and demand side factors. The supply side factors included ground level credit planning (study found that more than 87 per cent of the bank branches are not followed), loan default (government sponsored programmes has 70 to 80 per cent default rate by study), inadequacy of skilled and dedicated manpower for rural credit delivery (75 per cent by study), and lack of infrastructure and political interference in lending decision. On the demand side factors he included, needed for repeated visits to bank branches for agricultural loans, delay in sanction and disbursal of loans, non-
disbursal of crop loan in cash, rigid loan products, lack of access to the branch managers and inadequate credit supply. To overcome this problem he suggested a supplementary credits route i.e., the setting up of Micro Finance Institution (MFI) / Self Help Groups (SHGs) and linking them with formal credit agencies. This approach will tackle the roots of the twin problems, namely, high transaction cost and poor repayment of loans which have made the rural credit delivery system moribund. In the state of West Bengal where agriculture is totally dominated by the small and marginal farmers, SHGs route is most suited for credit delivery. It would help to mobilize rural savings, empower the small and marginal farmers to negotiate production and investment loans, reduce transaction cost and improve loan recoveries.

Shetty (2004) has analysed the distributional issues in bank credit: multi-pronged strategy for correcting past neglect. He found that a real cause for banks’ lending’s to agriculture has been the banks’ professional reluctance towards expanding their branch network in rural areas. The number of bank branches operating in rural areas (classified uniformly on the basis of the 1991 Census) has experienced an absolute reduction from 33,017 (or 51.7 per cent of the total) in March 1995 to 32,283 (47.4 per cent of the total) in March 2003. Given the option, the SCBs would not like to operate in rural areas. This has happened because no attempt has been made by the authorities to substitute it by strengthening cooperatives and RRBs or to build an alternative rural institutional structure for credit delivery. In this case he suggested that it is necessary to launch a medium-term strategy for effectively expanding the flow of farm credit. For the first and foremost he emphasized on the need for further spreading of branch network by SCBs and RRBs, secondly, to reinforce close coordination between district planning authorities and banking institutions operating in a district and finally, to modify the nature of expectations of profitability of rural branches.

Singh (2004) examined the rural banking in India with special reference to Avadh Gramin bank. He observed that the demand for rural credit had all along been growing during the planning era due to the adoption of modern methods of farming. The agriculture operations were required larger amount of capital both short-term for the purchase of inputs like chemical fertilizers, High Yielding Varieties of seeds, pesticides, etc., and medium as well as long-term funds for mechanization and land
development, etc. For this he suggested that there should be rapid expansion of rural branches so that rural credit should be expanded.

Ghosh (2005) while analyzing the policy approach for agricultural lending found that in agricultural lending, the resource cost for delivery and monitoring of credit is very high and the banks have not yet found an easy answer to managing the costs of credit delivery and supervision in the agricultural sector within the discipline of balance sheet numbers. He further stated that the problem lies with bank managements, namely, that bank officers are not familiar to rural lending and has to undergo an attitudinal change. They have to develop a kind of defensive inertia that refuses to take note of the growing needs of farmers, that the fear of protection in the event of default has generated a frustratingly negative psychology, that the procedures and practices that they have developed have an in-built bias towards under-lending to the farm sector. For this he suggested that public sector banks have to do more in this area as they have done in other segments of lending. They have to look closely at their business processing costs in relation to credit delivery and supervision aspects of agricultural lending. They must innovate in every conceivable way to give a renewed thrust to agricultural lending at a sustainable cost. So some autonomy and flexibility in their operations will increase their efficiency.

Sahu and Rajashekhar (2005) while analyzing the banking sector reform and credit flow to Indian agriculture found that the share of those farmers who borrow less than ₹ 25,000 cause a decrease not only in the total numbers of loan accounts but also in the total amount of loan during the reform period. This trend became more prominent after the deregulation of the lending rate to ultimate borrowers which had an adverse effect on the small borrowers’ access to formal credit. Thus, the better-off farmers had more advantage of access to formal credit as compared to marginal farmers. Further they pointed out that the decline in the number of rural bank branches and increasing population pressure in rural areas may have resulted in many problems. These problems were in the form of reduction in the credit flow to agriculture, reduction in the access to a banking facility by the rural population, growth of the private investment for agriculture and financial deepening of the rural population may have come down and loan demand and deposit supply may have been adversely affected.
Ansari (2006) in his evaluation of bank financing and agricultural development observed that the farmers approaching a second-time for agricultural credit from private sources are common but with banks it is different. It often depends on the approach of both the borrower and the banks. He found that the farmers often avoided borrowing the second time from the banks due to many reasons such as high rate of interest on loan, time-taking procedures, attitude of bankers, fear of becoming defaulters, harassment, etc.

Roy (2006) evaluated the rural banking and agricultural finance in India. He observed that in spite of the significant expansion of the institutional sector, non-institutional agencies still continue to play a dominant role, although these agencies charge higher rates of interest and follow unethical practices. They dominant the scene because the farmers find it more convenient to resort to them rather than the agencies in the organized sector. The main reason for this is that their lending procedures are relatively simple and credit assistance timely. Hench he argued for microfinance programmes as important institutional devices for providing small credit to the rural poor. Micro-financing programmes through SHGs, introduced and expanded by NGOs in several parts of India, have the potential to minimize the problem of inadequate access of banking services to the poor. The programme is financially viable for banks as their transaction costs are lowered and with close to 98 % loan recovery. Saving of the group constitute the collateral with peer pressure within the SHGs ensuring full recovery. The SHG-Bank Linkage model has been able to completely alter the socio-economic face of rural India.

Golait (2007) made an analysis on current issues in agriculture credit in India. The study concluded that despite the significance strides achieved in terms of spread, network and outreach of rural financial institutions, the quantum of flow of financial resources to agriculture continues to be inadequate. The flow of institutional credit to agriculture is constrained by host of factors such as high transaction costs, structural deficiencies in the rural credit delivery system, issues relating to credit worthiness, lack of collaterals in view of low asset base of farmers, low volume of loans with associated higher risks, high man power requirements, etc. The small and marginal farmers which is having major share in the land holdings received much less credit than its requirement. He recommended several measures to tackle this situation which includes improvement irrigation coverage, promotion of animal husbandry as an
alternate source of income, better accessibility to institutional credit and overall improvement of the marketing infrastructure. Since the access of small and marginal farmers to credit has been constrained by their inability to offer the collaterals, micro finance, which works on social collaterals, can go a long way in catching to their requirements. The KCCS has emerged as the most effective mode of credit delivery to agriculture in terms of the timeliness, hassle-free operations as also adequacy of credit with minimum of transaction costs and documentation. Hence, there is need to promote micro finance and KCCS more vigorously on a widespread basis.

Sidhu and Gill (2006) conducted a detailed work on agricultural credit and indebtedness in India. The finding of the study revealed that the important factors that hinder the access of disadvantaged sections of the rural society to institutional credit were higher transaction cost due to large numbers and small borrowings, higher risk cost, complicated procedures and large documentation required, inability of the borrowers to provide tangible collaterals, non-availability of tenancy agreements, loan waivers which affects recovery performance, poor risk mitigation mechanism on farms in the wake of crop failures and the mindset of the bankers against small loans viewing them as unprofitable.

Deb and Rajeev (2007) made an analysis of banking on ‘Baniyas’ for credit in West Bengal. They revealed that with the improvement of agricultural production and productivity, leading to an increased demand for credit, the small and marginal farmers in West Bengal are depending on a new class of lenders for their working capital. They are the input traders who have almost replaced the traditional moneylenders in the rural sector. This class makes credit available in terms of inputs on a timely basis and more importantly without any formal collateral. They do not charge a too high interest rate like some other classes of lenders (for example, traditional moneylenders). Credit is usually not in terms of cash but in terms of inputs that need to be repaid after harvest in terms of cash or kind (output). Further the study observed that timely repayment of credit from the formal sector does not necessarily ensure fresh credit to the following year and transaction costs remain high for marginal farmers for availing formal sector loan. The belief of the farmers that if a

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3 ‘Baniyas’ are the indigenous banker group or association of people involved in indigenous banking. They provide loans on the basis of promissory notes for productive purposes and are also involved in mobilizing savings by people.
loan is not paid back, the government will eventually waive it, adds to the high default rate.

Ramkumar and Chavan (2007) made an analysis of revival of agricultural credit in the 2000s. He found that the trends that emerged in India in the 1990s with respect to the supply of rural credit in general and agriculture credit in particular, were disturbing. There were many factors responsible for this i.e., the large-scale closure of commercial bank branches in rural areas, sharp fall in the growth of credit flow to agriculture, increased sidelining of small and marginal farmers in the supply of agricultural credit, increased exclusion of the disadvantaged and dispossessed sections of the population from the formal financial system, strengthening of the hold of moneylenders on rural debt portfolios, widening of inter-state inequalities in credit provision and a fall in the proportion of bank credit directed towards regions where banking was historically underdeveloped.

Satish (2007) in his study on agricultural credit in the post-reform era: A target of systematic policy co-creation found that the rural branch network saw a tremendous growth following the nationalisation of banks in 1969 and the establishment of Regional Rural Banks in 1975. The percentage of growth of commercial banks' rural branches which was 17.2 per cent in 1969 steadily increased to 58.2 per cent in 1990. Since then, the growth declines progressively as the RBI liberalized the policy for the closure of rural branches on the grounds of unviability and lack of profitability. In terms of percentage, the growth declined from 58.2 in 1989-90 to 51.7 in 1994-95 and further to 44.48 in 2005-06. As a solution, he suggested that RRBs should come forward upon their own and play a greater role in agricultural credit under the overall guidance and advice of NABARD. For this, the RRBs have to emerge as independent institutions and also expand their operations and at the same time, step-in into the areas where co-operatives are weakened. He, further observes that commercial banks’ dismal performance in purveying agricultural credit due to insufficient supervision of RBI which is from lack of knowledge about agriculture as well as agricultural credit can be rectified only by handing over the entire supervisory responsibilities of rural branch network of commercial banks to NABARD, which would ensure a better and systematic monitoring and supervision of flow of credit and other financial services to agriculture on account of its deep understanding and knowledge of the sector and strong field level presence.
Shah and et al., (2007) overviewed the history and perspective of rural credit in 20th century in India. They observed that rural credit is not merely a commodity that is necessary for the poor to free them from the usurious moneylenders but also a public good significant for the development of a backward agrarian economy like India. It is also because of the fact that Indian agriculture had moved decisively into the green revolution phase, where private investments by rich farmers needed massive support. Further they argued for the need of a package of change which includes massive increase of public investment in agriculture and rural infrastructure, market support for crops grown in rainfed areas, reforms in public sector banking (including RRBs), reforms of the co-operative credit structure, strengthening the SHG-Bank Linkage Programme with the state (especially NABARD) bearing promotional costs in the initial years and strict public vigilance, including maximum permissible interest rate bands, on the functioning of MFIs. They pointed out that with the advent of economic reforms access of the rural poor to banks has fallen further. In such a context microfinance offers a new ray of hope to the rural poor. It makes finance accessible and available for consumption needs as well as freedom from the need for collateral which makes it more attractive to the rural poor. The microfinance institution apparently brings great professionalism, innovation and technology to its enterprise. It also ventures to provide loans that banks do not.

Patil (2008) study on the crisis and revival of agricultural indebtedness in India and revealed that the services rendered by the formal institutions are poor in quality because of the inadequately employed branches operating under a mandatory rural branch posting policy with a short-term stay. This gives little time to the staff to develop proper knowledge about the area and the people. Hence, this source of financing is not reliable as the approval of loan takes quite long time, an average of 33 weeks. So, he suggested that a change is needed made in the mind-set of the staffs of the banks and also in their policies so that they work for financial inclusion rather than financial exclusion which has been practicing so far.

Singh et al., (2008) while analyzing the indebtedness among farmers in Punjab found that the advances from institutional sources increased more than three times in real terms since the 1990s but till now, it could not completely eliminate the borrowing from the non-institutional sources by the farmers. It is primarily because credit from institutional sources is fraught with many inadequacies such as amount,
easiness, timeliness and other strings of formalities/procedures attached to it. Besides
the farmers have to make many trips to complete formalities required for obtaining
institutional loans and spend extra money other than the interest charged by these
agencies. All this is approximately negligible in the case of non-institutional sources
and hence they noted that institutional lending is inadequate, costly and cumbersome
and farmers have to resort to private non-institutional sources of finance, which have
their own ways to exploit and squeeze the farmers’ net incomes.

The NABARD (The Economic Times, 2011) pointed out that sponsoring
banks are running their branches in the same areas where RRBs are operating. Hence,
instead of co-operation, there develops a competition which acts against RRBs,
hindering their performance and progress. They suggested that “roping in any other
financial institution or tapping the capital markets is the only option left for RRBs if
they need to play a larger role in financial inclusion”.

2.3.3 Inter-region Variations in Agricultural Credit

The present study has been undertaken to identify the factors influencing a
variation in agricultural credit flow to various regions and states in India. Variations
in the flow of agricultural credit across regions and state have generally been
explained by the regions or state’s share in gross cropped area, irrigation facilities,
and fertilizer consumption. Due to the vastness in number of states and different
cropping pattern the related review of literature divides the country in major regions
and states.

Mohan (2004) while discussing the status, issues and future agenda of
agriculture credit in India observed that the southern states stand out with a
substantially higher share of agricultural credit followed by the Northern and Central
regions. Whereas the ratio for the southern region increased during the latter part of
the 1990s, it remained stationery for the Northern, Central and North-Eastern regions.
It is also notable that the Southern states have a much more active co-operative
movement and hence their share of agriculture credit is likely to be even higher. The
low share of the Western region is surprising, but could be because of the very active
role of co-operatives in this region. The East and North-Eastern regions clearly get a
very low share.
Sahu (2004) while analyzing the institutional finance for agriculture found that the growth rate of agricultural credit in 14 major states (Andhra Pradesh, Bihar (undivided), Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh (undivided), Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh (undivided), and West Bengal) was higher during the pre-reform period compared to the post-reform period in most of the states. The study observed that, the state-wise pattern in the proportion of agricultural credit from net bank credit declined in most of the states during 1981-90. The decline was also common for all the states during 1990s. The substantial inter-state differences in agricultural credit as a proportion to total net bank credit shows that there was less mobilization of deposits for agricultural lending by scheduled commercial banks particularly the case in backward states like Bihar, Uttar Pradesh, and West Bengal.

Sidhu and Gill (2006) conducted a study on agricultural credit and indebtedness in India. The finding of the study revealed that there were wide variations in the availability of institutional credit per hectare of gross cropped area in different states. The flow was as high as ₹ 6,235 in Kerala, ₹ 5,502 in Tamil Nadu, ₹ 3,806 in Punjab and ₹ 3,428 in Andhra Pradesh while it was as low as ₹ 873 in Uttar Pradesh, ₹ 432 in West Bengal and only ₹ 155 per hectare of gross cropped area in Bihar in 1999-2000. The accessibility to institutional credit is higher in the Southern region while it is very poor in the North-Eastern region. The Southern states with only 19 per cent of the gross cropped area of the country accessed about 44 per cent of the total disbursements whereas Central states accounted for 27 per cent of the area were obtained only 14 per cent share of total disbursements at all India level in 2001-02. Further, they also found that the annual increase in the availability of credit also varied widely across states. It was only 3 per cent in Orissa whereas it was 47.5 per cent in Punjab from 1990-91 to 2000-01 accentuating the disparity in agricultural credit further in favour of irrigated, technologically advanced and agriculturally more developed regions.

Golait (2007) during his study on current issues in agriculture credit in India found that there were wide variations in the availability of institutional credit per hectare of gross cropped area in different states. It was as high as ₹ 9,403 in Tamil Nadu, ₹ 7,666 in Kerala, ₹ 5,352 in Punjab and ₹ 4,604 in Andhra Pradesh, while it was as low as ₹ 311 in Assam, ₹ 667 in Rajasthan and ₹ 698 per hectare of gross
cropped area in Madhya Pradesh during 2001-02. The accessibility to institutional credit is higher in the Southern region where the level of agricultural development is also higher.

Khan et al., (2007) attempted to evaluate the effect of liberalization on institutional agricultural credit flow and its relationship with average cost of cultivation in Indian agriculture. The findings of the study revealed that the magnitude of coefficient of variation (CV) for inter-state variations in the per hectare flow of short-term institutional credit to agriculture was 83.4 per cent in 1980-81, which increased gradually to 124.8 per cent in 1985-86 and further to 135.92 per cent in 1990-91. In the post-liberalization period, the magnitude of CV, which was 139.3 per cent in 1991-92, declined to 130.5 per cent in 1995-96 and further to 91.3 per cent in 2001-02. Thus, during the pre-liberalization period, the inter-state disparities in the flow of short-term institutional credit to agriculture has increased across the states but the opposite was happening during the post-liberalization period. They suggested that for equitable and sustainable growth and development of agriculture across different regions of the country, different institutional agricultural credit agencies within multi-agency system need to refocus their attention on disbursement of short-term credit to agriculture through proper coordination so that inter-regional disparities could be further reduced.

Kumar, Singh and Kumar (2007) attempted to evaluate the performance of rural credit and factors affecting the choice of credit sources. They observed that the focus of the financial reforms initiated in 1991 seemed to have bypassed the rural credit needs and left the rural people vulnerable to exploitative credit. The performance and trends were not uniform across different states. The borrowing had witnessed higher growth rates from both institutional and non-institutional sources in relatively more developed agricultural states. The Southern region of the country availed higher amount of rural credit, followed by the Northern, Western and Central regions. The credit availability from the institutional sources was abysmally low in the economically backward states like Bihar and North Eastern states. Accessibility to institutional credit was higher in the developed states and lower in the backward states, which had been accentuating over time. The annual increase in the availability of credit from institutional sources also varied across the states. It was only 4 per cent
in Bihar, 16 per cent in Punjab and 22 per cent in Kerala. They argued that if immediate corrective measures are not taken, the situation may even worsen in future.

Sahu (2007) attempted to analyze the supply of institutional credit to agriculture for major states in India. The study revealed that states like Bihar, Rajasthan, West Bengal, Kerala, Karnataka and Maharashtra, the growth rate of credit to agriculture was higher than that to all sectors during the period 1981-91. However, the growth rates of agricultural credit were much lower than those in the case of total credit for all the states during the period 1992-2000. The decline in growth rates was steep in the case of agricultural credit, especially in the case of Bihar, West Bengal and Gujarat. For high income group states (Gujarat, Haryana, Maharashtra and Punjab), although the growth rate of credit to all sectors increase during 1992-2000, but it decreased in the case of agriculture. Thus, the growth rates of agricultural credit were uneven across the sub-periods as well as across the states. There was perceptible change in the level of credit provided to agriculture during the 1990s. First, the priority sector norms in relation to agricultural lending were met in nine and eight states during 1991-95 and 1996-2000, respectively. Second, the norms were met in all the low-income states (Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh) and a few high and middle-income states (Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and West Bengal) during 1996-2000. Third, in the case of West Bengal and Maharashtra, the priority sector norms were not met even during both pre-and reform periods.

Kumar et al., (2010) while analyzing the status, performance and determinants of institutional credit to agriculture sector in India observed that there seems to be a direct relationship between institutional credit flow and the level of agricultural development. For instance, per unit disbursement of institutional credit has been significantly higher in states like Haryana (₹ 34, 012/ha), Kerala (₹ 56, 890/ha), Punjab (₹ 46, 593/ha), Tamil Nadu (₹ 52, 427/ha), and low in states like Assam (₹ 1, 979/ha), Bihar (₹ 8, 880/ha), Madhya Pradesh (₹ 9, 627/ha), Orissa (₹ 6, 370/ha), Rajasthan (₹ 6, 673/ha), etc. however, regional disparities in the distribution of institutional credit seem to have declined over time. The coefficient of variation in the distribution of institutional credit across states was 122 per cent in 1990-91 which declined to 94 in 2000-01 and further to 81 per cent in 2007-08. But, 81 per cent is quite a significant level which reveals that the regional disparities in institutional
credit flow do exist and are still a part of rural credit system. Therefore, efforts should be made to enhance the resource base by making investment in capital formation which, in turn, will be helpful to bridge the flow of institutional credit between advanced and backward states.

2.3.4 Credit Gap among Size of Land Holdings

The size distribution of operational holdings has been broadly classified into marginal (less than 1 hectare), small (1 to 2 hectares), semi-medium (2 to 4 hectares), medium (4 to 10 hectares) and large farmers (above 10 hectares). According to 2001, the small and marginal farmers constituted more than 80 per cent of the operational holdings and about 36 per cent of the area in India. They get only 50 per cent of the institutional credit while the remaining 50 per cent of the institutional credit goes towards 20 per cent of the operational holding. This shows that there is a large credit gap among the size of land holdings. Some of the earlier studies (other countries) has been undertaken which attempted to analyse the credit gap among the size of land holdings.

Grant and Anne (1996) made an analysis of the relationship between bankers and farmers in Britain and Ireland. The findings of the study revealed that, it is the larger farmers who are best able to take advantage of the lending opportunities on offer, and the relationship between agriculture and finance reinforces the long term trend towards the development of larger, more commercial farming enterprises and the elimination of smaller, more marginal units. They asserted that in both countries, farming is treated by lenders as a highly specialized segment of the market. Even if it no longer requires state sponsored lending institutions, the banks maintain specialist agricultural departments staffed by individuals with a farming background or training and with close links with the agricultural community.

Senanayaka and Ho (2002) conducted a study on who have more access to cheap credit in Vietnam? came up with the view that the poor have really lacked the opportunity to gain access to credit from the formal sector due to the non-availability of assets for using as collateral but it does not mean that they need loans at subsidized interest rates. So, it is more important to improve the accessibility to credit rather than providing it at subsidized rates of interest. They observed that the poor are very much willing to borrow at normal market rate of interests and they have the capacity to
repay too. Considering this fact, they suggested that providing the accessibility to credit would help to increase productivity, incomes and employment in the rural areas and subsequently ensure the long-term viability of rural financial institutions.

Corpus and Kraft (2005) found during their study that while credit subsidies are intended for the small farmers, loans at subsidized interest attract the big, wealthy borrowers as well. A bank faced with both types of borrowers is more likely to lend, or lend more to bigger borrowers whom it considers less risky.

Narasaiah and Ramudu (2008) in their study on financing of agriculture by regional rural banks revealed that the percentage of farmers receiving institutional credit varied widely in different parts of the developing world. About 5 per cent of farmers in Africa obtained institutional credit, while the proportion in Latin America and Asia (excluding Taiwan) is about 15 per cent. In the case of small farmers, coverage by institutions is even more limited. Large farmers had been the main beneficiaries of institutional credit. It was common to find 70 to 80 per cent of small farmers in a given country with virtually no access to such credit: in Pakistan almost 60 per cent of the farmers received 3 per cent of the institutional credit. In Bangladesh the larger farmers received more than 80 per cent of the loans from the agricultural bank and the co-operative banking system. In Philippines, 27 per cent of the larger farmers working on 61 per cent of the land received 98 per cent of the institutional credit.

Gaisina (2010) noted that commercial banks prefer to give loans to large-scale agricultural enterprises. In 2007, these enterprises received 95.5 per cent of the total credit lent to the agricultural sector whereas the share of loans to private family farms was minimal and continues to decrease. Banks are wary of lending to small rural households and private family farms because of the unacceptably low rate of return, the high risk, the small size of loans, and high transaction costs.

On the other side, there are various studies has also been undertaken in Indian context which attempted to analyse the credit gap among the size of land holdings. In this way, Bhattacharya and Sivasubramanian (2001) studied the various aspects of banking sector reforms in India. They concluded that there has been an increasing concentration of bank credit in the upper credit ranges during the post-reform period. During the 1970s, about 99.9 per cent of the accounts for credit limit up to C 2.5
million accounted for 49.5 per cent of credit. During the 1980s, the same proportion of accounts accounted for 54 per cent of the credit, but this has sharply declined to 40 per cent of the credit in the post-reform period.

The Rural Finance Access Survey (2003) reveals that 87.0 per cent of marginal farmers and 69.2 per cent of the small farmers are not getting the facilities of loans from the formal institutional agencies. Access to formal credit is particularly a problem for the poor when trying to meet unforeseen expenditure, and difficulty in accessing formal finance has resulted in a heavy reliance among poorer rural households on informal finance mostly moneylenders and shopkeepers. The survey also points out that the borrower who gets the loans have to bribe the officials, clients often have to pay hefty bribes (ranging from 10 to 20 per cent of the loan amount) to access loans.

Mohan (2004) examining the status, issues and future agenda of agriculture credit in India and found that there has actually been continuous growth in the number of accounts in all size-wise categories in the case of commercial banks in the 1990s. It was probably the case that the introduction KCCS had aided this process in the recent years. But it is equally true that the share of small farms in total credit appears to be falling to a certain extent.

Sahu (2004) while analyzing the institutional finance for agriculture found that the distribution of loan accounts by size-class of landholdings at all India and state levels shows that better-off farmers had improved access to formal credit as compared to small and marginal farmers. The small percentage of farmers who accessed formal credit with more loan amount per account in most of the states was in favour of a particular group of borrowers. This indicates that bankers adopted both price and non-price credit rationing technique in the borrower selection and fixation of credit amount. Further he pointed out that at the state level, irrigation and banking facility were two very important factors that determined the supply of credit per hectare of gross cropped area.

Sahu and Rajashekhari (2005) analyzed banking sector reform and credit flow to Indian agriculture. They found that in case of agricultural loans with credit limit of less than ₹ 25,000, the proportion of accounts to total loan accounts and amounts to the total net bank credit declined during the reform period. Although the proportion of
accounts for the credit limit of more than ₹ 25,000 increased in the case of agricultural sector, the net credit declined during the reform period. This suggests that there was a neglect of small borrowers by SCBs and that the access of formal credit to small borrowers was adversely affected.

Sidhu and Gill (2006) studied the agricultural credit and indebtedness in India. The finding of the study revealed that the small and marginal farmers constituted 80 per cent of the operational holdings and cultivated about 36 per cent of the area in India were disadvantageously placed with respect to access to technology, capital, credit and other institutional support. Their access to credit to meet their short-term and long-term capital requirements had not improved over time. Yet, the high share of small holders in institutional loans can be attributed to target lending to them and higher share of Southern states in total advances where the proportion of small holdings is very high. Some medium and large farmers also obtained sizeable loans in the name of small holders.

Ramkumar and Chavan (2007) analyzed the revival of agricultural credit in the 2000s. They stated that the much of the increase in the total advance to agriculture in the 2000s were due to the sharp increase in the number of loans with the credit limit of ₹ 10 crore and above and particularly ₹ 25 crore and above. According to them, the growing shift towards loans with large credit limits in recent times is closely related to the changes in official policy on agriculture in India which increasingly favours the growth of a capital-intensive and export-oriented production pattern in agriculture. Further, the most significant beneficiaries of the increase in direct advances since the late 1990s were the big cultivators (who possessed land above 5 acres).

Sahu (2007) attempted to analyze the supply of institutional credit to agriculture for major states in India. The study revealed that the access to formal credit by the small and marginal farmers had gone down in the year 1996-97 as compared to 1990-91 in all the states except Gujarat. Among the states, the proportion of marginal and small farmers having access to institutional credit was the highest in Punjab (26.7 per cent) in 1996-97 followed by Tamil Nadu and Andhra Pradesh. However, in states like Bihar, Madhya Pradesh, Uttar Pradesh, Haryana and Maharashtra only 5 to 6.7 per cent of the marginal and small farmers had access to formal credit in the same year. For farmers with more than 2 hectares of operational
holding (medium and large), 63.2 per cent of them were accessing formal credit in Tamil Nadu followed by Kerala (45 per cent), and Punjab (31.6 per cent) in 1996-97. The percentage of medium and large farmers having access to institutional credit was substantially lower in the states like Madhya Pradesh, Rajasthan and Maharashtra. He, therefore, concluded that even the same size of landholdings was having, there was uneven access to formal credit across the states.

Balakrishnan et al., (2008) in their study on agricultural growth in India since 1991 found that the large proportion of population in the lower strata, having major share in the land holdings receives much less credit than its requirements. This is because the banking system is still hesitant on various grounds to purvey credit to small and marginal farmers. They observed that this growing disparity between marginal, small and large farmers continues to be a cause for concern. This observed phenomenon may be attributed, inter alia, to the “risk aversion” tendency of the bankers towards small and marginal farmers as against the large farmers, who are better placed in offering collaterals. Further they calls for concerted efforts to augment the flow of credit to small and marginal farmers, alongside exploring new innovations in product design and methods of delivery, through better use of technology and related processes.

Kumar et al., (2010) while analyzing the status, performance and determinants of institutional credit to agriculture sector in India observed that, the distribution of institutional credit across farm-size categories is also skewed. Though, the majority of farmers (82%) in India possess less than two hectares of land, they together account for only 50 per cent of the institutional credit; while 18 per cent of the farmers having more than two hectares of land, account for 49 per cent of the institutional credit. It may be mentioned that 18 per cent of these farmers operate about 53 per cent of the total cultivable land in the country. The share of farmers having up to 2.5 acres of land, in total institutional credit has declined from 27 per cent in 1982-83 to 25 per cent in 2005-06. However, the share of farmers operating 2.5-5 acres of land has increased from 19 per cent in 1982-83 to 25 per cent in 2005-06. The share of large farmers, operating greater than 5 acres of land, in institutional credit has witnessed a modest decline from 53 per cent in 1982-83 to 49 per cent in 2005-06.
2.4 Research Gaps Identified from the Review of Literature

From the review of literature given above it is clear that many of the studies are inadequate either in terms of methodologies or in terms of coverage specified by them. The following may be offered as important research gaps identified on the basis of our review.

I. Majority of the studies show that up to 1990 the share of agricultural credit in total bank credit was rising with fluctuations but thereafter it started to decline.

II. While analyzing the performance of multi-agency network for agricultural credit, many studies has found that co-operative banks has lost their dominant position particularly after 1990 as compared to other institutional agencies.

III. Many studies has found that the banks are hesitant to advance credit to small farmers who make dominant farming population of the country whereas large farmers has easy accessibility to formal credit institutions.

IV. There is a wide range of inter-region or state variation in the accessibility of institutional credit by most of the studies attempted. The growth was uneven amongst the states or regions.

These are the issues which needs to be explored further in detail, to bring about the necessary changes in attitudes and practices of rural credit institutions. Therefore, there is a need for a study which examines the share of agricultural credit to total bank credit as well as to examine the performance of formal credit institutions during the post-reform period. The present study is an attempt to see the credit gap amongst the farmers as well as amongst the different regions of the country.