GROWTH, STRUCTURE AND COST OF AGRICULTURE CREDIT: A STUDY OF PUNJAB

ABSTRACT

The study had been devised to have an indepth knowledge about farmer’s access to credit, also in relation to inputs use as well as farm investments, utilization of credit and cost of credit pertaining to borrowing as well as lending aspects. Both primary as well as secondary sources of data were tapped for the study. Agricultural credit in terms of availability as well as outstanding has shown an increasing trend both at all India level and the State level. The share of non-institutional agencies in agricultural credit was found to be decreasing. The elasticity of inputs use to input-output price ratio had been (-) 0.39 and that of private investments to input-output price ratio (-) 1.49. The contribution of institutional credit in promoting use of production inputs and private capital investments was found to be significantly positive. The amount of loan had been found to be maximum for purchase of land, followed by tractors and submersible pumps. Farm size, education status of the borrower and non-farm income were found to be significant factors to cause a decline in the diversion of loan, while source of loan as well as cost of loan have emerged as non-significant factors. Average transaction cost of obtaining loan is calculated at Rs. 861 per farm in the state, with maximum component of bribe followed by food expenses and legal charges. The average cost of obtaining a loan of Rs. 1000 in the state comes to be Rs. 9.98 per 100 rupees of loan, while for non-institutional sources it was Rs. 15.10 per month. The administrative cost of lending was significantly higher in case of institutional sources than non-institutional sources. Opportunity cost forms 59.72 per cent of total transaction cost in case of institutional sources, whereas in non-institutional sources it was 77.90 per cent of the total transaction cost. The difference between rate of interest charged and transaction cost incurred indicates that institutional sources are having losses in short-term lending, but some profit in long-term loans, while, non-institutional sources are having profits both in short-term as well as long-term lending.

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Supervisor

ARJINDER KAUR
ABSTRACT

The study had been devised to have an indepth knowledge about farmer’s access to credit, also in relation to inputs use as well as farm investments, utilization of credit and cost of credit pertaining to borrowing as well as lending aspects. Both primary as well as secondary sources of data were tapped for the study. Agricultural credit in terms of availability as well as outstanding has shown an increasing trend both at all India level and the State level. The share of non-institutional agencies in agricultural credit was found to be decreasing. The elasticity of inputs use to input-output price ratio had been (-) 0.39 and that of private investments to input-output price ratio (-) 1.49. The contribution of institutional credit in promoting use of production inputs and private capital investments was found to be significantly positive. The amount of loan had been found to be maximum for purchase of land, followed by tractors and submersible pumps. Farm size, education status of the borrower and non-farm income were found to be significant factors to cause a decline in the diversion of loan, while source of loan as well as cost of loan has emerged as non-significant factors. Average transaction cost of obtaining loan is calculated at Rs. 861 per farm in the state, with maximum component of bribe followed by food expenses and legal charges. The average cost of obtaining a loan of Rs. 100 in the state from institutional sources comes to be Rs. 9.98, while for non-institutional sources it was Rs. 15.10. The administrative cost of lending was significantly higher in case of institutional sources than non-institutional sources. Opportunity cost forms 59.72 per cent of total transaction cost in case of institutional sources, whereas in non-institutional sources it was 77.90 per cent of the total transaction cost. The difference between rate of interest charged and transaction cost incurred indicates that institutional sources are having losses in short-term lending, but some profit in long-term loans, while, non-institutional sources are having profits both in short-term as well as long-term lending.