

CHAPTER – IV

LITERATURE SURVEY

Development of agriculture is critical for mitigating the challenges of rural poverty, food insecurity, unemployment, and sustainability of natural resources. The word credit derives from the word credo (Latin) meaning – “I believe”. Credit is that form of confidence reposed in a person, which enables him to obtain from another a temporary use of things of value. Credit makes the capital more productive. The credit to farmers in the independent India has been guided by the policy of enhancement of agricultural production and productivity both from the perspective of self-sufficiency and food security for the nation as well as from the perspective of growth with equity. The introduction of new technology initiated with implementation of new agricultural strategy during kharif 1966 to usher in “Green Revolution”, underlined the importance of financial capital, implying increased need for credit when majority of cultivators have little ‘owned funds’ to operate costly technology. Agricultural activities encompass the field of production, processing, marketing, distribution, utilization, and trade. As we will see, the credit for agriculture marketing in India is covered under the credit to agriculture sector including that for production, without making a separate sub-category for it or even without a separate allocation for it within priority sector lending for agriculture. Hence study of credit for agriculture marketing in India has to be studied in the overall context of credit for agriculture sector.

The system of credit to agriculture assumes importance, because most Indian farmer’s household has inadequate savings to finance farming and other economic activities. This, coupled with the lack of simultaneity between income and expenditure and lumpiness of requirement of fixed capital investment, makes availability of timely credit at affordable rates of interest, a prerequisite. Credit, as one of the critical non-land inputs, has two-dimensions from the viewpoint of its contribution to the augmentation of agricultural growth viz., availability of credit

(the quantum) and the distribution of credit. Recognizing the importance of agriculture sector in India's development, the Government and Reserve Bank of India (RBI) have played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector.

Development of Institutional Credit to Agriculture

The evolution of institutional credit to agriculture could be broadly classified into four distinct phases - 1904-1969 (predominance of co-operatives and setting up of RBI), 1969-1975 [nationalization of commercial banks and setting up of Regional Rural Banks (RRBs)], 1975-1990 (setting up of NABARD) and from 1991 onwards (financial sector reforms). The practice of extending institutional credit to agriculture can be traced back to the British period when farmers were provided with such credit by the Government during drought years. Serious thinking on credit cooperation resulted in passing of Cooperative Societies Act in 1904 and cooperatives were seen as the premier institutions for disbursing agricultural credit. The early years of the twentieth century were characterized by focus on provision of rural credit: a new Act was passed in 1912 giving legal recognition to credit societies. The Maclagan Committee on Cooperation in India issued a report in 1915 advocating the establishment of provincial cooperative banks, which got established in almost all provinces by 1930, thus giving rise to the 3-tier cooperative credit structure. It was in 1935 that the Reserve Bank was founded. Section 54 of Reserve Bank of India Act, 1934, enjoined the Reserve Bank to set up an Agriculture Credit Department, which was to have an expert staff to advise the central government, state governments, state cooperative banks, and other banks; and to coordinate RBI functions for agricultural credit. Section 17 of the Act empowered it to provide agricultural credit through state cooperative banks or any other banks engaged in the business of agricultural credit. Despite all these efforts, even by 1951 the provision of credit through cooperatives remained meager with only 3.3 per cent of the cultivators having access to credit from cooperatives, and 0.9 per cent from

commercial banks. Credit supplied by the money lenders were subject to high interest rates and other usurious practices.

The Report of the All India Rural Credit Survey (1954)³⁰, conducted by Committee of Direction, stated that the performance of co-operatives in the sphere of agricultural credit was deficient in more than one way, while emphasizing: "*Cooperation has failed, but Co-operation must succeed*". The report also emphasized on a well defined role for commercial banks in delivering credit for agriculture in specialized areas, such as marketing, processing, storage and warehousing. Towards this end, it recommended establishment of the State Bank of India and through it, extension of commercial banking facilities to rural and semi-urban areas. Thus, concern with the inadequate extension of agricultural credit had impact on transformation of the Imperial Bank of India into the State Bank of India. The Agricultural Refinance Corporation (ARC) was set up by the Reserve Bank in 1963 to provide funds by way of refinance.

All India Rural Credit Review Committee, set up in July 1966, *inter alia*, reviewed the supply of rural credit in the context of the Fourth Five Year Plan, and recommended that the commercial banks should play a complementary role, along with co-operatives, in extending rural credit. The social control and subsequent nationalization of major commercial banks in 1969 (and in 1980) acted as a catalyst in providing momentum to the efforts of leveraging the commercial banking system for extending agricultural credit. The outreach of banks was enlarged considerably through branch expansion and the *concept of priority sector* was introduced in 1969, for financing certain neglected sector including agriculture sector. The channeling of credit to the priority sectors was sought to be achieved through mandated deployment of a certain proportion of the total net bank credit in these sectors. Decentralized credit planning through the lead bank scheme was also introduced, under which, each district was placed with one of the commercial banks (called the district lead bank) to spearhead the

³⁰ Report of All India Rural Credit Survey (1954), Committee of Direction, Reserve Bank of India

credit allocation for agricultural lending. In order to emphasize the developmental and promotional role assigned to the ARC in addition to refinancing, the corporation was renamed as the Agricultural Refinance and Development Corporation (ARDC) by an amendment to the Act in 1975.

Following the recommendations of the Narasimham Working Group (1975), Regional Rural Banks (RRBs) were set up. Thus, by the end of 1977, there emerged three separate institutions for providing rural credit, which is often described as the '*multi-agency approach*'. Following the recommendations of the "Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development", the National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 for providing credit for promotion of, among others things, agriculture. NABARD took over the entire undertaking of the ARDC and the refinancing functions of the RBI, in relation to state cooperatives and RRBs. The credit strategy for agricultural development in the country thus has been founded on the philosophy of "growth with equity" and includes measures like directed targets of lending to the agriculture sector, coupled with availability of refinance to the banks at softer terms e.g., lower down-payment, longer maturity period and lower rates of interest have helped in facilitating easier access and affordable credit to marginal and small farmers. NABARD is the apex institution, which has been entrusted with a pivotal role in the sphere of policy planning and providing refinance facilities to rural financial institutions to augment their resource base.

NABARD and Credit to Agriculture

NABARD's three main functions are development, credit and supervision. Development includes activities which ultimately enhance credit absorption capacity, build awareness and allow policy advocacy for various causes. Credit primarily covers refinancing of co-operatives, RRBs and commercial banks and finance for rural infrastructure. Successful development initiatives translate into

credit demand. Supervision, taken up primarily on behalf of Reserve Bank of India, includes on-site inspection and off-site surveillance of co-operatives and RRBs. Since its inception, NABARD has played a central role in providing financial assistance, facilitating institutional development and encouraging promotional efforts in the area of rural credit. As per the report of the advisory Committee on "Flow of credit to Agriculture" and related activities (RBI,2004), NABARD needs to pay more attention to supporting value addition in agriculture, encouraging investments for diversification from subsistence to commercial agriculture, facilitating access to oral lessees and tenant farmers and increasingly using various funds at its disposal for institutional development.

Increasing Role of Banks in Agriculture Credit

As per RBI occasional paper (Golait 2007)³¹, the share of institutional credit, which was just above 7% in 1951, increased to over 66% in 1991, thus marking a remarkable decline in the share of non-institutional credit from around 93% to about 31% (Table-4.1). However, the share of non-institutional credit has taken a reverse swing from 1991 to 2002, which is a cause of concern.

Table-4.1: Relative Share of Borrowings by Farm House-Hold

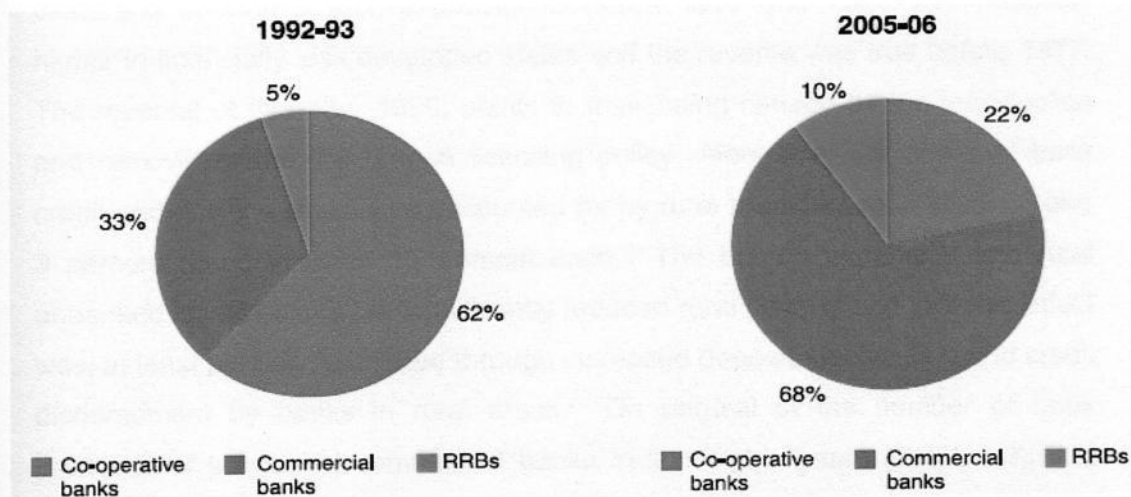
Sources Credit	1951	1961	1971	1981	1991	2002
1	2	3	4	5	6	7
Non-Institutional	92.7	81.3	68.3	36.8	30.6	38.9
<i>of which</i>						
Money Lenders	69.7	49.2	36.1	16.1	17.5	26.8
Institutional	7.3	18.7	31.7	63.2	66.3	61.1
<i>of which</i>						
Cooperatives Societies / Banks	3.3	2.6	22.0	29.8	23.6	30.2
Commercial Banks	0.9	0.6	2.4	28.8	35.2	26.3
Unspecified	—	—	—	—	3.1	—
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source- RBI Occasional Paper, Vol. 28, No-1 (R. Golait, 2007)

³¹ Golait, Ramesh. 2007. "Current Issues in Agricultural Credit in India: An Assessment." Reserve Bank of India Occasional Papers, 28(1)

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 (33 to 68 per cent) including RRBs (5 to 10 per cent) almost doubled during the above period (Fig.- 4.1).

Fig.- 4.1: Institutional Framework for Credit



Source- RBI Occasional Paper, Vol. 28, No-1 (R. Golait, 2007)

The structure of Indian Banking as given in Manual on Financial Banking Statistics, RBI (2007) is provided at Annexure-4.1 to this chapter. Schedule commercial banks seem to play a greater role in channelizing credit to agriculture as compared to that by cooperative banks. A Das, M Senapati, J John (RBI Occasional Paper, 2009)³² have stated that between bank nationalization in 1969 and the onset of financial liberalization in 1990, bank branches were opened in over 30,000 rural locations which had no prior presence of commercial banks (called un-banked locations). RBI introduced a new branch licensing policy in 1977. It mandated that a bank can obtain a license to open a branch in an already banked location only if it opened branches in four unbanked locations.

³² Abhiman Das, Manjusha Senapati, Joice John (Monsoon 2009)- " Impact of Agricultural Credit on Agriculture Production: An Empirical Analysis in India"-Reserve Bank of India, - Occasional Papers Vol. 30, No.2

This 1:4 licensing policy was aimed at forcing banks wishing to expand in already banked locations to open branches in unbanked locations. This branch expansion was an integral part of India's social banking experiment, which sought to improve the access of the rural poor to cheap formal credit.

As per Robin Burgess and Rohini Pande, (2005)³³, timing and nature of this trend of rural branch expansion between 1977 and 1990 was relatively higher in financially less developed states and the reverse was true before 1977. The reversal of this after 1990, points to their being caused by the introduction and removal of the 1:4 branch licensing policy. Alongside, the share of bank credit and savings which was accounted for by rural branches rose from 1.5 and 3 percent respectively to 15 percent each. The branch expansion into rural unbanked locations in India significantly reduced rural poverty and that this effect was, at least partially, mediated through increased deposit mobilization and credit disbursement by banks in rural areas. On perusal of the number of bank branches of scheduled commercial banks in last eight years (Table-4.2), it is observed that the total number of branches in rural areas have not grown in the same proportion as in case of semi-urban, urban and metropolis. Rather number of branches in rural areas seems to have almost stagnated as is evident from following:

Table-4.2 : Number of Bank Branches

No of Branches	March 2003	March 2005	March 2007	March 2009	March 2010	March 2011
Number of Commercial Banks	293	288	182	170	167	167
Number of Bank Offices in India	68500	70373	74653	82897	88203	93080
Rural	32283	30790	30409	31598	32529	33602
Semi-Urban	15135	15325	16770	19337	21022	23048
Urban	11566	12419	14202	16726	18288	19156
Metropolis	9516	11839	13272	15236	16364	17274

Source- RBI Handbook of Statistics on Indian Economy (Sept, 2011)

³³ Robin Burgess and Rohini Pande, (June 2005)-'Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment'- American Economic Review, Vol. 95

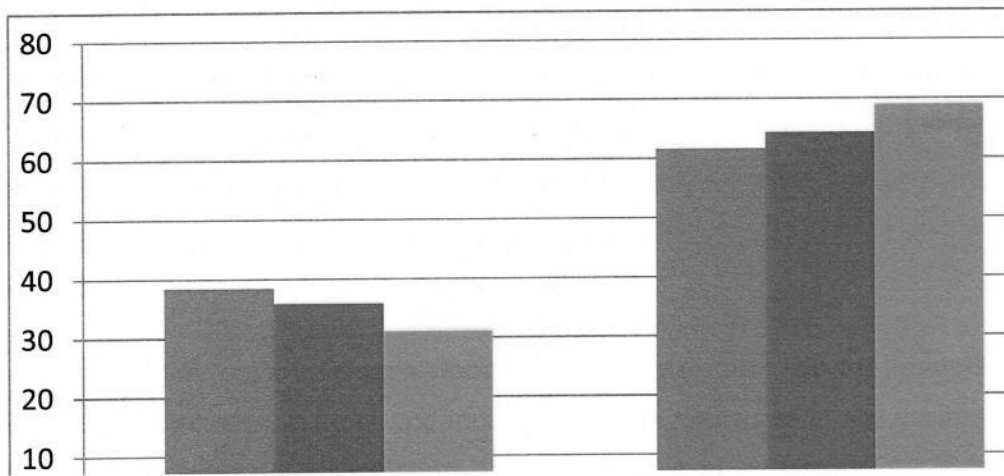
Priority Sector Lending to Agriculture

On the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by the Reserve Bank in 1971, Reserve Bank of India prescribed priority sector advances in 1974. Subsequently, on the basis of the recommendations of the Working Group on the Modalities of Implementation of Priority Sector Lending, all commercial banks were advised to achieve the target of priority sector lending at 40 per cent of aggregate bank advances by 1985. Presently 18% of Adjusted Net Bank Credit (ANBC) is for agriculture sector, while share of indirect lending in agriculture should not exceed 4.5%. As per various RBI Master circulars on Priority sector lending, Direct Finance to agriculture includes short, medium and long term loans given for agriculture and allied activities directly to individual farmers, Self-Help Groups (SHGs) or Joint Liability Groups (JLGs) and to others (such as corporate, partnership firms and institutions), for taking up agriculture/allied activities. The details of Direct Finance and Indirect Finance as eligible for agriculture and allied activities under priority sector lending as compiled from RBI master Circulars are placed at Annexure-4.2. The Indirect Finance under Priority sector lending to agriculture includes advances to dealers for agriculture machineries as well as purchase and distribution of input as well as for providing custom service on contract basis to farmers of agriculture equipments. It provides for loan to Non Banking Financial Companies (NBFC)/Urban Cooperative Banks/NGOs/SHGs for on lending to agriculture sector. It also includes lending for critical post-harvest market infrastructure such as setting up storage facilities, cold storages, market yards/infrastructure, and processing units. It appears from a reading of priority sector lending to agriculture that while direct finance has a very strong bias towards agriculture production, indirect finance has a very strong bias towards institutional lending for onward lending purpose. It is interesting to note that the investment made by banks in special agriculture bonds issued by

NABARD till March 2007, is considered as part of Indirect Finance. There is also no such division of targets under indirect finance as regards to lending by banks for setting up critical post-harvest (such as storage, cold storage, market yards/infrastructure, as different from lending to institutions/dealers.

A comparative analysis of direct credit to agriculture and allied activities during 1980s, 1990s and 2000s reveals that the average share of long-term credit in the total direct finance has not only been much lower but has also decelerated (from over 38 per cent to around 31 per cent), which could have dampening effect on the agricultural investment for future growth process (Fig.- 4.2).

Fig. - 4.2 : Share of Short-Term & Long-Term Credit in Agriculture



Source- RBI Handbook of Statistics on Indian Economy (Sept, 2011)³⁴

Short-term credit is used generally for production purpose such as seeds, fertilizers as crop loan with relatively shorter tenure, while long-term credit is used for purchasing capital assets such as farm equipments/implements/ tiller/harvester, setting up primary value addition facilities (sorting/grading), and purchase of land etc requiring relatively longer tenure of loan. It appears that

³⁴ Hand book of Statistics on Indian Economy, (September 2011), Reserve Bank of India

lending for agriculture marketing in both aspect of primary value addition and setting up and managing various critical post-harvest infrastructure has neither any specific allocation within priority sector lending for agriculture, nor has it any priority in both direct and indirect category over lending for other purposes.

There has been a distinct shift in the preference of commercial banks towards indirect finance (IF) vis-à-vis direct finance to agriculture. As per RBI statistics, of the total credit outstanding to agriculture the share of indirect finance was 16% in 2000 which increased 28% in 2006 and stood at 24% in 2010. The share among the two categories in terms of accounts has more or less remained the same during the period 2000 to 2010. In recent times, the increase in the commercial banks indirect financing could be due to their financing of institutional lending and big processing facilities arising out of increasing role of urban and metropolitan branches in rural financing. Thus it appears that lending for development of critical post-harvest market infrastructure, such as setting up storage facilities, cold storage facilities, market yards, suffers from limitations of i. 'crowding out' in the indirect finance category in overall loan portfolio, ii. higher interest rate for loan leading to longer pay back period.

Micro-Finance and Agriculture

The financial sector reforms formed an integral part of the overall structural reforms initiated in 1991 and 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. Two innovations, viz., micro-finance and Kisan Credit Card Scheme (KCCS) have emerged as the major policy developments in addressing the infirmities associated with the distributional aspects of credit in the recent years. NABARD has been playing a catalytic role in micro-credit through the conduit of Self-Help Groups (SHGs). The

introduction of Bank-SHG linkage programme in the 1990s has in some ways addressed the need of consumption credit of the poor. Under this system, the banks lend to the SHGs who, in turn, are free to disburse loan to their members in their best judgment, whether for production or for consumption purposes. The Government of India re-designated in 2001, the existing Micro Finance Development Fund as Micro Finance Development and Equity Fund, with the objective of facilitating and supporting the orderly growth of the microfinance sector, by especially assisting women and vulnerable sections of the society and also by supporting their capacity building. The size of the fund was also enhanced. The additional amount was to be contributed by the Reserve Bank of India, NABARD and the commercial banks in the proportion 40:20:20.

Planning Commission sub-group on "Innovative Finance and Micro Finance" also observed that there were large numbers of farmers in the country who are sharecroppers / tenant farmers, etc. These farmers do not have clean title to land. These farmers were not able to raise loan from the banks as the defects in title of land was not accepted as good collateral. In order to develop effective credit product for mid segment clients, having access to productive assets, NABARD had started the concept of Joint Liability (JLG) in 2004-05 as pilot projects in 8 states. Based on the pilot project experience, the concept was operationalized by RBI and NABARD in 2006-07. This approach could help clients like tenant farmers, share croppers, oral lessees, farmers with small holdings without proper land records, and the poor who could not form SHGs for want of numbers and other criteria. The major elements of the JLG are endogenous group-formation and the presence of social capital. As brought out by Ghatak (1999, 2000)³⁵, in case of default by some member, the other members have to make up the deficit and joint liability leads to positive assortative matching between 'good' and 'bad' borrowers while the borrowers of the same type will club together. However, commercial banks except Canara

³⁵ Ghatak, M., 1999, Group lending, local information and peer selection. *Journal of Development Economics* 60, 27-50 and Ghatak, M., 2000. Screening by the company you keep: Joint liability lending and the peer selection effect. *Economic Journal* 110, 601-631.

Bank could not start lending under JLGs. The entire co-operative credit structure remained aloof from implementation of the scheme.

Kisan Credit Card

The Kisan Credit Card scheme, launched in 1988 to provide adequate and timely support from banking system to the farmers for purchasing inputs in a flexible and cost effective manner, 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. Report(2010) of the study conducted by NABARD " Kisan Credit Card – A Study" reveals that though 717.51 lakh KCC were issued at the end of March 2009 constituting around 76.85 per cent of the total operational holdings of the 14 states, it has detected four types of shortcomings : (a) more than one family member having the same operational holding have been issued the KCC, (b) the same person has been issued multiple KCC by various banks, (c) in certain cases, KCC lapsed after a period of three years, but were still counted as valid ones in the MIS and finally, (d) in certain cases, KCC were renewed after a period of three years, but such cards were shown to be freshly issued. As per the report, when these distortions are taken into account and the number of genuine KCC are re-estimated, it was found to be 472.68 lakh, which constituted around 50.63 per cent of the operational holding of the states. Among various states, the maximum coverage of KCCs (ratio of number of cards to operational holdings) was: Punjab (77.53%), Haryana (74.21%), Andhra Pradesh (64.39%) and Karnataka (63.07%). It further states that coverage of marginal farmers and small farmers in the KCCs was in the range of 63-68 % (Coop banks), 58-61 % (RRBs) and 59-64 % (CBs). Share of tenant farmers was very negligible (<1%). It was observed that most of the KCC-holders were not aware of the modalities, usefulness/benefits of KCC Scheme.

Rural Infrastructure Development Fund and Agriculture Market Infrastructure

NABARD also administers the Rural Infrastructure Development Fund (RIDF), which was set up in 1995-96; the corpus of RIDF is contributed by scheduled commercial banks to the extent of their shortfall in agricultural lending under the priority sector targets. The scope of RIDF has been widened to enable utilization of loan by Panchayatiraj Institutions (PRIs), Self-Help Groups (SHGs), Non-Government Organizations (NGOs), etc., since 1999-2000. Of the thirty-one eligible activities permissible under RIDF as notified by NABARD, four activities broadly relates to development of agriculture marketing infrastructure, i.e.; i. Market yards/rural haats/other market infrastructure projects, ii. Storage godowns, iii. Cold storages, iv. Grading and certifying mechanism. As per the report of the XI Plan working group of Planning Commission on Agricultural Marketing, by end of March 2005, NABARD's support for infrastructure creation through RIDF loans to various State Governments, amounted to Rs 42948 crore. As against these sanctions, the disbursement was only Rs 25384 crore. It further states that its fund is mainly utilized in creation of road network (up to block level roads), and medium and minor irrigation projects. Though the complete array of agriculture marketing infrastructure projects can be taken under RIDF by the states, this funding is rarely utilized for filling the gaps in agricultural marketing infrastructure as the states priority lies elsewhere. As on March 31, 2006, only a meager amount of Rs 80.92 crore has been sanctioned under RIDF for various projects related to agricultural marketing infrastructure.

Access of Small and Marginal Farmers to Institutional Lending

A Perusal of the data furnished in "RBI Handbook of statistics on Indian Economy" since 1982-83, it is evident that both the number of accounts and the amount of credit disbursed in direct category to farmers has been continuously increasing for the farmers with land up to 2.5 acres (marginal farmers). The number of accounts in both farmers category of 2.5 to 5.0 acres (small farmers)

and above 5.0 acres (big farmers) seems to have increased rapidly, as compared to that by marginal farmers as is evident from following (Table- 4.3):

**Table-4.3: Commercial Banks' Direct Finance to Farmers (Disbursements)
Short-Term & Long-Term Loans**

(Number of accounts in thousands; Amount in Rs. crore)

Year	Up to 2.5 Acres		Above 2.5 acres to 5 Acres		Above 5 Acres		Total	
	Number of Accounts	Amount	Number of Accounts	Amount	Number of Accounts	Amount	Number of Accounts	Amount
1982-83	1304	290	652	211	616	476	2571	977
1985-86	1950	617	1232	589	988	1037	4170	2243
1990-91	1960	1181	1219	952	899	1782	4078	3915
1995-96	2024	2001	1689	1952	1703	3703	5416	7657
2000-01	2382	3740	1860	3642	1599	7135	5841	14516
2004-05	4478	10833	3172	10550	2535	19735	10185	41119
2006-07	5963	23246	4008	21588	4379	49335	14350	94169
2008-09	8544	34267	6641	33280	6811	72753	21996	140300

Source- RBI Handbook of Statistics on Indian Economy (Sept, 2011)

As per the report (July 2007)³⁶ of Expert group on Agriculture Indebtedness of Ministry of Finance, Govt. of India, the southern region of the country accounted for nearly one-third of the total outstanding agricultural credit disbursed nationally although they accounted for less than one-fifth of total farm households in the country. On the other hand, the eastern region's share in credit is much lower than its share in farmer households. In particular, Bihar's share in agricultural credit stands at only 2.4 per cent while its share in the total number of farmer households in the country is 8 per cent. Regional distribution of firm credit is given in Table-4.4.

³⁶ Report of the Expert Group on Agricultural Indebtedness (July 2007), Ministry of Finance, Government of India

Table- 4.4: Regional Distribution of Farm Credit (in %)

Regions	Agriculture Credit				
	XI Five Year Plan (Average Share)	2006	1992	1982	1972
Northern Region	27.44	23.5	17.5	21.9	13.1
N.E.Region	0.44	0.8	2.0	1.5	5.4
Eastern Region	7.27	8.2	11.3	10.8	13.3
Central Region	13.20	17.6	17.8	15.4	11.4
Western Region	14.10	17.2	15.2	16.0	22.4
Southern Region	34.99	32.6	36.3	34.4	34.4
All-India	100.0	100.0	100.0	100.0	100.0

Source – i. Expert Group Report on Agriculture Indebtedness, Ministry of Finance (2007), ii. Report of XII Plan working group of Planning Commission on Outreach of Institutional Finance

As per report (2005 & 2006)³⁷ of 59th Round National Sample Survey of farmer households (defined as those operating some land and engaged in agricultural activities on that land in the past year), at all-India level, estimated number of rural households was 147.90 million, of whom 60.4% were farmer households. Of the total farmer households, only 27% access formal sources of credit, while 22% received credit from informal sources. Exclusion is most acute in Central, Eastern and North-Eastern regions of India – having a concentration of 64% of all financially excluded farmer households in the country. The average size of loan per farmer increased with the landholding size (Table- 4.5). Small and marginal farmer households, which accounted for 80 per cent of indebted farmer households, absorbed 51 per cent of the total outstanding credit from institutional agencies. The dependency of marginal and small farmers was more on non-institutional agencies than of large farmers.

³⁷ National Sample Survey Organization, (May 2005)-'Situation assessment survey of farmer households' -59th Round-January December 2003 and National Sample Survey Organization,(April 2006)-" Household Assets Holding, Indebtedness, Current Borrowings and Repayments of Social Groups in India- All-India Debt and Investment Survey"- 59th Round-January December 2003

Table- 4.5: Amount and Source of Indebtedness by Size of Holding

Size of Land Possessed (Hac.)	Total House Holds (%)	Total indebted Households (%)	Amount outstanding per farmer Households (Rs.)	Loan from	
				Institutional Agencies (%)	Non-Institutional Agencies (%)
<0.01	1.4	1.3	6121	22.6	77.4
0.01-0.40	32.8	30.0	6545	43.3	56.7
0.41-1.0	31.7	29.8	8623	52.8	47.3
1.01-2.0	18.0	18.9	13762	57.6	42.3
Up to 2.0	83.9	79.9	8870	51.3	49.7
2.01-4.0	10.5	12.5	23456	65.1	35.0
All Sizes	100.0	100.0	12585	57.7	42.4

Source: 59th round of National Sample Survey (NSS), 2003.

As per Planning Commission document on XI Five Year Plan (2007-12)³⁸ on 'Agriculture, Rural Development, Services and Physical Infrastructure', "the total credit to agriculture increased from Rs 62045 crore during 2001-02, the terminal year of the Ninth Five Year Plan, to Rs 200000 crore during 2006-07, the final year of the Tenth Five Year Plan. This was more than threefold increase over five years. The share of commercial banks in total agricultural credit increased from 54% in 2001-02 to around 69% in 2005-06. The growth of credit was especially impressive during the last two years of the Tenth Plan on account of the 'Farm Credit Package' announced by the Government of India. To prevent and save the farmers from the clutches of private money lenders, several measures have been taken. Banks were advised in particular : (i) To increase the agricultural credit flow (ii) To restructure the outstanding debt of the farmers(iii) Banks have been permitted to advance loans to indebted farmers to provide them relief from moneylenders (v) Public Sector banks advised to reduce their lending rate for agriculture on crop loans up to a ceiling of Rs.50,000 (vi) To waive margin/security requirements for agricultural loans up to Rs.50,000 and agri-business and agri-clinics up to Rs.5 lakhs.

³⁸ Planning Commission of India (2008)-Eleventh Five Year Plan (2007-2012) document on "Agriculture, Rural Development, Industry, Services and Physical Infrastructure", Volume III, Oxford University Press.

In an article "Revival of Agriculture Credit in 2000's- An explanation" R Ramakumar and Pallavi Chavan (Economic and Political Weekly, 2007)³⁹, have brought out that much of the increase in the total advances to agriculture in the 2000's were on account of a sharp increase in the number of loans with a credit limit of Rs 10 crore and above, and particularly, Rs 25 crore and above, while the shares in total advances with credit limit "less than Rs 25,000" and "between Rs 25,000 and Rs 2 lakh" have shrunk significantly. It concludes that in the 2000's, there was a clear shift in the direct agricultural lending of banks away from small borrowal accounts in favour of large agribusiness-oriented enterprises and big cultivators (who possessed land above five acres). In an article dated 13th August 2010 titled "How rural is India's agriculture Credit" in the "The Hindu", Pallavi Chavan has brought out that the share of agricultural credit supplied by metropolitan branches alone increased from 7.3 per cent in 1995 to 19 per cent in 2005. While there was a moderate decrease in these shares between 2006 and 2008, urban and metropolitan branches continued to supply about one-third of the total agricultural credit in 2008. Concurrently, there was a sharp fall in the share of agricultural credit supplied by rural and semi-urban branches from 83.7 per cent in 1995 to 66.0 per cent in 2008, thus indicating increasing urban nature of agricultural finance.

Agrarian Distress and its Mitigation

As per Planning Commission document on XI Five Year Plan (2007-12) on 'Agriculture, Rural Development, Services and Physical Infrastructure', "an important reason for recent farm distress is that after improving steadily from 1980 to 1997, terms of trade turned against agriculture from 1999 and, almost for the first time in post-independent India, farm prices actually fell at the same time that farm production decelerated. This not only depressed incomes, but also increased farm debt considerably. More generally, farmers are now subject to greater risk because variability of world prices is much higher than what Indian

³⁹ R Ramakumar and Pallavi Chavan (December 29, 2007)-'Revival of Agricultural Credit in the 2000s: An Explanation' - Economic and Political Weekly, 42 (52), , pp. 57-64

farmers have been used to in the past.' Diversification has also necessitated large amount of borrowings from institutional as well as non-institutional sources, the latter at exorbitant rates of interest. As per the study "Debt Trap or Suicide Trap" conducted in 2004 conducted by R M Vidyasagar and K Suman Chandra for National Institute of Rural Development (NIRD), Hyderabad, some of the main causes of suicide by distressed farmers points to crop losses, consecutive failure of monsoon, recurrent droughts, mounting debts, mono-cropping, land tenancy. The study brings out that victim farmers were more caught in the debt trap of non-institutional sources of credit compared to control cases.

As per 59th round of National Sample Survey, incidence of indebtedness was higher in states which had input-intensive or diversified agriculture. The incidence of indebtedness was the highest in Andhra Pradesh followed by Tamil Nadu, Punjab, Kerala, Karnataka, Maharashtra and Haryana (Table-4.6). Estimated number of indebted farmer households was highest in Uttar Pradesh (6.9million), followed by Andhra Pradesh (4.9 million) and Maharashtra (3.6 million). Average outstanding loan per farmer household was highest in the state of Punjab, followed by Kerala, Haryana, Andhra Pradesh and Tamil Nadu. However, in a few states such as Andhra Pradesh, Rajasthan, Assam, Bihar and Punjab, the financing of the debt was more by the non-institutional sources. In the five states of Andhra Pradesh, Karnataka, Kerala, Maharashtra and Punjab where suicides were reported, both indebtedness and outstanding debt per farmer household were higher than the all-India level.

Table 4.6: State-wise Average Farm House-hold Loan & Distribution of Loan by Sources: (2003)

State	No. of Indebted House-hold	Av. Loan per House-hold (Rs)	Debt by Sources (%)			
			Total Institutional	Non-Institutional		
				Total	Money-lender	Trader
Assam	4536	813.0	37.5	62.6	15.5	12.0
A.P.	49493	23965	31.4	68.6	53.4	4.8
Gujarat	19644	15526	69.5	30.5	6.5	4.4
Haryana	10330	26007	67.6	32.5	24.1	3.1
J & K	3003	1903	67.6	32.3	1.1	15.5
Kerala	14126	33907	82.3	17.6	7.4	1.7

Karnataka	24897	18135	68.9	31.2	20.0	1.9
Maharashtra	36098	16973	83.8	16.2	6.8	0.8
M.P.	32110	14218	56.9	43.0	22.6	9.0
Odisha	20250	5871	74.8	25.1	14.8	0.8
Punjab	12069	41576	47.9	52.1	36.3	8.2
Rajasthan	27828	18372	34.2	65.8	36.5	19.2
T.N.	28954	23963	53.4	46.5	39.7	0.4
U.P.	69199	7425	60.3	39.7	19.1	2.9
H.P.	3030	9618	65.3	34.7	7.2	5.5
Bihar	23383	4476	41.7	58.5	32.8	1.1
W.Bengal	34696	10931	58.0	42.1	13.0	10.7
All India	434242	12585	57.7	42.4	25.7	5.2

Source: 59th round of National Sample Survey (NSS), 2003.

The potentially far-reaching macroeconomic implications of extreme household indebtedness have motivated a range of large-scale debt relief initiatives. Some recent examples include a US\$ 2.1 billion bailout program for farmers in Thailand in 2010, and the rescheduling of US\$ 5 billion of agricultural household debt in Brazil since 2001. In India the program of debt waiver in 2008, considered formal agricultural debt issued by commercial and cooperative banks. This included crop loans, investment loans for direct agricultural and allied purposes, and agricultural debt restructured under prior debt restructuring programs. Debt to moneylenders and other informal sources, and loans taken for non-agricultural purposes, were not included in the program. To qualify for debt relief, a loan had to be overdue or restructured as of December 31, 2007 (well prior to the program announcement). The amount of relief depended on the location and classification of the borrower, with small and marginal farmers" received a full waiver, while "other farmers" received the conditional 25% relief. The program is stated to reach an estimated 36 million farmers across India and covered outstanding debts of Rs 650 billion.

Agriculture Lending and Non Performing Assets

Non Performing Assets (NPA) implies that a debt obligation where the borrower has not paid any previously agreed upon interest and principal repayments to the designated lender for an extended period of time. As per the

Report of RBI on Trend and Progress of Banking in India (2009-10)⁴⁰, the sectoral Non-Performing Assets (NPA) ratio of banks indicated a rise for priority and non-priority sectors between 2009 and 2010; the increase in NPA ratio for priority sector, however, was higher than that of the non-priority sector (Table-4.7).

Table- 4.7: Sector-wise NPAs of Domestic Banks

Bank group	Priority sector		Of which, Agriculture		Of which, Small scale industries		Of which, Others		Public sector		Non-priority sector		Total NPAs	
	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Public sector banks														
2009	24,318	55.2	5,708	13.0	6,984	15.9	11,626	26.4	474	1.1	19,251	43.7	44,042	100.0
2010	30,848	53.8	8,330	14.5	11,537	20.1	10,981	19.2	524	0.9	25,929	45.3	57,301	100.0
Nationalised banks**														
2009	15,871	60.6	3,707	14.2	4,958	18.9	7,206	27.5	297	1.1	10,001	38.2	26,169	100.0
2010	19,908	56.1	5,741	16.2	8,668	24.4	5,499	15.5	280	0.8	15,283	43.1	35,470	100.0
SBI group														
2009	8,447	47.3	2,001	11.2	2,026	11.3	4,420	24.7	177	1.0	9,250	51.8	17,874	100.0
2010	10,940	50.1	2,589	11.9	2,869	13.1	5,482	25.1	244	1.1	10,646	48.8	21,831	100.0
All domestic SCBs														
2009	27,958	45.9	7,149	11.7	7,650	12.6	13,159	21.6	549	0.9	32,423	53.2	60,930	100.0
2010	35,640	47.7	10,353	13.9	12,676	17.0	12,611	16.9	524	0.7	38,522	51.6	74,685	100.0

Source- Report of Trend and Progress of Banking in India 2009-10 (RBI)

Overall Non-Performing Assets in both volume and percentage for agriculture sector, seem to be comparatively lesser than other sub-sectors within the priority sector for all domestic schedule commercial banks as well as for all the PSU and Nationalized Banks. It further states that it is noteworthy that weaker sections comprising, among others, small and marginal farmers, scheduled castes and tribes (SC/STs) have shown a steady decline in the NPA ratio and stood at 2.73 per cent for domestic banks (by end March 2010), a little higher than the NPA ratio for non-priority sectors. This trend corroborates the point that weaker sections are in fact not less creditworthy than other sections and strengthens the argument for furthering the process of financial inclusion.

⁴⁰ Reserve Bank of India, Report on Trend and Progress of Banking in India, (2009-10)

Need to Improve Credit for Market Infrastructure and Value Addition to Agriculture

As per the article "Agriculture Credit in India-Status, Issues and Future Agenda" by Rakesh Mohan (Reserve Bank Bulletin-2004)⁴¹, the share of agriculture value addition has been falling as a share of total GDP. Hence the credit to agriculture sector may also be falling as a proportion to total credit. He further mentions that existing agriculture credit system is primarily geared to the needs of food grain production; with the share of food grain production falling as a proportion of total agriculture production, it is expected that share of agriculture credit would also fall as a proportion of total credit unless this trend is corrected by increasing commercialization of agriculture. He further adds that for the new growth areas of agriculture, the importance of post harvest activities such as storage, transportation, processing and marketing of non-cereal products increases which lead to greater link between agriculture diversification and rural industrialization. In this context, credit support to marketing and post harvest activities need to be strengthened further. Futures market, pledge loans and warehouse receipt financing alone cannot be sufficient to fulfill farmers' need. The advisory Committee on Provision of Credit to Agriculture and Allied Activities (2004) also noted that linkages between production and marketing need to be strengthened by increasing pledge finance, credit for marketing and introduction of advances against Warehouse Receipts. Expert Committee on Rural Credit (Vyas Committee, 2004)⁴² had pointed out the imbalance between financing production and post-harvest operations, as also poor linkages between credit and marketing. Paper on 'Enhancing Investment Credit in Agriculture', IFMR (2006)⁴³ indicates the need of a more balanced approach to crop production and post-harvest operations for integration of farmers' production with domestic and global markets to scale up credit flows.

⁴¹ Rakesh Mohan, (November 2004), "Agricultural Credit in India: Status, Issues and Future Agenda" Reserve Bank of India Bulletin, pp 993-1007.

⁴² Report (June 2004) of the Advisory Committee on 'Flow of Credit to Agriculture and Related Activities from Banking System' (Chairman- Prof. V.S. Vyas), Reserve Bank

⁴³ Rajiv Panthary (August 2006), 'Enhancing Investment Credit in Agriculture', (2006)- Institute for Financial Management and Research-Centre for Development of Finance-Working Paper series

Investment Framework for Agriculture Market Infrastructure

Till initiation of economic reforms in 1991, the marketing infrastructure was created mainly in the public sector. The one of the major objectives of economic reforms amongst others were market orientation of the economy, increasing private sector initiative and investment, improving efficiency of Government spending, etc. The public sector continues to play an important role in creation of infrastructure in backward, remote and difficult desert and hilly areas because of their low utilization and poor returns to investment. As government provides policy support with limited financial support (capital investment linked subsidy through various agriculture market infrastructure schemes of different Ministries and departments of GOI) in most essential areas market infrastructure, majority of the financial capital has to flow from potential private entrepreneurs for development and growth, who in case of agriculture, are mostly the small and medium farmers. The XI Plan Working Group on Agricultural Marketing (Report 2008)⁴⁴ has estimated a total investment of Rs. 64,312 crore in agricultural marketing infrastructure, out of which Rs. 30,625 crore is to come from the private sector. It had further estimated a storage gap of 35 million MT requiring an investment of Rs.7687 crore Though India is the second largest producer of fruit and vegetables (about 200 million MT), it has a very limited integrated cold-chain infrastructure, with only 5381 stand-alone cold storages, having a total capacity of 24.4 million MT, more than 80% of which is used only for potatoes. A Task Force on Cold Chain Development in India set up by Ministry of Agriculture had recommended (Report, 2008) an investment of Rs. 8150 crore, mostly coming from private sector for development proper marketing of horticulture produce. As has been brought out in chapter-II, various Ministries and Government Organizations have been providing mainly credit-linked assistance for development of market infrastructure for primary value addition by

⁴⁴ Planning Commission of India, Report (January- 2007) of working group on "Agricultural Marketing Infrastructure and Policy required for Internal and external Trade for the XI Five Year Plan (2007-12)"

small and marginal farmers. Considering the huge requirement of private investment in agriculture marketing infrastructure, it is essential that credit for agriculture marketing in the country will have to play a critical role in shaping up the agri-business. Particularly easy access to formal credit with low interest rate by the vast majority of small and marginal farmers, who form more than 80% of farm-holdings in the country, to invest in agri-marketing, will remain a critical component in development of the country.

Credit for Agriculture Marketing - Issues and Challenges

As per ADB INRM policy brief "Agricultural Marketing and Rural Credit for Strengthening Indian Agriculture (by S S Acharya, 2006)"⁴⁵, there is considerable unmet demand for rural credit. Local money-lenders continue to provide credit to the rural families, as the reach of institutional agencies to weaker sections has remained poor. Meeting the credit needs of 25 million nonfarm informal sector enterprises continues to be a challenge to the Rural Financial Institutions (RFIs). Though the coverage of micro-finance scheme has expanded, still around 70% of the poor are out of this network. The micro-finance sub-sector of institutional credit has not explicitly targeted the agricultural sector. RFIs have bypassed tenants and sharecroppers. More than 60% of the farm families are yet to receive the Kisan Credit Cards. The rate of interest charged by RFIs from farmers is considerably higher than that charged by financial institutions from urban consumers. This is beyond the means of owners of small or marginal farms, which are nonviable or viable at the margin, and the self-employed in the informal sector. On the supply side, RFIs are under stress, particularly since the financial sector reforms of 1992-93. Commercial banks view rural financing as costly and cumbersome. Their transaction costs are high at an estimated 6% to 7% of loans advanced (Gulati and Bathla, 2002)⁴⁶. One reason for these high

⁴⁵ Acharya, S.S. (2006)-'Agricultural Marketing and Rural Credit for Strengthening Indian Agriculture', INRM Policy Brief No. 3 Asian Development Bank

⁴⁶ Gulati A. and S. Bathla (2002), Institutional Credit to Indian Agriculture, Defaults and Policy Options, Occasional Paper 23, NABARD

transaction costs is the corporate culture of these banks. To bring down costs, they are focusing on selected clientele of large borrowers.

Many commercial banks have closed nonviable rural branches because of rising nonpaying assets and the high cost of rural lending. Up to the middle of the 1980s, regional rural banks (RRBs) enjoyed a cost advantage vis-à-vis the commercial banks but by the late 1980s they lost this advantage. Their transaction costs have also now gone up to 6% or 7% of advances. They are too strongly tied to their sponsor banks and have little freedom of operation. This apart, widening of the scope of the priority sector has affected agricultural lending. The RFI linkages with input supply or output marketing institutions have remained weak. With the introduction of the Rural Infrastructure Development Fund (RIDF) scheme, commercial banks have tended to park funds under RIDF rather than direct lending for agricultural purposes. Consequently informal lending through various sources including that through money lenders, traders etc. continues, albeit with lesser proportion. From Table- 2.7 in preceding section, it is observed that while all-India average of non-institutional lending to farmer household stood at a very high rate of 42.4%, the share of trader finance was reported at 5.2%, indicating the major role played by traders in agriculture and its marketing. Trader financing in agriculture were reported to be higher than all-India average in the states of Rajasthan (19%), J&K (15%), Assam (12%), West Bengal (10.7%), M.P. (9%), Punjab (8.2%) and H.P. (5.5%). Trader financing in agriculture is not unique to India. Andrew Shepherd (FAO, 2004)⁴⁷ has reported that "Traders of grains and horticultural produces in Asia finance their marketing activities (Box-4.1). Banks rarely offer a satisfactory alternative to these sources, even if interest rates are less than those of moneylenders. Working capital needs are often unpredictable and loans are often required immediately and banks in the do not presently appear organized to provide such a rapid service."

⁴⁷ Food and Agriculture Organization of the United Nation, Rome, (2004)-"Financing Agriculture Marketing-The Asian Experience", by Andrew W Shepherd-AGSF Occasional Paper 2

Box-4.1

Informal Lending

Philippines- "Suki"(regular customer) relationships : Suki credit linkage in the form of "tied loans" for vegetables act as binding force in tying people in order to ensure regular supply and disposal of produce reaching from the central wholesale market to retailers and consumers in one direction and to farmers in the other. In times of shortage assembly traders will feel obliged to reserve at least part of their supply for wholesalers with whom they have suki relationships, while wholesalers will reserve part of their supply for their suki retailers. In times of surplus, wholesalers will give priority to buying from their suki assembly traders, and retailers are expected to buy from their suki wholesalers.

Sri Lanka: Farmer credit, linked to produce marketing, is well known in Sri Lanka, especially with vegetable cultivation. Farmers sell produce to "commission agents" who have earlier given them loans. Farmers would frequently borrow small amounts from copra merchants, as advances on future harvests.

Source- Andrew Shepherd (FAO, 2004)

While delivering third Prof. G Ram Reddy endowment lecture, (available in RBI website: www.rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/10991.pdf) in December 1999 in Hyderabad, Dr Y V Reddy, the then Deputy Governor of RBI had stated "the formal credit has a tendency to flow more easily to agriculturally developed regions and to relatively larger farmers leaving the backward regions and small farmers to be largely served by the informal market. This phenomenon is generally explained by four factors viz., poor-resource endowment features of the borrower, poor personal factors (education, social contact etc), underdevelopment of a region and higher transaction costs.....transaction costs associated with formal credit include fees for procuring necessary certificates (open), travel and related expenses including loss of wages etc., and informal or unofficial commissions (hidden)..... true cost of borrowing from the formal credit system is thus higher than nominal cost if the above informal transaction costs are also included. To the extent some transaction costs are fixed, the effective cost of borrowings(formal) for smaller loans tends to be relatively higher than for a larger loan.....there are usually hidden costs or concealed interest rates in respect of informal credit also, which have to be added to the nominal

costs to arrive at the true cost. These hidden costs generally relate to tied lending, tied to land, labour, input or output. The hidden costs are usually in the form of undervaluation of labour and output of borrowers and overvaluation of inputs supplied by lender..... it is also necessary to recognize that, to the extent informal markets tend to lend to borrowers who are relatively less creditworthy, risk-premium is bound to be higher. This would also get reflected in higher nominal interest rates in informal markets and indeed higher true cost, though it may not be so high if it is net of risk premium.”

Further explaining the manner in which linkages between the participants in the informal market operate, he had stated “Informal markets are unlikely to finance credit for investment purposes, given the time preference. ...the inter-linked transactions among parties with equal bargaining power are likely to minimize the hidden costs. ... from the supply side, farmer-lenders may tend to be associated with land and labour market linkages while trader-lender is likely to be associated with input-output markets. On the demand side, agricultural labour may be associated with land and labour markets while the farmer-cultivator with input-output linkages. In the process, it is likely that a farmer would be a borrower from a trader and a lender to agricultural labour, a common phenomenon in villages. It will, therefore, be over simplification to divide the rural population into lenders and borrowers or exploiters and exploited. incidentally to the extent the transaction costs are front loaded in respect of formal credit, there is no incentive to repay while the true costs of informal credit are spread out.”

The success of SHGs and NGOs in several countries of the region has demonstrated that the twin objectives of improving access to credit on the one hand and maintaining sustainability of credit institutions through reduced transaction costs, on the other, may not be mutually exclusive. The classic model of the Bangladesh Grameen Bank has been adopted by several other countries. Grameen Bank(GB) in Bangladesh which started as an experimental project by Prof. Muhammad Yunus in 1976, was converted into a specialized financial institution for the rural poor in 1983 by the ordinance of the government.

Presently, it is an independent bank with 75 per cent of the shares, owned by the borrowers and the rest 25 per cent by the government. The loans are targeted towards the lowest strata of society such that those who own less than 0.5 acre of land or assets worth less than one acre of land are eligible for these loans. Loans are provided primarily for agricultural activities. Women account for more than 90 % of all members. Each branch covers an area of 15 to 20 villages and the branch staff must live in the villages in which they work. Collateral is not required but the pressure of SHG on individual members provides loan security. Market interest rates, as prevailing in the formal sector, are charged. By the mid-1990s, from a minimalist, microcredit-only approach with vanilla credit products, the bank moved towards product differentiation both by end use and target segments. The institutions and their structures remained the same, and operations kept expanding at a very fast pace.

To argue that banking cannot be done with the poor because they do not have collateral is the same as arguing that men cannot fly because they do not have wings.

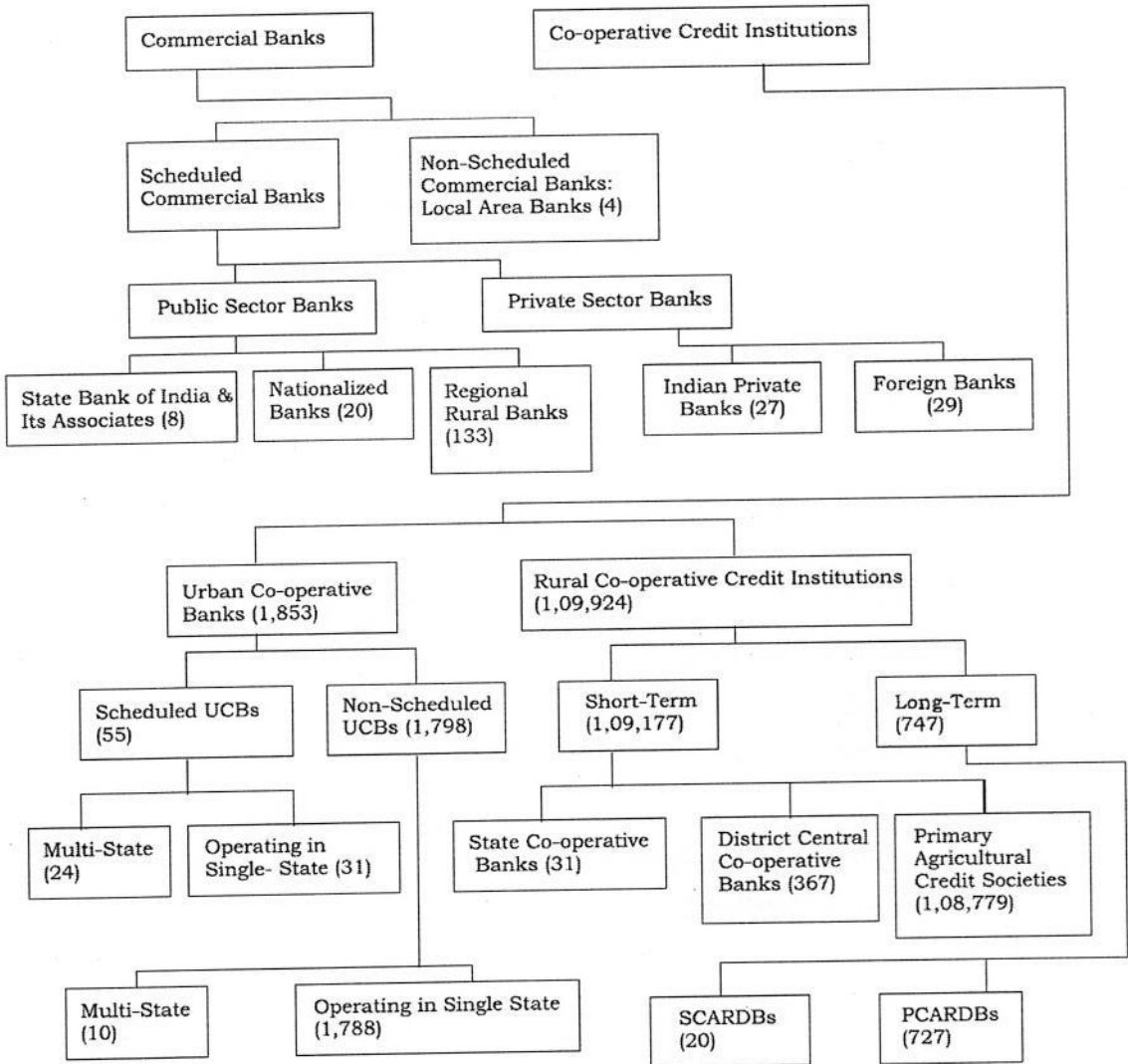
— Muhammad Yunus

The Grameen Bank experience shows that most of the conditions imposed by formal credit institutions like collateral requirements should not actually stand in the way of smallholders and the poor in obtaining credit. The poor can use the loans and repay if effective procedures for disbursement, supervision and repayment have been established. Another example of low-cost banking is Badan Kredit Kecamatan (BKK) in Indonesia established in 1970. It has its lending procedures designed to be simple, since the majority of the clients have very low incomes, and are often illiterate. It resorts to "mobile banking" system, providing standardized financial services at the village level. Lending and loan collections are often conducted on market days, to lower transaction costs to the clients and to the BKK's staff. The initial loan size cannot exceed Rp 50,000 (dollar equivalent of \$28). Savings have played an increasingly important role as a source of funds for the bank.

Banks to limit risky exposures tend to reduce the quantum and number of loans and as a consequence access of small farmers to loan suffers. Traditional short-term loans have been preferred by banks on account of lower risk perceptions. While the long-term loans were around 55% of short-term loan issued in the nineties, it has come down to 39% by 2008-09. A decline in long-term loans for improving production and marketing capacity increases risks of banks on their increasing short-term loans. This also indirectly helps in perpetuation of informal lending including that by traders. However, the poor small and marginal farmers continue to face credit crunch for agriculture activities, which includes credit for value addition as well as marketing his produce. In the next chapter, we examine the result of primary field survey conducted to study the system of trader lending to farmers for agriculture marketing as well as institutional lending to agriculture marketing entrepreneurs to understand the nature and limitations of such lending.

ANNEXURE-4.1

Structure of Indian Banking



Source - Manual on Financial Banking Statistics, RBI (2007)

ANNEXURE-4.2

Priority Sector Lending to Agriculture

(Source-RBI website- RBI Master Circulars)

Direct Finance:

- i. **Finance to individual farmers:** Short-term loans for raising crops, advance up to Rs. ten lakh for a year against hypothecation of agriculture produce(including warehouse receipt), working capital and term-loan for agriculture & allied activities, loans to small and marginal farmers for purchase of land for agriculture activities, loans to distressed farmers indebted to money lenders against collateral, loans for pre-harvest and post-harvest activities such as spraying/harvesting/sorting/ grading /processing/transportation in rural areas
- ii. **Finance to others(corporate, partnership firms & institutions):** Loans up to aggregate of Rs. one crore per borrower for pre-harvest & post-harvest activities(spraying/harvesting/sorting/grading/processing & transportation), short-term loan for raising crops, hypothecation of agriculture produce, working capital and term-loan for production and investment, one-third of loan in excess of Rs one crore for agriculture & allied purpose
- iii. **Micro-credit:** Loan up to Rs. fifty thousand to individual borrower as unsecured advance, Loan to Self-Help Group/ Joint Liability Group for agriculture & allied activities

Indirect Finance:

Two third of loan in excess of Rs. one crore to corporate/ partnership firms/institutions for agriculture/allied activities, loans up to Rs. ten crore to food and agro-based processing units for plant & machinery, finance for setting up agri-clinics and agri-business centers, loan up to Rs. forty lakh for purchase and

distribution of input, loan to scheduled Primary Urban Cooperative Banks/ Non Banking Financial Institutions for hire purchase and distribution of agriculture machinery & implements, loans for construction of warehouse/silos/market yards, loans up to Rs thirty lakh to dealers(irrespective of location) for dealing with agriculture machinery/implements/irrigation equipments, loans to custom service managed by institutions/organizations/individual maintaining fleet of tractor, bulldozers, boring and threshing machines etc undertaking work of farmers on contract basis, loans to National Cooperative Development Corporation for on lending to cooperative sector, Loans to Primary(urban) cooperative Banks and NBFCs for on lending to individual farmers, lending to NGOs/MFIs for on lending to farmers, existing investment made by banks up to March 2007 in special bonds issued by NABARD for agriculture 7 allied activities