

“A STUDY OF SOME ASPECTS OF AGRICULTURAL CREDIT IN INDIA”

*Dissertation Submitted to the University of Hyderabad for the Award of the Degree
of Master of Philosophy*

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Dedicated

To

*My Parents and my brother
Beehya naik, and friend
Mahesh naik*

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DECLARATION

I hereby declare that the research embodied in the present dissertation entitled, “A Study of Some Aspects of Agricultural Credit In India”, is an original research work carried out by me under the supervision of Professor RV Ramanamurthy, School of Economics, for the award of Master of Philosophy from University of Hyderabad. I declare to the best of my knowledge that no part of this dissertation is earlier submitted for the award of any research degree or diploma in full or partial fulfillment in any other university.

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CERTIFICATE

This is to certify that Mr. K. Swamy Nath. (Regd. No. 13SEHL20) has carried out the research work embodied in the present dissertation entitled “A Study of Some Aspects of Agricultural Credit in India”, for the degree of Master of Philosophy in Economics, which is pursued under my supervision. I declare to the best of my knowledge that no part of this dissertation is earlier submitted for the award of any research degree in part or full at any university.

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CHAPTER - I

INTRODUCTION AND REVIEW OF LITERATURE

1.1 INTRODUCTION

“Agricultural finance is the economic study of borrowing of funds by farmers; of the organization and operation of farm lending agencies; and of society's interest in credit for agriculture”. Developing economies like India and its rapid growth of population and the demand for food increases at a fast rate. The demand for food rises sharply therefore, unless agriculture is able to continuously increase it's the marketed surplus of food grains, a crisis is likely to emerge. The share of institutional sources in the debt owed by cultivators of undivided AP was 34.1 percent in 1991 and decline to 32.7% by 2002. These figures for India were in the same way 66.3 and 67.2%. Undivided AP has taking credit with high rate of interest in the country. The Portion of agricultural credit in total credit spent in AP by commercial banks decreased from 25% in 1991 to about 18% in 2010. Due to beginning of green revolution it necessities huge capital for cultivation and cost of cultivation greater than before for buy input and purchase new technological method that's why farmers forcefully depends on institutional credit. When Tenancy act 1956 this types of constraint land owners are afraid of act that why they are not ready to giving lease to tenants in form of written document and when the landlords not given written form tenants are not accessing credit from the bank, now we can say that land ceiling act not helped to get credit from the bank that's why they are strongly rely on informal sector they charging high rate of interest the majority of studies shows that's committing suicides of the farmers, they are namely tenants, small and marginal farmers only. Further, Loan eligibility card problems were added. Therefore, the study focuses on 1) agriculture credit (Direct and Indirect) 2) Procedures and application of scale of finance and tenants farmers credit system. Total 177 samples drawn from one village Achampeta, of Medak, district.

1.2 IMPORTANCE OF AGRICULTURE

According to Webster's Dictionary, "agriculture is the art or science of production of crops and livestock on farm". According to Professor Galbraith credit is the “temporary transfer of asset from one who has to other who has not”. According to Samuelson, “Credit is the use of someone else's funds in exchange for a promise to pay with or without interest at a later date.” Murray (1953) defined

agricultural. Finance as “an economic study of borrowing funds by farmers, the organization and operation of farm lending agencies and of society’s interest in credit for agriculture”. Tandon and Dhondyal (1962) defined agricultural. Finance “as a branch of agricultural economics, which deals with financial resources related to individual form unit.

Dictionary of oxford economics definition of credit is “credit the system by which goods or services are provided in return for deferred rather than immediate payment. Credit may be provided by the seller or by bank or finance company”. Definition of agricultural credit: “According to William G. Murray “agricultural finance is the economic study of borrowing of funds by farmers; of the organization and operation of farm lending agencies; and of society’s interest in credit for agriculture”.

Agriculture plays a very important role in the life of an economy. It is the backbone of our economic system. The following facts clearly highlight the significance of agriculture in this country. Source of Livelihood, Contribution to National income, Supply of food and fodder, Significance in International Trade, Marketable surplus, Source of raw material, Importance in transport, Contribution to foreign exchange income, huge employment opportunities, Complete Economic Development, Source of saving, Source of Government Income.

Mishra and Puri (2011) previous the era of British Indian agriculture was a proper equilibrium between agriculture and industry and both succeeded hand in hand. This situation continued till the middle of the eighteenth century, when The British came India did nothing to develop agriculture. They created a zamindasrs takes a considerable part-of the produce was taken away by this bloodsucking class and the actual cultivator was left only with subsistence income. Pre-Independence era can be properly described as a ‘survival occupation.

1.3 PRESENT SITUATION OF INDIAN AGRICULTURE

By the turn of Independence in 1947, India was a predominantly an agricultural country – which is a feature of backward economy. As industrial and service sector began expanding the share of agriculture and allied activities has fallen from 55.3 percent in 1950-51, and 13.7 percent 2012-13. According to Agricultural Census, the share of workers directly depended on this sector was 69.5% in 1951, it fell to 64 % by 1991, but since it fell drastically to employment 47% in 2013. Thus there is a definite structural transformation of the economy in the post reform period after 1991.

The importance of agriculture to the economy however is never diminished in spite of such transformation. The high population level kept increasing burden on the agricultural sector to increase production as well as productivity [Mishra and Puri (2011)]. The demand for food rose sharply as a result; agriculture should have to increase the food surplus since mid sixties. In order to increase the production, the capital formation had to increase continuously, Contribution to capital formation grosses fixed capital formation in Agriculture 1980-81 is Percent Share in GDP of GFCF 3.4 and it fall to 1.6 in 2001-02m but increased to 6 percent during 2013.

The non-food grain economy is equally important for the economy where provision of raw materials to industries is crucial. Good portion of industry is actually depends on agriculture raw materials like Sugar industry, jute industry, cotton textile industry, tobacco, etc. [(Ramesh singh (2014))].

1.4 AGRICULTURAL CREDIT IN INDIA

Historically, India was a backward country with reference to capitalist development. During the colonial times there is evidence that banking system never catered to agriculture [Bagchi (1987)]. As Habib (1964) argued that that the bankers during colonial time mainly financed the needs of traders, nobles and the State while money lenders advanced loans to cultivators. There are many evidences of usury by the landlords and professional moneylenders in the sixteenth and seventeenth centuries practiced usury. In the absence of income tax, the Land Revenue was the chief source of income to the State. Agricultural taxation during the colonial time became the chief reason main reason why peasants became severely were indebted. [Habib (1964)], because 1/4th of their produce was taken by the emperors during Mughal period. As a consequence they borrowed the credit. During the medieval period, peasants approached moneylenders to meet the land revenue demands; to meet subsistence needs between uncertain harvests and for social expenditures and litigation. It became a national goal of forefathers of the nationalist movement to liberate these peasants from the clutches of moneylenders. However, whether this promise is not fulfilled by the post-colonial governments in the past sixty years.

As noted by RadhaKrishna committee report (2007), which emphasized on providing agricultural credit through formal institutions as the informal credit institutions are exploitative in nature. So the government had set up a multi-agency approach for delivering agricultural

credit to rural areas. Broadly the development of formal agricultural credit institutions in India can be divided into four phases. The first phase starting from 1947 to 1969 saw the cooperative movement. Through the second phase from 1969-75, a main development in the area of rural credit was the Nationalization of commercial banks in 1969 heralded their entry into rural credit market. Third phase starts from 1975 with the establishment of Regional Rural Banks to provide credit to small and marginal farmers and weaker sections of the society. And the credit situation has changed in the fourth phase, which is after the financial reforms in the year 1991 onwards. The idea of social banking got diluted after the reforms due to the implementation of the fiscal and efficiency norms in the name of liberalizing interest rates of cooperatives, commercial and regional rural banks, and recapitalization of inefficient RRBs etc... There are various new programmes like Kisan Credit Cards, Self-Help Groups and financial inclusion came into the credit front in this latter period. The total institutional credit increased significantly in the post nationalization period, while the importance of short term credit has declined over the same period. The relative importance of cooperative and commercial bank credit to agriculture was reversed. The share of cooperatives declined compared to the commercial banks since 1975, though, the reach of cooperative is wider than Commercial Banks. The failure of the PACS and CCBs is due to their inability to raise resources through deposit mobilization. Instead, they depend on external funds from the government or higher layers of cooperatives. Low recovery rate and mounting over dues impaired their ability to avail of refinance facilities from the NABARD, increased transaction costs led the potential borrowers off the opportunity to avail of credit facilities from cooperatives. The regional distribution of cooperative credit is highly uneven.

Mathew Aerthayil (2008) and Dr M.S. Swaminathan and After 1991 the lending pattern of commercial banks, as well as nationalized banks, to agriculture drastically changed with the result that loan was not easy to get to and the interest was not reasonable. That's why farmers are rely on moneylenders and therefore pressed up the expenses on agriculture. And also pointed out elimination of the lending services and concessions of banks for the period of the post-reform period have accelerated the crisis in agriculture. When the farmers were not able to pay back loan with high interest, they fell into the debt trap. Studies show that most of the farmers' suicides were due to the debt trap. It is part of the policy of privatization that banks, even nationalized banks, look for profit over their social responsibilities to the people.

1.5 THE SITUATION OF AGRICULTURAL CREDIT IN ANDHRA PRADESH AND TELANGANA

Agricultural sector is always ridden with risk and uncertainty. Given the biological nature of production, farmers face crop failures due to unseasonal rains, hailstorms, pest attacks, water shortage, insufficient electricity and price volatility. All these can plunge the farmer into a debt trap, when loans are borrowed at high interest rate. Institutional credit at low interest rate is crucial for farming. According to All India Debt and Investment Survey (AIDIS data, share of institutional sources in the total of cultivators in the two states is 34.1 percent in (1994) which marginally decline to 32.7% by 2002. The share of credit of the two states has been about 23 percent, according to the share of Portion of agricultural credit in total credit given spent in AP by scheduled commercial banks in (the combined States) Andhra Pradesh decreased from 25% in 1991 to about 18% in 2010. The same time agriculture's share in state domestic product also decreased from 33% to 20% respectively.

The introduction of new technology since 1966 played a significant role in raising food grain output which has prevented famine like conditions that existed till 1960s [Dandekar (1987)]. Further, the rise in food grain output later green revolution technology helped to great improve rural livelihood patterns, nutrition and education of children at the form household level. Along with positive outcomes, but it has also gave given negative results as well. it This irrigation-intensive technology left out dry and rain-fed areas till 1990s and it ha s created regional disparities in rural income [Rao, (1996), Vaidyanathan, (1998), Bhalla and Singh (2009), Ramachandran and Swaminathan (2002)]. But since 1990s, thanks to rural electrification undertaken in most states, the bore well irrigation has changed the cropping pattern in rain fed areas also. There is a proliferation of paddy cultivation, vegetables, soy, maize, cotton, turmeric, and oilseeds. However, the bore well irrigation has raised the private irrigation costs for farmers which further increased the importance of credit. Absence of adequate institutional finance, especially for small and marginal farmers therefore the technology of green revolution capital intensive of nature of technology forced the poor farmers to depending on rich farmers and the village dependence on money moneylenders has increased [Revathi and Galab (2008)]. Rabi cultivation has also increased in dry land areas by using short duration varieties, besides the kharif cultivation. Thus the cultivation in several areas has spread for more number of months

and thus became target for thunderstorms that arise in November and April. Thus the weather risk in a way has increased. Cotton cultivation that increased in the state which spreads from June to February also stands vulnerable to cyclonic rains in November. As even small and marginal (small holding) farmers are willing take the risk to invest on high yielding technology and this has increased them to risk exposure, poor calculation of risk has led to a large number of also said that most of the farmers' committing suicides. Lack of due access to due to lack of is considered as a reason for the crisis of small farmers. Reddy and Mishra (2009) in their seminal introduction to their book additionally blamed the neo liberal policies such as majorly drop of public investment particularly in agricultural sector and removal of subsidies, wreaking institutional support including the institutional credit, decline in public investment in research and extension as backdrop for the suicides.

National Commission on Farmers (2006) and later Singh (2014) and Patnaik_(2005, 2014) have noted that after green revolution, even though wheat and rice production has was increased but per capita food grain availability has been falling. Foster and Rosenzweig, (1996), Baker and Jewitt, (2007) noted that the Indian agricultural sector has undergone significant changes after the high yielding varieties in mid 1960s are introduced. Yet, the task of food grain sufficiency is still a distant goal to be achieved. Till then, the importance of agricultural sector cannot be underestimated.

Raithu Swarjya Vedika, an NGO working for sustainable agriculture in Andhra Pradesh for the past two decades notes in their report (2014) that farmers today are facing an erosion of soil fertility due to excessive use of fertilizers and pesticides, which also increase cost of cultivation. They suggest that there are simple traditional techniques to protect crops that also make cultivation less costly. Whereas, market-led technology is making investment more and more costly due to which farming is becoming unviable. As a result farmers are willing to sell their lands to non-agricultural users. They note that considerable amount of land has been converted to non-farm use and even real estate. Urbanization and development projects are gobbling agricultural land which can endanger food production in the future. One should have an integrated approach towards finding solutions for agricultural problems, ranging from increasing infrastructure, providing technology, marketing and prices, but farmers should also be provided with credits to meet investment. The Report finds a gap in all these requirements.

1.6 AGRICULTURAL CREDIT DEMAND

From the beginning of Green revolution, the investment requirements huge capital of for cultivation has continuously increased, as almost all inputs like seeds, pesticides, fertilizers, motor pump sets, tractors, pipe lines, etc are to be purchased and several other services such as tractors, sprayers, rotors, harvesters etc are to be hired from the market, all of this make for buy input and purchase new technological method that's why farmers strongly depends on institutional credit role of finance vital [Shivamaggi (1984)].

Narasimham Committee Report (1971) highlighted the need to improve the agricultural credit for rapid adoption of technology in agriculture. The Report noted that there were always disturbances in the supply side and demand side disbursement of agriculture credit. It examined different committee reports and surveys during 20 years during 1950-70, which are implemented. It notes that cooperative credit structure is not always a failure, it did succeeded in few places, but in many places its performance has been less satisfactory. The report highlighted that fact the modern technology cannot be translated into action unless there is finance. He pointed that the stepping up of agricultural production would lead to an increased credit demand from the agro-processing sectors. For the agricultural credit to be productive, it needs also to be supervised. He mentioned that the credit at the right time and in the right amount is an essential pre requisite for production and investment. The committee therefore made an assertion that rural banking is a professional job that has to be carried by the scheduled commercial banks. The new banking policy embarked the role of credit as an instrument of development, but credit by itself is no substitute for capital formed out of savings.

But the banking reforms committee in 1991, chaired by the same person, Mr.M.Narasimhan reversed this philosophy, called the banks to become profitable. This has adversely affected the agricultural sector through squeeze of credit. The aims of the committee were to progress the efficiency and productivity of all credit institutions. For rural financial institutions the reforms sought to: (i) improve areas of commercial freedom, (ii) raise outreach to the poor, (iii) motivate extra credit flows to the sector, (iv) change the incentive regime by liberalizing interest rates for cooperatives and RRBs, (v) deregulation of lending rates of commercial banks for loans above Rs 2 lakh. And (vi) recapitalization and restructure of RRBs. Recommendations of this committee had far reaching implications.

As noted by several scholars like Ramakumar (2005), thanks to Narasimhan Committee recommendations, 1990 the number of rural area commercial branches 1989-90 is has fallen from 34867, which stands at 58.2% in 1990 which is has fallen to 32673 i.e. with 48.7% in 1999-2000. by 2002. The it adverse effects of it on medium, small and farmers were severe. From the bank interestingly, the overall agricultural credit this apparently do not show up in terms of aggregate credit which shows a rising trend. Then Ramakumar (2012) has shown that the indirect credit has increased much more than the direct credit to agriculture, where indirect credit is what is lent to auxiliary activities around agriculture such as storage, cold chains, transport, packaging, and agribusiness and so on. Thus a good portion of the agricultural credit indeed is diverted rich and agro-commercial sector. According to (RBI) direct finance in 1985 has fallen from 83.2 percentage to 76.1 percentages in 2010, and indirect finance on the contrary increase from 16.8 in 1985 to 23.9 percentage in 2010. A good portion of indirect finance actually went to big landlords, rich cultivators and businessmen who are diversifying into agro-industry they are diverting credit agricultural allied activities. [Harpreet Kaur Sandhu (2012)]. While government claims that during the 12th Five Year Plan, there is a six-fold increase in the agricultural credit, it is interesting to ask the question to whom this credit is actually going.

Another problem is that tenant farmers, for being not given written contracts, banks refuse to give them any agricultural loans. There is a recent bid in Andhra Pradesh government to issue identity cards to tenants in AP so that they can be given some credit on the basis of joint liability. The government has passed an Act called Andhra Pradesh Licensed Cultivator Act 2011 to facilitate recognition to tenant farmers. But the government despite its pronouncement has not issued identity cards to all the tenant farmers. Banks have not formed the JL groups in most districts and subsequently they have not given loans to even 5 percent of the farmers [Revathi 2012)]. In this section, we shall discuss the some of the important studies that have brought out the significant features of Indian institutional credit market. Particularly, we would present the observations done by different scholars on three main issues regarding bank credit to agricultural sector, namely, direct vs indirect credit to agriculture, scale of finance, situation credit to tenant farmers.

1.7 REVIEW OF LITERATURE

1.7.1 Weaknesses of Agricultural Credit System in India

The performance of Indian agricultural credit policy always remained less than desired as banks were always reluctant to lend finance to the sector. Cooperative banks were over politicized and became defunct due to non-repayment of loans by the members. Banks seldom have adequate credit to the farmers so that they are out of the shadow of private money lenders. There are several committees that have been appointed to review the working of the agricultural credit from time to time, which we shall discuss in the next chapter. Several scholars have also examined the limitations and flaws in the agricultural credit in the country.

Dandekar (1993), for instance, while examining the recommendations of different committees improves the agriculture credit, noted that several new committees are formed without implementing the recommendations of older committees. New policies are being set out by the committee in strengthening of the rural credit. He mainly pointed that the weakness of the rural credit have stopped from the shortages of the structure of the agriculture production itself. On this weak base has been raised an imposing superstructure of credit institutions which one committee after another has kept reorganizing and adding many upon on it. He points out that the main thing to consider is how to reorganize the structure of agricultural production rather than the structure of rural credit.

1.7.2 Post-Reform Credit Policy

Economic reforms in 1991 marks a watershed in the history of Indian economy. We all know that a comprehensive restructuring of the economy and liberalization of all sectors had been undertaken by the Narasimharao government. While agriculture is subjected to any reforms directly, but the reforms undertaken by the banking reforms, industrial reforms, and financial reforms has certainly affected agricultural sector [Reddy and Mishra (2008)]. Narasimham Committee in 1991, which was appointed to suggest changes in the banking policy, had far reaching impact on agriculture. The Report of the committee was sought to improve the efficiency and productivity of all rural banks. It basically suggested that banks should become profitable. For that it suggested banks to : (i) enhance areas of commercial freedom,, (ii) reduce priority sector loan norm from 30 percent to 18 percent, (iv) change the incentive regime by

liberalizing interest rates for cooperatives and RRBs, (v) deregulation of lending rates of commercial banks for loans above Rs 2 lakh, and (vi) recapitalization and restructure of RRBs. It removed the earlier norm of maintaining rural-urban branch ratio [Shetty (2008)] which has resulted in reduction of credit disbursement to agriculture during 1991-2003.

Mohan (2004) while reviewing the agricultural credit institutions in India, lamented that the rural institutional system suffered by non-viability and sustainability. He is referring to the severe political interference into the working of cooperative credit institutions in the country. Cooperative banks become defunct due to excessive accumulation of non-performing assets. Further, out-dated legal framework and lack of implementation of law, hampered the flow of credit and development of strong and efficient agricultural credit institutions. Mohan also notes that besides highlighting the limitations of institutional mechanism, nevertheless admits inadequate provision of credit to small & marginal farmers, scarcity of medium & long term lending, limited deposit mobilization and heavy dependence on borrowed funds by major agricultural credit purveyors. Given the major changes happened in the diversification of production, he suggests that there is a major need for the review of agriculture policy to meet the changing needs of both producers and consumer.

Sandhu (2012) in his work also raises that issue of the claim that there has been an increase in agricultural credit is more a hype than in reality as much of it moved out to urban sector sometimes connected to composts preparation, seed companies, purchase transportation of vehicles cold storage, buying of land for agriculture use, etc than to the farmers. The loans given to non-farm sector in the semi urban regions is also said to be reported as agricultural credit. Thus he criticizes that the so-called hike in agricultural credit is a myth.

Ramakumar (2013) in this context notes that the data on agricultural credit shows mysteriously an increase more in the urban branches since 2000 rather than the rural branches. Indeed he notes that the direct credit to agriculture decreased after 1990. During the period between 1985 and 1990, there is marginal decrease in the share of indirect credit. Even agricultural direct finance seems to turn to urban-based dealers as a part of indirect credit. Ramakumar further notes that as the cap on borrowing is removed, banks lent more to big borrowers while small borrowers were starved.

Das, Manjusha and John (2009) further notes that while the banks are supposed to give 18 per cent of net bank credit to the agricultural sector, in practice they have not given more than 10 percent so far. Within that the share, indirect credit is increasing, which means agriculture is losing its share further with in what is allocated to it! They also point out that there is a dimension of regional inequality in the spread of agricultural credit between different states. In their paper they used an econometric model of Dynamic Panel Data Analysis with Instrumental Variables using Arellano-Bond Regression. Their model predicted a positive relation between production and credit, which conveys the continued importance of agricultural credit. They conclude that banks should ensure that indirect finance should not exceed one fourth of agriculture credit target of 18% and 4.5% of net bank credit and they should classify the direct and indirect credit transparently.

Ramakumar and Chavan (2007) in their paper referring the issue of increased agricultural credit after 2004, note that it actually began reviving in 2000 in itself. They are the first ones to point out that share of indirect finance is increasing, which goes to agro-business oriented enterprises. The indirect credit limit also been steadily increased from Rs.10 cr to Rs 25 cr, the share of such borrowing above Rs.25 cr increased from 30.3 per cent to 53.5 per cent. They also note the shrinking of rural branches in the 1990s, even before other scholars noticed. They again noted in 2008 that number of RRB branch offices suddenly declined from 35000 in 1993 to 31076 [(Ramakumar and Chavan (2008)]. The share of these branches in total bank branches peaked in 1990 to 58 percent and steadily declined thereafter to under 45 percent in 2006. Merging and swapping of rural branches became the norm, rather than expansion. The number of RRBs that rose to 196 by 1990 had fallen to 104 by 2006 (RBI, 2007).

1.7.3 Scale of Finance

The scale of finance is one most contested issue between the farmers and the bankers. Several farmers NGOs and farmers' organizations argue that banks are not giving crop loan on the basis on scale of finance as decided by the District Level Technical Committees (DLTC). Banks are actually giving on the basis of market value of the operation landholding, which in turn depends on the size; thus major portion of loan goes to big farmers.

There is, for example, a complete absence of transparency in DLTC functioning. DLTC is not maintaining an website or publication; one does not know on what basis they fixing the scale of finance [Rythu Swajya Vedika Report 2014]. One does not again know whether State Level Banker Committee (SLBC) is implementing the DLTC recommendation. As there could be different requirements for different crops and regional variations in cost of cultivation exists, all these should reflect in the scale of finance in practice. But due lack of clarity, we are not in a position to make any appraisal.

There are several scholars like Yadav (2009), Sandhu (2012) and Ramakumar and Chavan (2007) too in their papers confirm that banks are not giving crop loans on the basis of scale of finance, instead are giving on the basis of market value of ownership holding.

Basu, K (1994) way back in his book based on extensive study in West Bengal and U.P observed that there is considerable amount of involment of political power in getting a bank loan. He observed that big landlords prevent banks from lending to small farmers who often belong to lower castes. Not do banks have much power in recovering loans from make big defaulters.

Bank of India, in its official website in (2008) admits that major share of its agricultural credit goes to big farmers compared to small and marginal farmers and tenant's farmers. RBI reportedly has given the instructions to the effect that scale of finance need not be the sole criterion in giving crop loan. As a consequence many banks are jumping the gun in disregarding the scale of finance, to increase branch level risk and profits. It also lowers their administrative cost to lend to few customers than a large number of them. This is the source for the kind of inequality that creeps in the distribution of bank credit between the rich and the poor and between the big and the small. Further, it is believed that bankers are allowed to do self-determined targets on agricultural credit, to ignore DLTC recommendation.

There is another issue regarding farm credit, which is dealing with default. Since agriculture is ridden with an unpredictable weather risk, farmers frequently become involuntary defaulters. If banks refuse the lend, they will be in serious trouble. Ways and means to accommodate some NPAs arising from natural disasters needs to be addressed. In this regard, Vyas Committee (2004) suggested that Non-Performing Assets rules should be amended such that two crops terms should be retained for arrangement of loans as NPA and, additional

requirement of two half years could be removed. Scholars like Satish (2009) suggested that DLTC (technical committee) should be appointed to fix the scale of finance and also determine the time period of seasons for various crops; the due date should be considered after two crop periods later. For long period crops, credit might be preserved as nonperforming, if interest or the principal amount and leftovers are not paid for one crop period, later becoming due.

According to RBI guidelines, scales of finance in respect of various crops will be identically in a district. The scales of finance will be fixed by taking into account the main conditions and norms presently adopted by different lending agencies. In fixing the scales, minimum consumption necessities of farmers (debtors) will be taken into account. The scale of finance is concerned with District Magistrates and Managers of branches of banks working in the districts would be guided to implement the scales so laid down [RBI Guidelines in www.rbi.org.in]

1.7.4 Situation of Tenant Farmers

The introduction of tenant protective legislations has proved to be a unmitigated disaster for the tenants in the country. The tenancy acts are drafted too radically which could potentially transfer land to tenant from the landlord, if the act is fully implemented. According to the Tenancy acts, if a tenant is given land for lease, he cannot be evicted for 6 years. After 6 years, land cannot be sold to any person except to tenant or with the consent of the tenant. Which practically means the land to be transferred to his name? For fearing the loss, landlords stopped given written agreements and kept evicting tenants every year. Thus in reality the tenant insecurity has increased contrary to the objectives of the law. Another serious consequence of the oral contracts thus practiced is the refusal to give credit by the banks to the tenant for not having records about the lease. Thus whole class of tenant farmers becomes victims of being denied of institutional credit. Most of them belong to underprivileged and lower castes [land reforms document].

K G Karmakar (2011) in his work pointed the complex procedures and documentation makes credit inaccessible to illiterate and powerless poor farmers and tenants. Particularly, women farmers are the most discriminated lot. He pleads for simplification of procedure to prevent disastrous dependence on private money lenders.

Vyas (2011) in the context of problem of small farmers, said that majority number of tenants, marginal and small cultivators lease inland to lease in land to expand their insufficient

holdings. There are no records about tenancy in most states. When revenue departments do not maintain the records, there is no way tenants farmers are going to get any agricultural credit. According to the NSSO 2003 only 7 percentage of operated regions and leased in area about 11.5 percentage of rural farmers who leased in land overall country. He also says that if the tenancy could make legitimately within the provisions of ceiling and registration, it can better the terms of availability of loans to tenants and small and marginal farmers. He further observes that even declared ceiling land is distributed among the land less, tenants, small and marginal farmers, the average holding size will increase that can make them eligible to receive higher credit. Finally he argued that the main reasons for failure of the schemes designed for equitable delivery are: (a) asymmetric information by banks, or state government in SLBC, (b) landlords did not updated hence banks finds it problematic to give credit, (c) there is big gap between districts land ceiling rates and markets rates that's why small, marginal and tenants farmers are not in position to access the finance at the DLT rates. He pleads for more sensitive approach by banks and the state to implement land reforms and link them to institutional credit.

Jonathan (2014) who worked on issues of tenant farmers in Andhra Pradesh observes that in coastal districts there is a preponderance of tenancy almost up to 85-90 percent in some of villages in districts like Krishna and Godavari districts. AP government has provided, first of its kind to provide credit through JL groups. To circumvent the legal problems that plagued credit access so far, they have redefined tenants as licensed cultivators so as to avoid being attracted tenancy laws, so that landlords are not insecure and banks can give credit. This is implemented in 2011. Agricultural department recognizes the joint liability groups of tenants and revenue department gives the loan eligibility cards and banks are supposed to give the credit. In 2013-14, the Agriculture department formed 2,223 groups and revenue department gave 23,512 Loan Eligibility Cards during 2013-14. Banks sanctioned an amount of Rs.26.54 crore, and a total loan of Rs.16.63 crores was disbursed. There are about 70 lakhs tenant farmers in the combined states, loan eligibility cards were given to not even to 5 percent of them. Even the credit given to each farmer is just about Rs.5-10 thousand per farmers, which is about one-fourth of the investment requirement. One can therefore take the program as a positive beginning and look forward to improve in the future.

Finally after lot of persuasion, NABARD has introduced to give credits tenants through JLG (joint liable group) in 2006-07 [Babula et al (2008)], however the implementation of it going at snail's pace. RBI and NABARD issued the orders to banks to give JLG loans to tenant farmer without any collateral agreement. However, the orders are ambiguous. One hand they say Bank manager on preliminary verification can issues credit, but says nothing on default rules, which means banks have to face the consequences, in such case branch managers become responsible for issuance as well as recovery. As consequence bank officers are finding it difficult to sanction the loan. They are looking for an undertaking from the state governments to back up the NPAs, while state governments are reluctant. Thus credit facility to tenant farmers remained a distant dream.

1.8 NEED FOR THE STUDY

Indian credit market is an extensively studied field. There are several studies which have covered different regions as well as different time periods. The literature also has highlighted many problems of the farmers. We understand that agricultural credit from formal institutions has not developed in our country so as to link everyone to credit market. Second, the coverage is still a problem. How much should be given for each of the farmer? What is the cost of cultivation for different crops and how much credit level that should be fixed. These are some of the questions that need a fresh study. There are no independent studies that have estimated cost of cultivation and verified whether scale of finance being followed for all classes of farmers. There is a need to periodically study as long as problems are not resolved. Also the ground realities can be changing fast. The social character of peasantry could also be changed. Again, what aggregate level studies claim using macro data should also be verified using village level data. In this regard, this study assumes these needs as the motivation. I am going to take up one village at the grassroots and interview farmers to investigate issues of distribution, adequacy and coverage of agricultural credit between different agricultural classes.

1.9 RESEARCH QUESTIONS

We learnt that there is a significant increase in provision of agricultural credit during the 11th plan. It is relevant to ask whether it has reached the farming community. Has it sorted out the problem of unequal of access of formal credit so that small farmers hope to prosper in the

future? What is the cost of cultivation and how much farmers are receiving. These are broadly the research questions that this study assumes to address.

1.10 OBJECTIVES

- 1) To study agricultural credit policy and trends in institutional credit in the country and the combined states of Telangana and Andhra Pradesh.
- 2) To examine the distribution of formal credit among different classes of farmers.
- 3) To estimate cost of cultivation and compare level of finance given by banks.
- 4) To examine the situation of tenant farmers regarding institutional credit.

1.11 RESEARCH METHODOLOGY

This study is primarily empirical in nature. It uses secondary as well as primary data. Secondary data is collected from sources like, NSSO, NABARD, RBI, CSO, state and central government reports concerning agricultural situation I have also conducted a primary survey from household level data. I have used simple statistical tools like percentages, growth rates, Gini coefficients, Lorenz curves and regressions.

1.12 Sampling Technique and selection

I have selected a village from Medak, which received highest amount of formal agricultural credit among different districts of the state. Here I have selected a semi-arid village called Achampet, in Yelthurthi mandal. The study covered 177 households out of 200 households of the village. It is almost a census study, the few households that were not covered are those who belong to permanent migrants from the village, they do not reside there any more.

1.13 Data Collection Tools: A structured questionnaire was used to collect primary data which consists of questions regarding respondents Demographics profile, agricultural credit, Scale of finance, and tenancy agriculture credit system.

1.14 Limitations

The study covers the guidelines and procedures followed by farmers to avail the direct and indirect agriculture credit. And confined to one district only, hence, it cannot be generalized.

CHAPTER - II

EVOLUTION OF AGRICULTURAL CREDIT POLICY IN INDIA

2.1 INTRODUCTION

It is important to understand the evolution of credit policy in India in order to understand the credit markets in the rural areas. Government has set up several expert committees to improve the credit delivery to the farmers since Independence. Yet, small, marginal and tenants farmers continue to face various problems in getting credit from the banks. Colonial rule even though introduced commercial agriculture has left farmers to private moneylenders. Rural banking in India was virtually absent by the turn of Independence. Mid-sixties slowdown in Indian economy and recognition of agricultural constraint to growth led to a strategy of achieving self-reliance as well as growth of food grain economy and credit market's role was explicitly recognized since then. Policy makers clearly recognized the link between credit and adoption of new technology and the need to get rid the farmers from the yoke of moneylenders. Not less than 10 committees have so far been appointed. The present credit structure is largely due to recommendations made by these committees. Therefore in order to understand the structure of rural credit, we would briefly review the recommendations of various expert committees in the following. Before that let us know the structure of the rural credit market in India,

Classification of agricultural credit market in India

Broadly credit market in the economy can be divided into of two types, namely (a) agricultural credit and (b) Industrial credit

2.2 TYPES OF AGRICULTURAL CREDIT

According to Ramesh Singh (2014) there are three types of agricultural credit in India provided to farmers to meet their financial requirements, they are

- **Short-term loans:** loans provided for a period of less than 15 months to meet their day to day expenditures of routine farming and domestic consumption and purchasing inputs.
- **Medium- term loans:** These loans are given for a period of 15 months to 5 years to purchase agricultural equipment and, animal and for land development

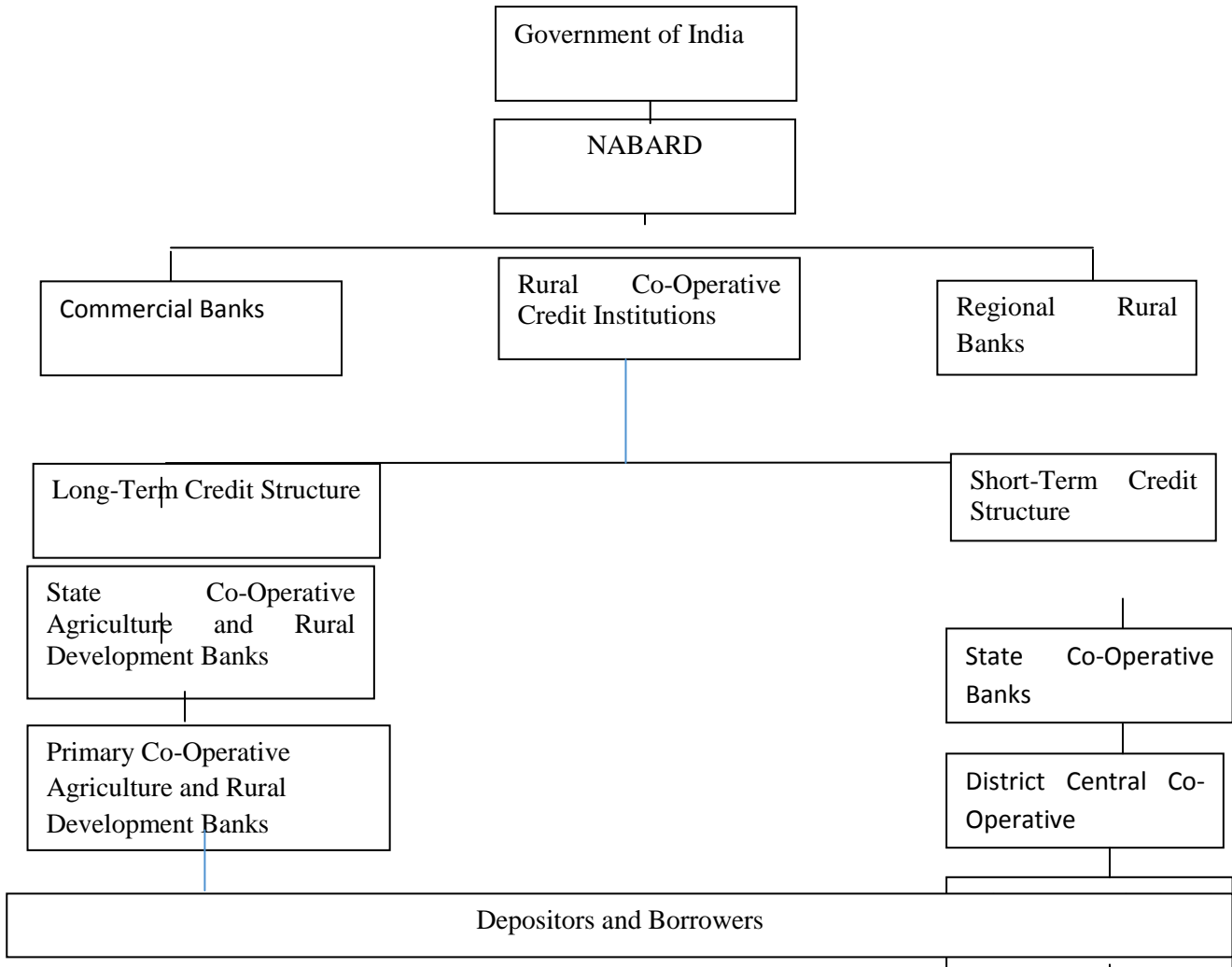
- **Long- term loans:** These loans are given for a period of more than 5 years to obtain land and expensive agricultural tools and for repayment of old loans.

2.3 Sources of Agricultural Credit In India

They are two sources of agricultural credit in India, namely, Institutional and non-Institutional credit. Credit given by formal institutions like banks, cooperative societies etc are called institutional credit and credit given by moneylenders, relatives, commission agents on the oral basis are referred as non-institutional credit.

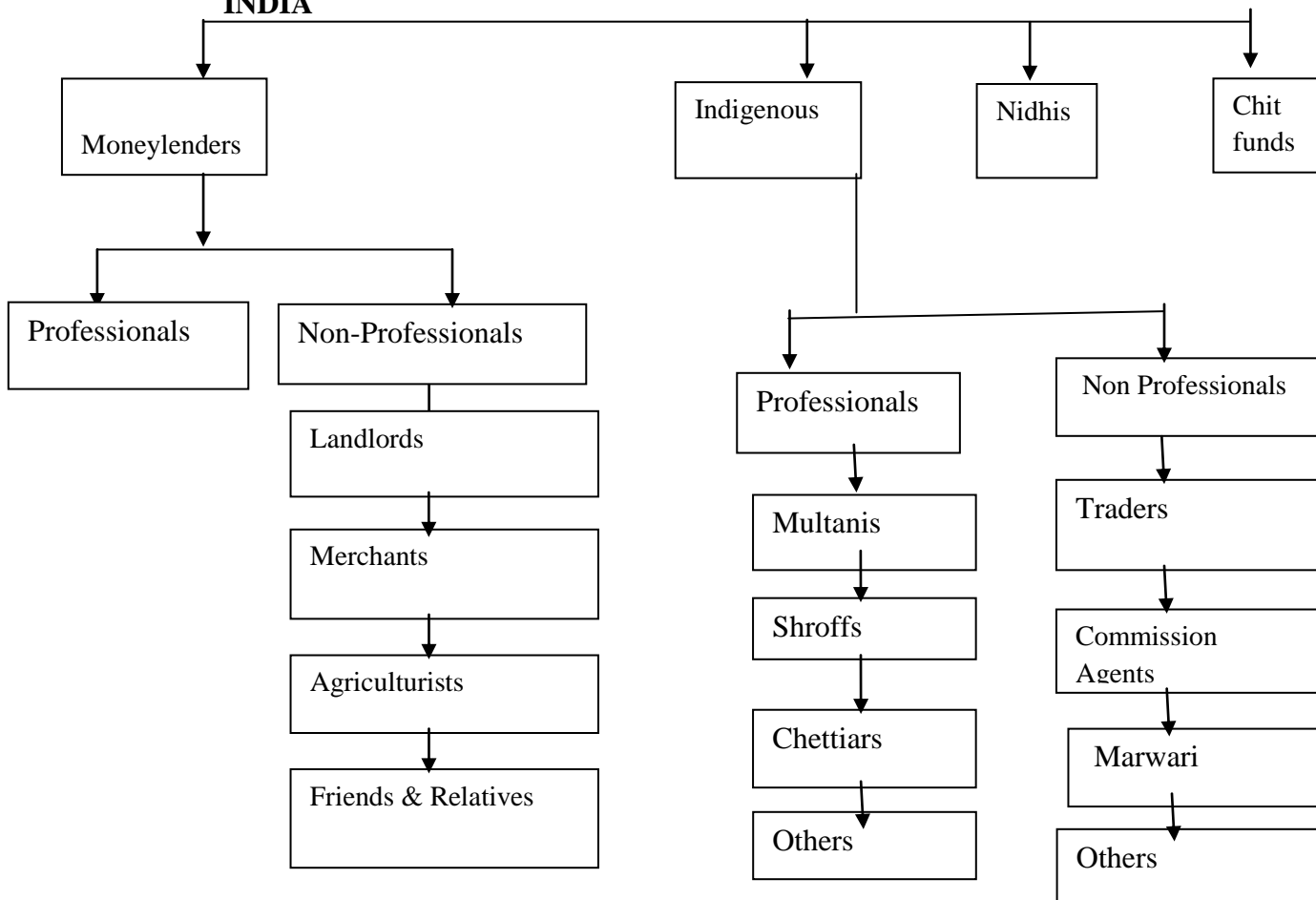
The major institutional credit agencies in India are Commercial Banks (CBs), Regional Rural Banks (RRBs) which are mainly sponsored by the Scheduled Commercial Banks and state governments. There are also the Cooperative Banks which are further divided into rural cooperatives and urban cooperatives. Rural cooperative banks further differ based on the time periods of loan. The short term structures of loans are provided by the State Cooperative Banks, District Central Cooperative Bank (DCCB) and Primary Agricultural Credit Societies (PACS). The long term structures of loans are provided by State Cooperative Agricultural and Rural Banks (SCARDBs) and Primary Agricultural and Rural Development Banks (PARDBs)

2.4 SOURCES OF AGRICULTURAL CREDIT IN INDIA



Source: RBI bulletin 2004 Rakesh Mohan article agricultural credit in India. EPW

2.5 NON-INSTITUTIONAL FRAMEWORKS FOR AGRICULTURAL CREDIT IN INDIA



Source: Mamoria, C.B., Rural Credit in India, 1982.

EVOLUTION OF AGRICULTURAL CREDIT IN INDIA

2.6 ALL INDIA RURAL CREDIT SURVEY REPORT (1954)

The first ever committee to know the situation farmers with regard to debt is All India Rural Credit Survey (RCS committee) set up by the RBI in 1954. The report showed the policy, progress and problems in this field over the past forty years. The survey showed that in 1951-52, the private credit agencies taken together (excluding commercial banks) supplied 93% of the total amount borrowed by the cultivators. Out of this, 50% was for their family expenditure, 28% for their capital expenditure and 10% for their current farm expenditure

Large proportions of the borrowings of big and large cultivators were from institutional agencies whereas the dependence of the medium and small cultivators on private agencies was much

greater. The Report suggested cooperative sector to play a vital role to reach grass roots farmer for agricultural credit.

The major recommendations of the RCS Committee were as following:

- (i) There should be a state cooperative bank, a central land mortgage bank and a state cooperative marketing society at the apex in each state.
- (ii) At the district level, there should be preferably a District Central Cooperative Bank (DCCB) or a branch of state cooperative bank, a primary level mortgage bank and a district marketing society.
- (iii) There were to be large sized primary agricultural credit societies, primary land mortgage banks, grain banks and primary marketing societies at the primary level.
- (iv) Visualizing cooperatives as an exclusive agency for providing credit to agriculture, the committee urged a well-defined role for the commercial banks in delivering credit in specialized areas, such as marketing, processing, storage and warehousing.

The RBI and Government of India accepted the recommendations of RCS committee. As result of the implementation of recommendations, there was an extension of the commercial banking facilities to rural and semi-urban areas. Thus, the concern for the inadequate extension of agricultural credit was removed to some extent. It had also brought a change in nomenclature and functions of Imperial Bank of India, renamed it State Bank of India (SBI). The SBI was established by an act of parliament in 1955. The RBI Act was amended in 1955 to provide for the establishments of two funds, namely:

- The National Agricultural Fund (NAF) for long term operations and
- The National Agricultural Credit (Stabilization) Fund

In February 1956, the NAF was created to provide loans to the states to enable them to subscribe to the share capital of cooperative credit institutions. The RBI could also give long term support from this fund to Central Land Mortgage Banks.

2.7 ALL INDIA RURAL DEBT AND INVESTMENT SURVEY, 1961-62

In 1962, the RBI undertook a resurvey called the **All India Rural Debt and Investment Survey, 1961-62**, to assess changes since the implementation of recommendations of the RCS 1951-52. The survey found some *positive effects* over 10 years of its implementation, borrowings from the cooperatives had increased from 3.1 to 15.5 percent but those from private sectors still dominated. There was a wide range branch expansion in rural areas. The number of the Primary Agricultural Cooperative Societies has increased from 1, 15,462 in 1950-51 to 2, 12,129 in 1960-61 in the country.

Apart from these, there were also *negative effects* which showed that there were several limitations in the functioning of the cooperative sector in some parts of the country in spite the efforts made during the first two five-year plan periods. Moreover, there were regional disparities in branch expansion and credit disbursement.

The **Planning Commission** during the Third Five-year Plan (1961-1966) wanted the RBI to play an even larger role. Consequently, specifically the Planning Commission proposed to set up the Agriculture Refinance Corporation (ARC) as the way of refinance agency providing medium term and long term finance to State Cooperative Banks, Central Land Development Banks and Scheduled Commercial Banks.

It was increasingly recognized that the credit cooperatives were not functioning too well and could not meet the credit necessities of the rural India.

2.8 ALL INDIA RURAL CREDIT REVIEW COMMITTEE (RCR COMMITTEE 1966)

The **All India Rural Credit Review Committee** (RCR Committee 1966) was appointed by the Reserve Bank of India in July 1966 as a successor to review the situation. It submitted its report in 1969 after reviewing the RCS committee for fifteen years.

The committee noted

- (i) That since 1956, on the whole the progress of cooperative credit has been impressive. Short term and medium term cooperative credit in 1951-52 was barely Rs.24 crores and in 1967-68 it reached Rs.428 crores.

- (ii) The share of the cooperatives as the source of the cultivator's borrowings has increased from 3 percent to around 22-25 percent in 1967-68.
- (iii) Cooperative long term credit agencies have also shown progress by raising loans about tenfold to Rs.100 crores between 1960-61 and 1968-69.
- (iv) More specifically, these loans are now increasingly being made for productive investment rather than repayment of past debt.

The Committee noted the major failure as the integrated scheme of Rural Credit assigned by the RCS committee (1954) with the state participation at every level of the cooperative structure had not been pursued or implemented vigorously in all the states. There was also non-viability of the primary agricultural credit societies.

The made the following observations:

1. The remedy to effective credit delivery suggested was to set up Agricultural Credit Corporations in the relatively backward states as they are still lagging behind.
2. To reorganize the non-viable Primary Credit Societies into economically viable ones.
3. To let central bank and apex bank to refinance the cultivators directly and societies in areas where they are weak or dormant.
4. Again they emphasized that if central banks and apex banks were to provide finance to cultivators then they will be having unbearable burden. So the committee emphasized that credit must be more easily accessible to the small farmers.

The RCR Committee recommended setting up of **Small Farmers Development Agencies (SFDA)** to identify the problems of small but potentially viable farmers with inputs, services and credit (funds) which should be provided by the Government of India (GOI). With the advent of the new technology in agriculture, the All-India Rural Credit Review Committee (1966) expected the demand for credit would increase and that the cooperative credit structure would not be able to meet the entire demand. So the committee recommended that the commercial banks should play a complementary role along with the cooperatives in extending rural credit.

- Subsequent to recommendations of RCR 1966, in the next two decade the major changes that took place in the Indian credit market are in July 1969 (and in 1980), the largest 14

commercial banks were nationalized and their lending policies and procedures were oriented to meet the requirements of the priority sectors of the economy.

- 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 credit allocation for agricultural lending.
- In the Fourth Five year Plan (1969-74), SFDA were established in 45 selected districts to assist small holders for the provision of supplementing occupations and other employment opportunities.

2.9 NATIONAL COMMISSION ON AGRICULTURE (NCA)

In 1971, a special commission was appointed called the National Commission on Agriculture (NCA) which submitted an interim report on the credit needs and services for the small and marginal farmers and agricultural laborers. The NCA *recommended* the institution of an integrated agricultural credit service and to have a single agency providing short, medium and long term credit as also inputs and services. The NCA pointed out that the cooperatives and commercial banks did not make any serious attempt to understand the special credit needs of the farmers. In the mid-1970s it was recognized that though the commercial banks had done well in terms of branch expansion but they are tending to reach only the middle-income and rich farmers. So, a committee was appointed in 1975, chaired by M. Narsimhan (known as Narsimhan Credit Committee 1975) to examine whether another type of institution could target the unbanked areas/people of the country.

2.10 NARASIMHAN CREDIT COMMITTEE 1975

The Narasimhan Committee 1975 has suggested creation of regional rural banks (RRBs). The main role of RRBs was to grant loans and advances to small and marginal farmers, agricultural laborers and to rural artisans, and also to small entrepreneurs engaged in trade and other productive activities. This committee suggested that

- 1) To give the credit to small and marginal farmers, artisans, small entrepreneur and other weaker section.
- 2) The farmers must be protected from the money lenders.

- 3) And also suggested that the increase in speed of economic growth in particular regions was imperative.
- 4) Mainly these committees endeavored to provide essential amenities in rural regions, to develop immature areas and so attempt to eliminate economic disparity among regions.
- 5) Encourage banking habits among rural people and encourage for economic development in rural area.

The RRBs were supported by the Commercial Banks, Government of India and their respective State Governments. At first, they performed very well but later on, their performance deteriorated. 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.

However, because of creation of multiple institutional agencies in the field of the rural credit like cooperatives, commercial banks, RRBs etc., it result to increase the number of problems such as uncoordinated credit disbursal, diversion to unproductive purposes, inability of the credit agencies. [Narasimham, M. (1971), EPW]

2.11 THE KHUSRO COMMITTEE 1986

RBI commissioned another expert committee under the chairmanship of A.M.Khusro, called, Agricultural Credit Review Committee. This committee report was submitted in August 1989.

This Committee found that the performance of RRBs as worsening over time. The Committee also made some observations regarding cooperative structure:

- (i) Cooperative structure needs some comprehensive legislative reforms.
- (ii) The role of federations in strengthening their constituents was recognized.
- (iii) Establishment of National Cooperative Bank of India to remove the systemic gap in the organizational structure of cooperative financing system was taken note of.
- (iv) Bringing more rural poor within the ambit of primary agricultural cooperatives.
- (v) Increased involvement of women in the membership, management and leadership positions in cooperatives.

One of the main weaknesses of the committee was that it did not focus on how to restructure agricultural production rather its energies were directed towards trying to reorganize the structure of rural credit [Kempe Gowda. P (2014)].

2.12 BANKING REFORMS COMMITTEE 1991

1991 marked a major strategic change in the economy policy, ushering in liberalization and structural adjustment. For overhauling banking sector to suit the reform philosophy, Narasimhan Committee was appointed, which is known as Banking Sector Reforms Committee. The aims of the reforms were to improve the efficiency and productivity of all credit institutions. For rural financial institutions the reforms sought to: (i) enhance areas of commercial freedom, (ii) increase outreach to the poor, (iii) stimulate additional credit flows to the sector, (iv) change the incentive regime by liberalizing interest rates for cooperatives and RRBs, (v) deregulation of lending rates of commercial banks for loans above Rs 2 lakh and (vi) recapitalization and restructure of RRBs.

Narasimhan committee recommendations had far reaching impact on agricultural credit. The Committee has done away with the earlier norm of maintaining 4 rural branches for every urban, reduction of priority sector lending, and relaxation of lending norms to individuals with an idea of increasing the profitability of banks. The era of social banking came to end with the recommendations of the Committee [Ramakumar and Chavan (2008)]

2.13 GUPTA COMMITTEE 1997 ON RURAL CREDIT

In 1997 to review the credit situation of agricultural sector, RBI has appointed another fresh committee under the chairmanship of R.V.Gupta. The Report of this Committee was submitted to RBI on 21 April 1998. The main recommendations of this were: (I) practical simplification for credit delivery through rationalization of internal returns of banks, (ii) delegation of more powers to branch managers, (iii) introduction of composite cash credit limit to farmers and introduction of new loan products with saving components, cash disbursement of loans, dispensation of 'no due certificate' and discretion to banks on matters relating to margin security requirements for agricultural loans above Rs. 10000, (iv) introduction of at least one specialized agricultural bank in each state to cater to the needs of high-tech agriculture, (v) introduction of cash credit facility and (vi) banks should prepare special agricultural-credit plans (SACPs) to accelerate the flow

and improve lending quality. (Vii) Worth of security must be equal with the size of the loan. The post-reforms period received continued criticism over the neglect of agricultural credit and marginalization of the sector. Taking them into consideration, a fresh committee was drafted to suggest improvements in rural credit delivery under the chairmanship of V.S Vyas.

2.14 V.S.VYAS COMMITTEE 2000

This Committee was appointed by NABARD in August, 2000 and it recommended decreasing the rates of interest on agricultural credit given by RRBs, cooperative banks and commercial banks. This committee observed the role of NABARD as the apex organization forgiving and regulating credit for the promotion and development of agriculture and the role of RRBs in telling agricultural credit and suggest measures for improving the same without sacrificing overall viability considerations, said an RBI press release.

The committee also recognized the role of the rural infrastructure development fund and recommended an increased direct agriculture lending. It focused on the amelioration of socially disadvantaged people such as small and marginal farmers, tenant farmers, oral leases and landless laborers and suggested actions to be taken by banks for having given that financial aid to them, the release said. The committee measured the role of micro finance in poverty reduction and implementation of the SHG scheme in spreading banks to the deprived sectors and to see how essential it is to control micro finance institutions and to recommend a suitable controlling model.

Based on the recommendations contained in the report of the Vyas Committee, the RBI, in its annual policy statement for 2004-05, announced a number of measures to improve credit delivery to agriculture. These included the treating of loans to storage units designed to store agricultural products, irrespective of location and indirect credit to agriculture. As recommended by the Vyas Committee, RBI announced that microfinance institutions would not be permitted to accept public deposits, unless they comply with the extant regulatory framework.

2.15 VAIDYANATHAN COMMITTEE 2004

Two important reports were submitted on the revival of the cooperative credit institutions that is Long Term Credit Cooperative Credit Institutions (LTCCS) and Short Term Cooperative Credit

Institutions (STCCS). The Revival Package for STCCS focused on introducing legal and institutional reforms which would enable the cooperatives to function as autonomous member centric and member governed institutions. These reforms would enable wider access to financial resources and investment opportunities, remove geographical restrictions in operations as well as mandated affiliations to federal structures, and provide administrative autonomy to cooperatives at all levels.

This Committee Made The Following Recommendations

1. The Banking Regulation Act, NABARD Act and the State Cooperative Societies Acts need to be appropriately amended in order to develop the controlling/governance of cooperative credit institutions
2. States which have so far not signed the MOU for this purpose must be asked to do so without further loss of time.
3. A model Accommodating Law needs to be approved by the States. States which do not wish to pass the Model Act should introduce a separate chapter on Agricultural and Rural Credit Societies containing the salient provisions of the Model Law in their existing Cooperative Legislation.
4. State should formulate an integrated social policy which will ensure importance of State action on key issues relating to social justice and empowerment.
5. Government should deliver an important portion of its plan distribution for Implementation of this integrated social policy.

2.16 RANGA RAJAN COMMITTEE ON FINANCIAL INCLUSION 2006

From the 11 Plan, inclusive growth became a slogan for the growth strategy. In line with the new thinking, the UPA government appointed a new expert committee to suggest ways to include rural poor in the financial structure of the nation. Financial inclusion is understood to be the delivery of financial facilities at reasonable costs to massive sections of deprived and small income groups. The Committee under the chairmanship of Rangarajan made some important recommendations: it recommended launching of a National Rural Financial Inclusion Plan (NRFIP) in mission approach with a clear objective to afford access to comprehensive financial services, including credit, to at least 50 per cent of the financially excluded rural households by

2012. This ought to be done through rural and semi-urban branches of commercial banks and RRBs. have to the remaining households are to be covered by 2015.

There are constitution funds with NABARD viz. the Financial Inclusion Promotion & Development Fund (FIPF) and the Financial Inclusion Technology Fund (FITF) with an initial amount of Rs 50 billion each to be contributed by the Government, RBI and NABARD. The FIPF will focus on interventions like Farmers' Service Centers, Promoting Rural Entrepreneurship, Self-Help Groups and their Federations, Developing Human Resources of Banks, Promotion of Resource Centers and Capacity Building of Business Facilitators and Correspondents.

Access to finance by the deprived and vulnerable groups is essential for poverty reduction and social unity. Financial inclusion signifies supply of financial services at a reasonable cost to the massive sections of the deprived small income people and the many financial services contain, savings, credit insurance and payments and payment amenities. The important objective of financial inclusion is to spread the possibility of events of the organized financial system to include within its territory people with low incomes. Through progressed credit, the effort essentially lifts the poor from one level to another so that they come out of poverty.

2.17 THE EXPERT COMMITTEE ON AGRICULTURAL INDEBTEDNESS (2007)

Following the concern that several farmers are excluded from the institutional credit, a fresh Committee on Agricultural credit is appointed under the chairmanship of Radhakrishna. The Committee noted that only 48 percent of the farmers have access to institutional credit. Moneylenders are financing only 47% of agricultural needs today, which used to be 30% in the 1980s, and we have gone back to 1970 situation. There is a desperate need to beef up agricultural credit at least to 18%. They appealed for a distinction to be made between the irrigated and non-irrigated areas.

The committee's report consists of five chapters. It starts with recommendations to relieve farmers of agricultural indebtedness. The present agricultural crisis in India, agricultural credit, indebtedness of farmers and the rehabilitation programs are discussed by the committee. The report ends with discussing future tasks that need to be taken for agricultural development in

India. Given the persisting problems in Indian agriculture, the committee starts up with a few recommendations. The recommendations touch the financial institutions and other related areas of agriculture. The committee recommends increasing agriculture production through technological innovations and other measures, providing timely and adequate institutional credit to farmers, especially small and marginal farmers, reducing price fluctuations and risk mitigating efforts from formal institutions. The committee also recommends on the need of institutional system which provides adequate credit requirement of the farmers and other innovative alternatives like better access to appropriate technology, extension services, improving processing and marketing capabilities and risk management. The committee also stresses importance of Self-Help Groups (SHGs), revamping cooperative societies and diversifying livelihood opportunities of farmers. They recommended interest waiving policy in areas receiving normal rainfall during droughts with the financial burden being borne by the centre and state. They also recommended reduced interest rates and extension of the SHG model to the farmers. The committee also recommends some immediate credit requirements such as proper implementation of prime minister's package, rescheduling of loans of farmers affected by natural calamities and providing them fresh loans, waiving of interest burden in drought affected areas, providing cyclical credit in rain fed areas, formalizing informal credit which is highly exploitative and inclusion of financially excluded farmers.

With respect to the financial architecture of the formal institutions, the committee recommends on the need for the spread of branches of commercial banks, regional rural banks and cooperatives at the rural level. It also recommends that Agency banking and Mobile banking should be implemented effectively in rural areas. The committee feels that the Lead Bank programme should be resumed in order to bring about close coordination between district planning authorities and banking institutions. Farmers should be given appropriate credit counseling, particularly for diversification of their economic activities. A simplifying procedure for mortgages and reducing transaction costs through SHGs and Bharat Kisan Card should be undertaken.

Regarding the role of NABARD, the committee feels that NABARD has to strengthen its resource base and research capabilities in order to improve effective guidance and training to the banks in the formulation of projects related to agriculture and the rural non-farm sector.

Government should ensure the 18 per cent priority sector lending commitment to agriculture by banks is enforced. The expert group feels that the RIDF funds should be entirely earmarked for agricultural development.

The committee also recommends a two tier approach to the management of agricultural risks; crop and weather insurance, price risk mitigation at the taluka or district level and distress relief at the state level. Mitigating risks from spurious inputs, strengthening research and extension services, other measures like expanding livelihood base and rural health facilities also suggested by the committee.

2.18 SUMMARY

This chapter discussed the recommendations of various credit committees set up after independence in India. Some merits and demerits were also discussed. Although there are many credit policies adopted till now, we mainly looked into the policies which are mainly related to the agricultural credit. The initial committees identified cooperative structure as the suitable way to link farmers to institutional credit. As a result, there have been a massive growth cooperative societies and banks under respective legislations. However, these cooperative societies became defunct due to excessive political interference. They also lacked refinance agency to bolster their functioning.

By 1969, nationalization of commercial banks played important role for replacing the cooperative structure which were considered to be less professional in carrying the activity of lending. New norms were laid for banks to expand rural branches that resulted in unrepresented expansion of rural banking. This has helped the adoption of new technology in agriculture and achieves higher growth in production of food grains as well as in non-food grains.

The spatial spread of certain institutions like commercial banks and cooperatives has been impressive. These institutions have been playing a major role by reducing the dependence of the rural people on money lenders and other informal sources. The Government has been continuing to increase the credit flow to agriculture by setting up of different committees and polices. Mainly the committees were set up to see the flow of credit in rural areas and frame

policies according to it. The policies set by the Government and RBI was mainly aimed at restructuring of the agencies whose performances were deteriorating over time and also to increase the flow of credit to all the sections of the people.

The Narsimhan Credit Committee 1975 was concerned with the provision of credit through the medium of regional rural banks. It took note of how their performance gradually deteriorated and suggested protection of farmers from moneylenders and availability of necessities in rural areas. The Khusro committee (1986) studied Commercial Banks, Regional Rural Banks and the Cooperatives and recommended the removal of the systemic gap in the organizational structure of cooperative financing system. The role of women in the running of co-operatives was given predominance. The Narasimham committee, 1991 reversed all major gains made in the past by suggesting banks to single-mindedly pursue the goal of improving the efficiency and productivity of all credit institutions through recapitalization and restructuring of RRBs. It resulted in reduction of rural branches, reduction in the share of agricultural credit and introduced inequalities in the distribution of credit.

Following criticism that banking has become exclusive, new committees were appointed in the post reform period. R. V. Gupta committee in 1997 suggested simplifying banking procedures through customer friendly measures and specialized agricultural credit institutions. V.S.Vyas Committee August 2000 recommended lowering the rates of interest on agricultural credit lent by RRBs, co-operatives and commercial banks under the supervision of NABARD. The role of microfinance in eradicating poverty and implementation of SHG schemes was discussed. Vaidyanathan 2004 suggested the running of co-operative credit societies as ones governed by their own members autonomously for the common good. Radhakrishna committee suggested following SHG model to include tenants and other poor into the credit system. Thus, we understand that the present credit structure is a result of several recommendations of several expert committees to improve the rural credit delivery. While it has made a long journey in evolving a credit structure, by learning lot of lessons, the problem of effective credit delivery to all farmers still seem to be elusive.

CHAPTER III

TRENDS IN AGRICULTURAL CREDIT IN INDIA, ANDHRA PRADESH AND TELANGANA

3.1 INTRODUCTION

It is well known that Indian Agriculture features with a higher proportion of small and marginal cultivators [Reddy and Mishra (2008)]. Amongst the share of income earned by the proportion of small and marginal cultivators, consumption constitutes a higher part, while saving remains abysmal. Under such context, investment to be made for the future is determined by the availability of sources of credit. Therefore availability of credit, in the absence of savings, constitutes an important factor for growth of agriculture. Credit from informal market, despite its easy availability, becomes a burden for the farmer, since it is loaded with higher rate of interest, which adds to the cost of cultivation, which again results in low saving. Informal credit markets, due to lack of regulation and dire need of the peasants, usually have high interest rate. Low interest rates are possible only through formal credit markets. Hence, creation of formal institutions of credit becomes necessary for progress of agriculture.

Further Indian Banking Sector, after their nationalization, followed a policy of social banking since 1969, with an agenda to adopt priority sector lending aimed to promote growth of agriculture and allied activities. After the post-1990's reforms, the priorities on agricultural financing seem to decline. The emphasis in agricultural credit shifted from direct financing of agriculture to indirect of financing aimed at assisting input dealers, electricity boards, allied activities of agriculture. At the micro level, the concept of Scale of Finance, which directs amount of loan to be advanced to farmers for different crops, is not, leaving farmers to informal channels of credit. In the following sections, the aforementioned changes would be analyzed, including the status of tenant farmers who could not access formal sources credit.

3.2 CREDIT POLICY SINCE 1991

As said earlier, the interventionist credit policy after 1969 resulted in proliferation of rural branches in scheduled commercial banks. Agricultural credit too has increased significantly which make the adoption of new agricultural technology and growth of food grains possible. Policies related to financing of agriculture began shifting since 1991 from social banking to achieve

profitability in banking. New Branch Licensing Policy enunciated in 1973 had three Aspects: Each Commercial Branch was supposed to open new branches in Rural Areas. As a result of this policy, there is a significant increase in the number of commercial banks, which rose from 1443 banks in 1969 to 35134 banks by 1991. Under the policy of priority sector lending, a compulsory provision of 40 percent of net bank credit was incorporated, which included 18 percent earmarked for agriculture and allied activities Each branch was supposed to lend credit to small and medium farmers at lower interest rates under Differential Interest Scheme, 1974. The differential interest fixed at the time was 2 percent lower than the bank rate. Each branch was supposed to lend credit to small and medium farmers at lower interest rates under Differential Interest Scheme, 1974. The differential interest fixed at the time was 2 percent lower than the bank rate. Thus social and development banking policy has ushered in the establishment of more branches of banking, and could assist the farmer with lower interest rates. These Policies continued till 1991, until ushering in of Narsimhan Committee recommendations in 1991.

Narsimhan Committee Report 1991 argued that the Banks should function on commercial basis and profitability, it recommended, banks to: (i) enhance areas of commercial freedom, (ii) increase outreach to the poor, (iii) stimulate additional credit flows to the sector, (iv) change the incentive regime by liberalizing interest rates for cooperatives and RRBs, (v) deregulation of lending rates of commercial banks for loans above Rs 2 lakh. And (vi) recapitalization and restructure of RRBs [Narasimham committee report 1991].

The impact of a change in the policy on bank lending to agriculture became evident, as can be seen from table no 3.1 , where in it is observed that the Share of rural banks have declined from 58.2% in 1990 to 44.5% by 2006. During the phase of social and development banking, there was a rapid increase in the number of rural banks, but immediately after 1991, there is a decline in number of rural banks. As an analogous sequence to such trend of reduced branches, the efficiency of rural banks was altered with reduction in number of staff¹.

¹ Look at appendices, Table 1

Table 3.1: Growth of Rural Banking in India, 1969-2006

Year	Number of Bank Branches	
	No. Rural Banks	% of SCBs
1969	1443	17.6
1972	5274	36.0
1975	7112	35.5
1978	12534	42.5
1981	19453	51.2
1984	25541	52.9
1987	30585	56.2
1990	34867	58.2
1993	35360	56.3
1996	32981	51.2
1999	32840	49.3
2002	32082	46.9
2006	30572	44.5

Source: RBI

Table 3.2: Feature of Rural Banking in India

Year	% Share of Agriculture credit out of total bank credit	Rural C-D Ratio (%)	No of Small Borrower Accounts (in millions)
1990-91	15	60	58.78
1991-92	15.1	57.9	62.54
1992-93	13.6	55.3	58.52
1993-94	13	50	55.81
1994-95	11.9	48.6	53.91
1995-96	11.4	47.3	51.9
1996-97	11.4	44.1	47.32
1997-98	11.4	43.4	46.83
1998-99	11	41	42.74
1999-00	9.9	40.4	39.27
2000-01	9.6	39	37.25
2001-02	9.8	41.8	37.32
2002-03	10	42.2	36.87
2003-04	10.9	43.69	36.76
2004-05	11.97	49.87	38.73

Source: RBI and EPW RF special statistic

The Trend in decline in number of rural branches in post 1990's is followed by a decline in the proportion of credit to agriculture, and a decline in Rural Credit-Deposit Ratio [see table 3.2]. The Proportion of credit to agriculture from total bank credit declined from 15% in 1990 to 10.79% by 2004-05. This is also accompanied by a decline in the number of small borrower accounts. Several critics have directly attributed the slowdown of agricultural growth during this phase to the decline in the share of agricultural credit.

Similarly, the decline in share of credit to agricultural sector is also accompanied by a reduction in the credit-deposit ratio and a decline in the small borrowers accounts during the same time. The above table shows that share of agriculture as a Proportion of total Bank credit is 15 percent and Rural Credit deposit Ratio is 60 percent and number of Small Borrower Accounts is 58.78 million in 1990-1991, respectively, share of agriculture credit went down to 10.79 percent as rural Credit deposit Ratio also declined to 49.87 percent and number of small borrower accounts to 38.73 million in 2004-2005. Thus these indicate two dimensions to the inequality that has set in banking credit to agriculture. First, there is decline in overall share of agricultural credit. Second, within agricultural credit the share of small borrowers decreased which means share of big borrowers increased. Reading along with the decline in credit-deposit ratio seals the inference that agriculture as whole took the brunt of banking reforms of 1991, more particularly the small farmers!

3.3 TRENDS IN DIRECT AND INDIRECT FORMS OF FINANCING AND PATTERNS OF DISTRIBUTION OF CREDIT

Agricultural credit is broadly categorized as direct and indirect Credit. Direct agricultural credit consists of credit in cash or kind disbursed directly to farmers, while indirect credit or financing includes support to agriculture through loans disbursed to Input Dealers, Electricity boards, etc...

Amongst the total agricultural credit, direct credit occupies a larger share generally. However since 1985, its share began declining. . From table 3.3, it can be seen that proportion of direct credit to agriculture has reduced from 15 per cent in 1990 to 10.79 per cent by 2005-06.

Table 3.3 Direct and Indirect Credit Shares (%)

Year	Direct finance	Indirect finance
1985	83.2	16.8
1990	86.8	13.2
2000	84.5	15.5
2005	76.6	23.9
2006	72.1	27.9
2007	74.5	25.5
2008	77.5	22.5
2009	77.1	22.9
2010	76.1	23.9
2011	81.99	18.01
2012	83.40	16.59

Source: RBI and various statistical papers.

GEOGRAPHICAL DISTRIBUTION OF AGRICULTURAL CREDIT (RURAL/URBAN)

Table 3.4: Rural and Urban Branch Distribution (%)

Year	Rural/semi urban branches	Urban
1990	85.1 (55.5)*	14.9 (4)**
1994	83.4 (54.6)	16.6 (7.3)
1995	83.7 (52.7)	16.3(7.3)
2005	69.3 (43)	30.7 (19)
2006	62.4 (37.1)	37.6 (23.8)
2008	66 (38.4)	34 (20)
* Figures in Brackets indicate proportion of Rural Branches in total branches.		
** Figures in Brackets indicate Proportion of Metro Branches in total branches.		

Sources: Raithu Swarajya Vedika Report 2014

The feature of increasing rural banks in absolute as well relative proportion –a feature of post-nationalization banking policy, got reversed after the banking reforms in 1991. The Proportion of rural branches stood at 85.1% during 1990, have declined to 66% by 2008, while the proportion of urban branches increased from 14.9 % in 1990 to 34% [see table 3.4]

3.5 CLASS-WISE DISTRIBUTION OF AGRICULTURAL CREDIT

When we looked at the distribution of number of loan accounts under direct outstanding finance from scheduled commercial banks, reveals that large number of loan accounts is operated by Marginal, small cultivators comprising about 72% of loan accounts, rest 28% odd accounts are operated by big cultivators. There is a marginal decline in number of accounts of small and marginal farmers, it can be seen that it increased from 70 percent to 74 percent, declined to 69 percent during 2002-09 [see table 3.5]. Particularly, the share of marginal farmers' accounts seem to be declined visibly, while that of small have increased.

Table 3.5 Percentage Distribution of Number of Loan Accounts of SCBs

Year	Marginal Cultivator	Small cultivator	Small and marginal cultivator	Big cultivator	All cultivator
1	2	3	(2)+(3) = (4)	5	(4)+(5) = (6)
1980-81	45.8	25.0	70.7	29.3	100
1985-86	43.3	30.1	73.4	26.6	100
1990-91	43.7	30.9	74.6	25.4	100
1991-92	42.8	31.3	74.1	25.9	100
1992-93	42.1	31.0	73.1	26.9	100
1993-94	43.1	30.8	73.9	26.1	100
1994-95	42.0	31.1	73.1	26.9	100
1995-96	41.9	32.1	73.9	26.1	100
1996-97	40.5	32.2	72.7	27.3	100
1997-98	39.8	32.9	72.7	27.3	100
1998-99	38.3	32.2	70.6	29.4	100
1999-00	38.8	32.3	71.1	28.9	100
2000-01	38.8	31.1	70.0	30.0	100
2001-02	40.0	32.3	72.3	27.7	100

2002-03	37.5	32.3	69.7	30.3	100
2003-04	39.9	32.3	71.3	28.7	100
2004-05	39.6	31.8	71.4	28.6	100

Banks (by size of operational holdings – 1980-81 to 2004-05, in %)

But the mere possession of bank accounts by a class need not ensure equitable disbursement of credit. Unfortunately, RBI does not publish the class wise distribution of agricultural credit at state level, even though such data exists with it. Ramakumar and Pallavi 2008 who analyzed aggregate data have confirmed worsening of position of small and marginal farmers after introduction of reforms.

Table 3.6: YEAR WISE DISTRIBUTION OF AGRICULTURAL CREDIT BY SCBS

Credit Limit Size Class of Loans (Rs)	Share of Amount Outstanding in Total Amount Outstanding							
	1985	1990	1995	2000	2003	2005	2006	2010
Less than 25,000	49.6	58.7	52	35.2	23.6	17.8	13.3	-
25,000 to 2 lakh	35.3*	23.9	26	32.4	34.4	34.1	31.4	-
2 lakh to 10 lakh	4.3	5.1	11.7	14.0	17.9	19.7	22.6	-
10 lakh to 1 crore	7.4	7.6	7.6	6.6	6.3	6.4	6.1	6.4
1 crore to 10 crore	4.6	4.2	5.6	6.7	7.4	8.0	8.5	6.3
10 crore to 25 crore	3.0*	1.3*	3.5*	1.7	4.0	3.3	4.3	2.7
Above 25 crore	-	-	-	5.7	10.4	12.6	16.8	17.7
Total advances	100	100	100	100	100	100	100	100

Source: 'Basic Statistical Returns', Reserve Bank of India, various issues

The distribution of credit to different size classes by loan amounts are given in table 3.6. . Of loans less than Rs.25000 continuously decreased from 49.6 percent in 1985 to 13.3 percent in 2006. Loans from 2 lakh to 10 lakh credit limit increased from 4.3 to 22.6 percent and above 25 crore credit limit increased from 5.7 percent in 2000 and it increased 17.7 percent in 2010. Agricultural credit benefits big farmers disproportionately in, short, medium and long – term loans

3.7 ASSESSMENT OF AGRICULTURAL CREDIT DISBURSEMENT IN STATES OF TELANGANA AND ANDHRA PRADESH

A Comparative assessment of Agricultural financing of beneficiaries in the districts of Telangana and Andhra Pradesh for the year 2012-13, also reveals, as in the case of aggregate credit, an unequal pattern of distribution of credit. One observes features like the metropolitan city of Hyderabad is given 40 of total agricultural loans in the state, which has no agriculture!

Table 3.7 AGRICULTURAL FINANCING IN THE DISTRICTS OF TELANGANA FOR THE YEAR 2012-13

Districts	Crop loans	Share of agricultural credit	Net Area Sown (000's)	Share of Net Sown Area
Ranga Reddy	1059.62	7.53	258	5.54
Nizamabad	1474.03	10.48	326	7.00
Medak	1061.92	7.55	493	10.59
Mahaboobnagar	2098.43	14.92	855	18.37
Nalgonda	1684.31	11.98	574	12.33
Warangal	1436.43	10.21	519	11.15
Khammam	1514.07	10.77	456	9.80
Karimnagar	2046.19	14.55	553	11.88
Adilabad	1255.41	8.93	620	13.22
Hyderabad	434.18	3.09	0	0
Total	14064.59	100	4654	100

Source: State Level Bankers Committee, <http://www.slbcap.nic.in>

The above table depicts the distribution of agricultural credit and net sown area in the period of 2012-2013. Ranga Reddy, Nizamabad, Khammam, Karimnagar following districts have accessed credit proportionately more than their respective shares in net sown area. And rest of the

districts such as Mahaboobnagar, Nalgonda, Warangal, Adilabad district are getting less than net sown area. Thus, there is an inherent bias in banking credit to disburse more credit in developed and urban areas. It also adds one dimension to the inequality of credit distribution, i.e., within rural areas the developed districts receive more credit than the backward districts.

Table 3.8: DISTRICT WISE CROP LOANS IN ANDHRA PRADESH DURING 2012-13

District	Crop loans given	% to total	Net Area Sown (000's)	% to total
Srikakulam	1297.49	3.59	307	4.75
Vijayanagaram	976.44	2.70	277	4.28
Vishakapatnam	1257.18	3.48	286	4.42
East Godavari	5089.93	14.10	423	6.54
West Godavari	5157.56	14.28	472	7.30
Krishna	2975.34	8.24	500	7.73
Guntur	4597.55	12.73	576	8.91
Prakasham	2940.49	8.14	605	9.35
Nellore	2316.99	6.41	368	5.63
Chittoor	2360.35	6.53	355	5.49
Kadapa	2056.82	5.69	356	5.50
Anantapur	2704.79	7.49	1020	15.78
Kurnool	2361.68	6.54	918	14.20
Total	36092.61	100	6463	100

Source: <http://www.slbcap.nic.in>

We also looked at the credit distribution in rest of Andhra Pradesh [see table 3.8]. We found that here too, barring North Coastal districts, rest of the districts from south Coastal Andhra and Rayalaseema. Godavari districts get double than their net sown area share/ And north Coastal districts like Srikakulam, Vijayanagaram, Vishakapatnam, etc. districts are getting credit very less compare to the rest Interestingly, between Telangana and Andhra Pradesh, latter receives disproportionately more agricultural credit than the former.

3.8 SCALE OF FINANCE IN AGRICULTURE

Different crops requires different levels of working capital, therefore banking system has developed a methodology for crop loans, basically following the cost of cultivation. Scale of Finance for various crops is determined by taking in to account cost of cultivation per acre of particular crops being cultivated. Since, scale of finance, if accurately calculated, determines and delivers the necessary capital required for various crops. If the scale of finance granted does not match with the cost of cultivation to be incurred by the farmer, then it invariably pushes farmer to opt for informal borrowing from moneylenders at higher interest rates. In the present context, scale of finance is decided by District Level Technical Committees (DLTC). Raithu Swarajya Vedika report (2014) report reveals that the cultivator does not received credit in accordance with scale fixed by DLTC².

The SLBC established in the State to act as consultative and coordination form of all financial organizations functioning in the State. The committee is liaisons the alternative resolutions to in the field of banking expansion and arrives at an agreement for coordinated action by the members; for this task State bank of Hyderabad took over the responsibility of lead role for SLBC.

Table 3.9 : SCALE OF FINANCE DECLARED BY SLBC (RS. PER ACRE) FOR KHARIF, 2014

Crop	SOF 2013 (in Rs.)	SOF 2014 (in Rs.)
Paddy	18000-24000	20000-24000
Sri Vary	16000-20000	18000-22000
Jowar irrigated	8000-12000	9000-13000
Jowar rained	8000-12000	9000-13000
Sugarcane newly sown	45000-55000	50000-55000
Sugar cane old	28000-35000	28000-35000
Cotton irrigated	22000-27000	23000-28000

² The same observation matches with this field study in Achampeta.

Cotton rain fed	22000-25000	23000-26000
Cotton (seed crop)	60000	65000
Tobacco local	23000-30000	23000-30000
Tobacco Virginia	50000-60000	50000-60000
Groundnut irrigated	14000-17000	15000-18000
Groundnut rain fed	11000-14000	12000-15000
Sunflower	10000-13000	12000-15000
Green and black gram	8000-10000	9000-11000
Bengal gram	12000-14000	13000-14000
Red gram	10000-12000	11000-12500
Maize	15000-20000	17000-20000

Source: www.slbcap.nic.in and Raithu swarjya vedika report (2014)

The above table shows that scale of finance which is decided by State Level Bankers' Committee (SLBC) each year. SLBC takes report from the District level technical committee (DLTC) and decides the scale of finance for each district with primary investigation of per acre cost of cultivation for each crop. In 2014 SLBC decided the scale of finance for Paddy as Rs.20000-24000, and followed by Rs9000-13000 for jowar, Rs50000-55000 for sugarcane, Rs.23000-28000 for cotton, Rs.15000- 18000 for groundnut, Rs.11000-12500 for red gram, Rs.17000-20000 fir maize. When compared with our field survey data with scale of finance, I have observed that banks are giving credit less than scale of finance and also observed that farmers are accessing credit on the base of value of landholding than on the basis of Size!

SITUATION OF TENANTS IN TELANGANA AND ANDHRA PRADESH

It is an interesting dimension to inquire about Situation of tenant farmers in the states of Telangana and Andhra Pradesh, there tenancy seem to be steadily on rise over period. Several studies estimated that that more than 50 percent of cultivable land³ is under the tenancy system in

³ Koneru Rangarao committee report 2006.

the coastal Andhra Pradesh and 25 lakhs⁴ tenant farmers (Mostly SC/ST/OBC) account for more than 20 percent of the total operational holdings in the both state. Similarly about 25 percent of land in Telangana is believed to be under tenancy [Ramanamurthy et al (2015)]. As we argued earlier tenants totally lack access to institutional credit in the country, therefore, they are totally at the mercy of moneylenders. Even though the state government of Andhra Pradesh has recognized this problem, and decided to institute joint liability groups for tenants to access bank credit, the implementation is extremely tardy. Such a failure to implement this scheme owes to lot of factors such as not all tenants are given identity cards, recognized tenants are not yet organized as JLG groups, all JLG groups are not yet linked to bank lending program and so on. Thus, tenants are denied from obtaining loans, insurance and compensation as institutional support to agriculture.

Formation of groups of JLG for distribution of agricultural loans to tenants' farmers, sharecroppers, and small and marginal farmers is a remarkable program. Tenants' farmers can access the credit in terms of cash and short and long run credit by the formation of JLG group 4-10 members. The group will get lump sum that has to be divided equally. Therefore it has no reference either to size or scale of finance. In Krishna district, in some villages, tenant farmer received Rs.10000 per head for one year. This is considered to be a good beginning, in spite of limitations. JLG s groups get maximum of amount to each group Rs 50,000 and maximum limit group gets Rs 5 lakhs. All group members are equally distributed and equally responsibility to pay back and even one not pay dues remain all nine members have to pay the money.

RYTHU MITHRA GROUPS IS AN INITIATIVE LAUNCHED BY THE CONGRESS GOVERNMENT IN 2005: Groups are designed to work on SHG lines to allow tenant farmers, share croppers and oral lessees to get credit from Banks. The main objective is to function as the interface between the agricultural extension system and farmers accessing new technology, market Information and other farm related advice. Individual Rythu Mitra Groups were designed with about 15 individuals containing of Small, Marginal and Tenant farmers in the state. And so far more than 2.38 lakhs. Raythu Mithra group were founded on the basis of SHGs. Currently these groups do not seem to be active as governments have changed and so much the policy.

⁴ Revathy (2014)

LAND LICENSED CULTIVATORS ACT-2011

Land Licensed Cultivators Act-2011 (Loan Eligibility Cards) is the last official program before the bifurcation of the state. This act came under the Recommendation of Koneru Ranga Rao Committee (2006).The Government of Andhra Pradesh approved Andhra Pradesh Licensed Cultivators Act, 2011 which aims at removing some of the constraints for informal tenant cultivators in obtaining bank loans, by giving them loan eligibility cards (LECs), based on which the tenants can get bank credit, insurance, subsidies etc. A tenant who holds an LEC is a 'Licensed Cultivator' in the sense that the card establishes the tenants' right to access these benefits.

To issue the loan eligibility card to the tenants farmers, to deliver loan and additional aids. LEC are depending on the crop and LEC card can take without any right of ownership, land under the licensed cultivation. This card duration is only one year but may be extendable with permission of land owner. The Public Financial Institutions may sanction crop loan only on production of LEC without maintaining the production of any revenue record.

**Table No. 3.10 LOAN ELIGIBILITY CARDS DISTRIBUTION AMONG THE
TENANT'S FARMERS 2011 TO 2013**

Year	No of tenants issued identity cards	Tenants renewed I-cards + new cards issued	No of tenancy farmer got the credit	Credits in terms of cores (Rs)
2011	5,76,147	-	1,97,725 (34.3)	393.45
2012	1,79,246	2,44,082	1,31,975	312.00
2013	1,66,462	2,76,693	1,52,140	330.51

Source : Raithu swarajya vedika. And Andhra Pradesh state committee 2014.

Above table shows that AP government issued 5, 76,147 tenancy identity card to tenant farmers in 2011 but no none has done renewal issued to them. Later new identity cards are issued and thus number of licensed cultivators has improved in 2012 and 2013. We observed that overall, actually loan eligibility cards and credit every year has decreased from the initial figure of

5,76,147 in 2011 and t decline to 179246 in 2012 and 1,66,462 in 2013. and also The number of tenant farmers who got the credit also declined from 1,97,725 to 1,52,140 in the same period, the total credit granted decreased from Rs.393 crore to Rs.330 crores [table 3.10]. Instead of increasing, the figure is decreasing, reflects the fact that government is not serious about the problem of the tenants.

Table No. 3.11 YEAR WISE LOAN ELIGIBILITY CARDS AND CREDIT GRANT IN ANDHRA PRADESH

No	Districts	2011-12		2012-13		2013-2014	
		Tenancy Credit Card(New+ Old)	Credit (in crores)	Tenancy Credit Card New+Old	Credit (in crores)		Credit (in crores)
1	East Godavari Old New	66791 20315	34.07	74807 27290	38.27	62147 49292	87.42
2	West Godavari Old New	85809	100.02	104603	147.08	122420	132.00
3	Guntur Old New	40470 22926	50.90	9045 8648	20.13	22912 11145	25.50
4	Krishana Old New	55997 28211	49.11	34378 7431	15.04	22912 9519	25.72
5	Prakasham Old New	14381 1162	3.58	7195 2771	2.91	3761 770	3.00
6	Nelloore Old New	30300 5864	19.29	28071 5100	25.00	47898 5233	16.32
7	Srikakulam Old New	2392 2050	2.08	3500 1517	1.69	27882 347	0.47
8	Vijayanagaram Old New	23623 4512	4.78	16849 6949	6.92	22991 3142	7.32
9	Vishakapatnam Old New	1599 4686	6.34	2669 357	0.68	3142 63	1.60
10	Ananthapuram Old New	5037 523	1.52	1674 70	1.29	1005 91	0.20
11	Karnool Old New	48701 22325	36.06	19223 4603	10.50	35447 3500	5.02
12	Kadapha Old New	9905 2965	4.94	10288 974	2.72	13362 2156	1.34
13	Chittor Old New	14400 6552	951	12788 986	2.26	9399 388	0.68

Source: Raithu swarajya vedika report (2014).

When we look into the credit distribution to tenants in different districts, while there is no distinct pattern, few districts like Godavari districts, followed by Krishna and Guntur districts, where the loan disbursement is little better. They are also high tenancy regions.

**Table No. 3.12 YEAR WISE DISTRIBUTION OF CREDIT TO TENANCY FARMERS
IN TELANGANA STATE**

No	Districts	2011-12		2012-13		2013-2014	
		Tenancy Credit Card(New+Old	Credit (in crores)	Tenancy Credit Card New+Old	Credit (in crores)		Credit (in crores)
1	Nizamabad Old New	8543 986	5.73	6644 101	0.06	6409 235	0.20
2	Karimnagar Old New	15857 2797	8.62	9513 3519	8.51	9413	7.18
3	Adilabad Old New	6029 635	0.76	7268 895	1.71	2947 600	1.74
4	Warangal Old New	30801 2356	4.95	22181 937	2.63	12136 3503	0.22
5	Nalgonda Old New	31365 9401	250.78	17774 2327	6.55	3021 979	2.49
6	Khammam Old New	31974 8600	14.59	17598 5019	10.69	21830 3503	9.54
7	Mahabbo Nagar Old New	25097 5787	9.60	11159 222	1.05	656 40	0.27
8	Medak Old New	6383 1185	2.74	2542 1032	389	2009 833	2.19
9	Ranga ReddyOld New	6301 1943	3.48	3572 662	2.42	133 25	0.09

Source : (Raithu swarajya vedika Andhra pradesh state committee 2014).

Similarly, in Karimnagar and Khammam the credit disbursement is little better in Telangana region. Otherwise, in all other districts, the credit distribution to tenants is poor. The card renewals are also ad hoc and poor. Therefore, there is a need to have a concerted effort on the behalf of government to make identity cards issued and credit disbursed.

The major reasons for continuous decrease in tenant credit identity card new and old renewal are as follows,

- ❖ Even though tenant farmers are issued tenant credit cards, they've not been able to avail credit because of delay in related procedural aspects and inadequate support from the revenue department.
- ❖ Even though, tenant farmers have got tenancy credit cards, banks are not willing to give them credit.
- ❖ Land owners are not supportive of their tenants to avail credit facility as they think that formal tenant declaration on their land for long time may result in losing their ownership due to provisions of the tenancy reforms act. Due to this, many tenants who can get credit cards are not able to renew (renewal) the same after a year.
- ❖ Even in adverse situations, the revenue department doesn't take any supportive measures to help tenant farmers.

Banks cite following three reasons for not giving credits to tenant farmers:

1. Banks are not sure of full recovery of the loans provided in the absence of any formal guarantee.
2. Banks find it difficult to again issue loan on same survey number when a loan has been previously given and not returned.
3. RBI directions suggests that managers are responsible for issuance and recovery of the loans and so, concerned bank officers find it difficult to sanction the loan if adequate security is not available.

**Table No. 3.13 AGRICULTURE CREDIT TO TENANTS FARMERS IN TELANGANA
STATE**

District	Loan eligibility cards issued	Tenant Farmers accessed loans	Total loan received (in cores)
NIZAMABAD	6,409	235	0.20
MEDAK	2009	833	2.19
WARANGAL	12,136	3,503	0.22
KARIMNAGAR	9,413	2,088	7.18
ADILABAD	2,947	600	1.74
RANGAREDDY	113	25	0.09
MAHABOORNAGAR	656	40	0.27
NALGONDA	3,021	979	2.49
KHAMMAM	21,830	3,503	9.54
TOTAL	58,534	11,806	23.92

Source: Raithu swarajya vedika report (2014).

Above tables clearly shows that tenants farmers who received loan eligibility cards got low sanctioned amount. Whereas Loan eligibility cards issued, and credit among the all Telangana districts highest to Khammam followed by Warangal, and Karimnagar, and Rangareddy and Mahaboob Nagar hos got less eligibility cards and credit.. In 2013-14 merely 58,534 tenant farmers amongst the 15 lakh plus tenants in the Telangana state were given loan eligibility cards. However, only 11,806 of them got crop loans all put together Rs. 23.92 cr, which means less than 10% of the tenant farmers could access the loans.

Table No. 3.14 AGRICULTURE CREDIT TO TENANTS FARMERS IN ANDHRA PRADESH

Districts	No Of Tenancy Credit Card	No Of Farmers Received Loans	Percentage Of Received Loans
SRIKAKULAM	27,882	347	0.47
VIJAYANAGARAM	22,991	3142	7.32
VISHAKAPATNAM	3,142	632	1.6
EAST GODAVARI	62,147	49,292	87.42
WEST GODAVARI	1,22,420	52,096	132
KRISHANA	12,255	9,519	25.72
GUNTUR	22,912	11,145	25.5
PRAKASAM	3,761	770	3
NELORE	47,898	5,233	16.32
CHITTOR	9,399	388	0.68
KADAPA	13,362	2,156	1.34
ANANTHAPOOR	1,005	91	0.2
KARNOOL	35,447	3500	5.02
TOTAL	3,84,621	1,37,841	306.59

Source: [Http://Www.Agrariancrisis](http://www.Agrariancrisis) and Raithu swarjya vedika report (2014).

In the above table 3.14 shows that inequality credit distribution among Andhra Pradesh districts West Godavari district has got highest Tenancy Credit Card 1, 22,420 and 132 crores and Ananthapoor and Vishakhapatnam have got less cards and less credit. In Andhra Pradesh only 306.59 crore disbursed to tenants farmers.

CONCLUSION

From the above analysis and review of literature we understand that the basic nature of social banking following up to 1991 has been reversed. Banks are advised to become profitable and the norms were accordingly changed such as reduction of priority sector credit, non-observance of rural-urban branch ratio etc. As a result, the extent of credit given to agricultural sector began falling from 18 percent to 10 percent by 1999. The rural branches number began to fall; their share has fallen from 88 percent to 66 during this time. Along with that the rural credit deposit ratio also deteriorated from 50 percent to 48 percent. Banks increasingly favoured lending to big borrowers, the share of small borrowers who borrowed less than Rs.25000 fell from 68 percent to 38 percent in the post-reform period. There is a serious level of inequality of credit disbursement within the agricultural sector. The share of small and marginal farmers began falling. This could be majorly because banks instead of following scale of finance norms began lending on the basis of market value of the farm holdings, which naturally favour large holdings. There are also serious geographical inequalities in the distribution of credit. At the country level, southern states received 60 percent of the credit in the country. Similarly, in the state of Andhra Pradesh before the bifurcation, Andhra and Rayalaseema districts were receiving proportionately higher bank credit. Another serious issue is that of tenant farmers, who practically are cut off from the formal credit market. The government of Andhra Pradesh made some policy initiatives in the recent times by enacting Licensed Cultivators Act in 2011 which empowers State to issue identity cards to tenant farmers who can be used to procure farm credit, insurance and other schemes. However, in practice the implementation of this program is extremely disappointing. About 5.76 lakh tenant farmers were given identity cards in 2011 and for few group the credit through joint liability system. However, due to apathetic and self-contradictory rules framed for the banks which made managers liable for defaults, this program did not progress. Even revenue department is apathetic in pursuing the identification. Thus the overall conclusion is that not only that agricultural credit is relative falling for the sector, the intra-household distribution of agricultural credit is deteriorating fast.

CHAPTER - IV

Agricultural Credit at the Grassroots: Village Study in Telangana

4.1 INTRODUCTION

We have so far examined secondary data on agricultural credit over policy, trends, coverage, equity, and related issues. Having seen at aggregate data, we shall undertake a village level study of agricultural credit to assess what it means for farmers at the grassroots. We have selected a village in Medak district, which is one of better districts in terms of agricultural credit distribution. In this chapter we shall examine the credit situation in formal and informal markets, situation of farmers of different size classes, cost of cultivation for paddy and maize, a comparison with scale of finance, some statistical analysis of impact of level of credit over production and inequality of credit distribution in the village.

ACHAMPETA, (YELDURTI MANDAL), MEDAK DISTRICT

I have selected a village from Medak, which received highest amount of agricultural credit among different districts of the state. Here I have randomly selected a semi-arid village called Achampet, in Yelthurthi mandal. The study covered 177 households out of 200 households of the village, which is about 80% of the population households. It can be considered as a near census study, as we left out only those households who are not currently living in the village.

A BRIEF PROFILE OF THE VILLAGE

Achampeta is a small village in Hakeempet panchayat in Yeldurthy mandal of the Medak district. The village is located near the NH 7 and is 60 km away from Hyderabad and 11 km away from Toopran, the nearest town. The village, according the Census of India 2011, has 189 households with a population of 889 spread in an area of about 2000 acres, including waste and Banjar land,. Although 700 acres of land can be brought under cultivation, only 159 acres is under agriculture due to shortage of rains in the year of field work, i.e., 2013. If the canal that covers 450 acres of ayacut in the village, from the Hakeempet minor irrigation project flows it can irrigate substantial land in the village. The canal did not was dry for very long time, but received flows in 2014.. The village has a tank and a pond but both are dry. Farmers are

dependent upon bore wells for irrigation; there are 154 bore wells in the village. A primary school and an *Anganwadi* centre are present in the village. Households are supplied tap water from the overhead tank and four public taps are also available. As fluoride levels have gone up, many households buy water capsules supplied by regular operators from the town but all households can't afford this. The village also has a few street lights and all households have septic latrines built with the Government's financial assistance. The village has 12 castes, namely, Reddy, Brahmin, Munnuru Kapu, Padmasali, Vanjara, Goud, Muthrasi, Yadava, Mangali, and Chakali, Valiya Dasari, Mala and Madiga. Vyashyas have left the village recently.

HISTORY

This village had very large landlords during the Nizam's period and had 250 acres to 350 acres of land holdings under tanks and wells. Remaining land was held by some Brahmins, Padmasalies, Munnuru Kapus and a little fraction was held by scheduled castes. However, by 1980s, the holdings of the big landlords came down owing to sale and also due to some impact of the land ceiling provisions. The landlords belonged to Reddies, Brahmins, Vaishya and Padmasali communities. Given their dependence on landlords for credit to meet ceremonies and family exigencies, most of the households were marginalized and were compelled to lose their land and work as attached laborers in pathetic conditions for long hours. The debt driven bondage continued till early 1980s.

Later, Muthrasis, Malas, Madigas, and Chakalis emerged as marginal and small farmers. In 1987, the government imposed ceilings on landlords and acquired lands in excess of 50 acres. Reddy landlords lost 25 acres under ceiling act and Kamma who settled in the nearby hamlet had to surrender almost as much as 40 acres. Along with the waste lands, the surplus lands were distributed to all the S.Cs and B.Cs. All of them got 2 acres per family, but most of it was rocky and bushy, and is not useful for cultivation. This can fetch them good return someday if this area is developed as real estate. Today, there are four households who own 10 – 15 acres of land in the village. 150 households belonging to SC and BC castes own a total of about 90 acres of land. They cultivate jointly using family labour as main resource and grow two crops, paddy in the Kharif, and maize in the Rabi. Few of them also cultivate vegetables during the summer.

Profile of Households

The social profile of sample households is given in the table 4.1. This village has a predominant backward class population who constitute about 55.59 percent of households, followed by 35.5 percent scheduled castes. The upper castes who are financially well off are 8.4 percent of households.

Table No: 4.1 SOCIAL CLASS WISE CLASSIFICATIONS

SLNO	Social category	Number of households	Percentage
1	Scheduled Castes	63	35.5
2	Backward Classes	99	55.9
3	Other Category	15	8.4
TOTAL		177	100

Source: field survey

Table No 4.2: TOTAL HOUSEHOLD AND LITERACY RATE IN ACHAMPET VILLAGE

Village	Literacy Rate			Population		
	Male	Female	Overall	Male	Female	Total
Achampet	63	44	53	498 (49)	512 (51)	1010 (100)

Source: census 2011 district hand book

The literacy rate is moderately poor, with an overall rate of 53 percent. But in reality, except, a small minority of 10 percent, that too among younger generation, the rest are practically illiterate. There is primary school in the village, but for high school children have to go the neighboring village. For college education, they have to go the mandal headquarter which is 5 km away. The village has a balanced gender ratio. Literacy rate for female (44%) is much lower than the male (63%), see table 4.2.

Table no: 4. 3 TYPES OF AGRICULTURAL HOUSEHOLDS

Cultivation type	No. of farmers	Percentage
Owner Cultivation	115	64.97
Pure tenant	8	4.5
Owner-Tenant	23	13
Non-cultivating land lord	23	13
Landless labour	8	4.5
Total	177	100

Source: field survey

Majority of the village depend directly on agriculture for livelihood, which is up to 69 percent. Among them a large majority are owner-cultivators. There is an emerging trend of tenancy, all of it share cropping, which is currently at 17 percent. Figuratively, landless households are only 4.5 percent, but 95 percent of their land is uncultivable and unirrigated. Hence the landless households are much more in reality than going by landholding criterion. Because of this, a large contingent of labour from the village migrates out to seek work in the nearby factories, and Hyderabad city.

Table No 4.4 TYPES OF FARMERS

	Landless	Marginal	Small	Semi-medium	Medium	Large	Non-cultivators	Total
Achampet	8 (4.5)	86 (48.6)	42 (23.7)	15 (8.5)	3 (1.7)	0	23 (13)	177 (100)

Source: Field survey

In Achampet, small and marginal farmers constitute about 75 percent. . Semi medium households are about 8.5 percent; medium households are minority of 1.7 percent. There are no large farmers in the village [table 4.4] this is a predominantly dominated by small and marginal farmers.

Table no: 4.5 AGRICULTURAL LAND AND TENANCY

SLNO	Land Holding	Acres	Percentage
1	Patta Land	530.15	100
2	Cultivated land	383.5	72.33
3	Leased in Acres	88.5	23.07
4	Leased out Acres	36.5	9.51
5	Land not using for cultivation	67.42	*This land is rocky land it was given by government(ceiling land)

Source: Census of India 2011 and Field Survey

Patta land in the village is about 530 acres. The the cultivated area in the village is about 72 percent according to Panchayat, but we did not this in operation due to severe drought in the year of our survey. From the above table, it is observed that of the total land, 72.33% (383.5 acres) was used for cultivation whereas, 23.07% (88.5 acres) of land was leased in and 9.5% (36.5 acres) of land was leased out respectively from the sample.

4.2 AGRICULTURAL PRODUCTION AND MARKET SURPLUS

We present the data on the respective share of production of different size class farmers. We observe that small and marginal farmers who constitute 75 percent of the households command 65% of the production in the village. 35% of production is coming from semi-medium and medium farmers. These completely commercialized farmers as can be seen from the market surplus figures. The marketed surplus is after meeting the family requirements is quite high; nearly 51% of the produce was marketed by marginal farmers, 79% by small, 85% by semi-medium and 93% by medium farmers.

Table no: 4.6 PRODUCTIONS AND MARKET SURPLUS IN ACHAMPET (IN QUINTALS AND PERCENTAGES)

Types of farmers	Production	Market Surplus
Marginal	1714 (30)	880 (51)
Small	1953 (35)	1535 (79)
Semi-medium	1112 (20)	945 (85)
Medium	866 (15)	806 (93)
Large	0	0
Total	5645 (100)	

Source: field survey

Table shows that marginal and small farmers major share of production 65 percentages. Whereas semi-medium and medium farmers accounted 35 percentage.

Table no: 4.7 TOTAL WORKING CAPITAL COST OF CULTIVATION FOR KHARIF

SLNO	Type of cost	Percentage	Average cost of cultivation
1	Total labor cost	38.04	5505.19
2	Total material cost	40.84	6923.57
3	Total _maintenance cost	4.28	886.69
4	Total transport cost	5.83	948.21
5	Total miscellaneous	6.93	948.87
6	Total fixed cost	4.04	846.92
Total Cost		100	16,059.45

Source: Field Survey

The cost of cultivation for paddy and maize is estimated for this village from the field survey data, which is presented in tables below. The average full cost of cultivation per acre for paddy, which is Cost C2 is found to be Rs.16, 059 per acre. The average labor cost is Rs. 5,505 (38.04%), the average material cost is Rs. 6,923.57 (40.84%), and average irrigation and maintenance cost is Rs. 886.69 (4.28%), the average transport cost is Rs. 948.21, average cost of miscellaneous Rs. 948.87, whereas average fixed cost was observed to be Rs. 846.92 the average cost of cultivation per acre is Rs. 16,059.45 from the given sample.

**Table no 4.8 TOTAL WORKING CAPITALS IN CULTIVATION IN RABI (PER 4 ACRES)
CULTIVATING PADDY**

Type of Cost	Total cost	Minimum cost	Maximum Cost	Average
Total labor cost	24320	6180	7860	6831.66
Total material cost	36500	9500	9500	9500
Maintenance / repairs on Fixed costs	3934	800	1334	983.5
Transport cost	4000	1000	1000	1000
Miscellaneous	4000	1000	1000	1000
Fixed costs	1036	18	500	259
Total cost	73790	18498	21194	19574.16

Source: Field survey

From the above table, it is observed that the average labor cost is Rs 6,831.66 with minimum is Rs 6,180, and maximum cost Rs 7,860, whereas the average material cost is Rs 9,500 and with a minimum of Rs 9,500 and maximum of Rs 9,500, and average maintenance cost Rs 983.5 with a minimum of Rs 800 and maximum of Rs 1,334. Whereas the average transport cost is Rs 1,000 and with a minimum of Rs 1,000 and maximum of Rs 1,000, average cost of miscellaneous Rs 1,000 and with a minimum of Rs 1,000 and maximum of Rs 1,000. The average cost of cultivation per acre in Rabi is Rs 19,574.16 and minimum Rs 18,498 and maximum of Rs 21,194.

4.3 AGRICULTURAL CREDIT

The village agriculture runs on formal and informal credit like anywhere in the country. There are two sources of bank credit in the village. One is the Canara Bank in Masaipet, which on the national high way, second is the agricultural cooperative bank in the mandal headquarter. We have learnt that farmers are receiving credit from these two sources. Besides these, there is a substantial coverage of SHG loans in the village.

Table no 4.9 LAND OWNED WISE CREDIT DETAILS FORMAL CREDIT

INSTITUTIONAL CREDIT									
SLN O	Land Owned	Bank	Cooperative	Share	SHG	Gold Loan	Total amount	% age	Average
1	Landless	85000	NIL	Nil	90000	0	175000	2.4	35000
2	Marginal	2253000	110000	68	1360000	87000	3810000	52.29	44823
3	Small	1154000	50000	31	848000	8000	2060000	28.27	44782
4	Semi-medium	310000	NIL	Nil	210000	8000	528000	7.24	37714
5	Medium	75000	Nil	nil	99000		174000	2.38	43500
Total		4111000 (56.42%)	160000 (2.19%)		2912000 (39.96%)	103000 (1.41%)	72,86,000	100	
Figures in the parentheses are the amount of percentage of credit issued by respective formal sources.									

Source: Field survey

The bank loan in the agricultural credit in the village constitutes about 56 percent and cooperative bank about 39 percent. From the above table it is observed that the average institutional credit given to the landless farmers is Rs 35000 per household that includes credits from banks, cooperative and gold loan. Non-cultivating households get average credit of Rs 23435, marginal households got average credit of Rs. 44824, and semi-medium farmers got average credit of Rs. 37714 and medium household got average credit of Rs. 43500 respectively.

Table 4.10 DISTRIBUTION OF INSTITUTIONAL AND NON-INSTITUTIONAL CREDIT OF HOUSEHOLDS

Types of farmers	% AGE of HH	Intuitiional Credit	Non-Institutional Credit
Landless	4.5	35000(15.33)	39167 (16.92)
Marginal	48.5	43522 (19.06)	34581 (14.94)
Small	23.7	43120 (18.89)	71548 (30.90)
Semi-medium	8.5	40895 (17.91)	31579 (13.64)
Medium	1.7	43500 (19.05)	32500 (14.04)
Large	0	0 (0)	0 (0)
Non-cultivators	13	22286 (9.76)	22143 (9.56)
Total		228323 (100)	231518 (100)

Source of field survey

The above distribution of agricultural credit needs to be analyzed. In the following table no 4.10 we have given a comparative analysis of distribution of number of household and the distribution of agricultural credit. Here we find that marginal farmers who constitute 48 percent of total households received 19 percent of institutional credit; small farmers who constitute 23 percent received 19 percent of institutional credit. Whereas, 8.5 percent of semi-medium households received 18 percent of credit and medium farmers who constituted only 1.7 percent of the households received 19 percent institutional credit. Thus this proves our earlier observation from aggregate data that increasingly small and marginal farmers are receiving smaller credit and semi-medium and medium farmers are garnering greater share of institutional credit. This lends credence to the argument that banks are not perhaps following any equitable norms for lending rather going by the market value of farm holdings.

Since the village is predominantly dependent on bore wells for irrigation, there is a substantial dependence on informal credit, which banks do not finance.

Table no: 4.11 INFORMAL CREDITS

Land Owned	Total Land in Acres	Commission Agent	Relatives	Money Lenders	Total amount	average
Landless	NIL	25000	NIL	190000	215000	43000
Un-cultivated	NIL	NIL	NIL	330000	330000	14347
Marginal	112.35	150000	74000	2955000	3179000	37400
Small	149.6	75000	10000	3000000	3085000	67065
Semi-medium	90.75	NIL	10000	510000	520000	37142
Medium	49.5	NIL	NIL	130000	130000	32500

Source: Field survey

The table 4.11 gives the distribution of non-institutional credit among the households. The average non institutional credit given to the landless farmers are Rs 43000 including Commission of the agent, relatives and money lenders, whereas non-cultivating households get Rs 14347.34 on an average. Marginal households were getting an average Rs 37400, and semi-medium were getting an average Rs 37142.85, and medium household were getting Rs 32500 on average respectively from the sample households. Thus the distribution of formal and informal credit is almost equal in the village.

Table no: 4.12 FORMAL CREDIT COOPERATIVES

SLNO	Land Owned	Total Land in Acres	Amount Given	Percentage	Average
1	Marginal (82)	112.35	110000	68.75	36667
2	Small (45)	149.6	50000	31.25	50000
Total		261.95	160000	100	-

Source: Field survey

As shown in the table 4.12, the average formal credit given to marginal farmers by the cooperatives is Rs.36667, (68.75%) whereas average credit to small farmers is Rs.50,000 (31.25%), from the given the sample.

Note: cooperatives are not giving credit to the landless, non-cultivating land owner.

Table no: 4.13 FORMAL CREDIT ISSUED BY SELF HELP GROUPS

SLNO	Land Owned	Total Land in Acres	Amount Given	Percentage	Average
1	Landless	NIL	90000	3.09	18000
2	Un-cultivated (8)	NIL	305000	10.47	20333
3	Marginal (18)	112.35	1360000	46.70	20299
4	Small (8)	149.6	848000	29.12	22316
5	Semi-medium (3)	90.75	210000	7.21	19091
6	Medium (1)	49.5	99000	3.39	33000
Total		407.2	2912000	100	-
Values in the () parentheses indicates the percent of respondents were not taken credit from the bank respectively. Hence the results of the table represent the figures of remaining respondents who took the credit.					

Source: Field survey

As said earlier there is a substantial coverage of SHG loan in the village. Not only landless but agricultural households also receive these loans. Thus the credit coverage is somehow substantial in the village. From table 4.13 it can be observed that the average credit given to landless farmers through the Self Help Groups is Rs. 18000, Where the average credit Rs. 20333, given to non-cultivating households by SHGs, and the average credit Rs. 20299, given to marginal households,, and where average credit to small farmers is Rs. 22316, where average credit given to semi medium is Rs. 19091and average credit given to medium farmers is Rs. 33000, respectively in the sample. It is observed that the SHG credit largely goes to meet consumption needs of the households.

Table no: 4.14 FORMAL CREDIT ISSUED BY BANKS FOR GOLD LOANS

SLNO	Land Owned	Total Land in Acres	Amount Given	Percentage	Average
1	Marginal (77)	112.35	87000	84.46	14500
2	Small (45)	149.6	8000	7.76	8000
3	Semi-medium (13)	90.75	8000	7.76	8000
Total		352.7	103000	100	-
Values in the () parentheses indicates the percent of respondents were not taken credit from the bank respectively. Hence the results of the table represent the figures of remaining respondents who took the credit.					

Source: Field survey

Banks in addition also gives gold loans to farmers. We observed that marginal farmers on an average took a loan of Rs 14500, with a percentage of 84.46 and whereas small and semi-medium farmers were taking an equal average of Rs 8,000, and with 7.76 percentage [table 4.14]. These are apparently small loans taken perhaps for small needs.

Table no 4.15 INFORMAL CREDIT COMMISSION AGENT WISE

SLNO	Land Owned	Total Land in Acres	Amount Given	Percentage	Average
1	Landless (4)	NIL	25000	10	25000
2	Marginal (78)	112.35	150000	60	25000
3	Small (43)	149.6	75000	30	25000
Total		261.95	250000	100	-
Values in the () parentheses indicates the percent of respondents were not taken credit from the bank respectively. Hence the results of the table represent the figures of remaining respondents who took the credit.					

Source: Field survey

Commission agents also give loans to farmers. In both paddy and maize, we observed that commission agents give some credit; the data is presented in table 4.15. The credit by commission agent given to the landless, marginal and small farmers was equal on an average at Rs. 25,000.

Note: here that the table clearly shows that semi- medium and medium farmers are not depending on the commission agents.

Table no: 4.16 INFORMAL CREDITS FROM RELATIVES

SLNO	Land Owned	Total Land in Aces	Amount Given	Percentage	Average
1	Marginal (77)	112.35	74000	78.72	10571
2	Small (45)	149.6	10000	10.63	10000
3	Semi-medium (13)	90.75	10000	10.63	10000
Total		352.7	94000	100	-
Values in the () parentheses indicates the percent of respondents were not taken credit from the relatives respectively. Hence the results of the table represent the figures of remaining respondents who took the credit.					

Source: Field survey

This table 4.16 shows that marginal farmers taking credit from the relatives on an average is Rs.10571(78.72%), and marginal farmers are highly dependent on relatives compared to other types of farmers.

Table no: 4.17 INFORMAL CREDITS FROM MONEY LENDERS

SLNO	Land Owned	Total Land in Acres	Amount Given	Percentage	Average
1	Landless (1)	NIL	190000	2.71	47500
2	Un-cultivated (19)	NIL	330000	4.71	82500
3	Marginal (53)	112.35	2955000	42.22	92344
4	Small (15)	149.6	3000000	42.86	96774
5	Semi-medium (7)	90.75	510000	7.28	72857
6	Medium (3)	49.5	13000	0.18	13000
Total		407.2	6998000	100	-
Values in the () parentheses indicates the percent of respondents were not taken credit from the bank respectively. Hence the results of the table represent the figures of remaining respondents who took the credit.					

Source: Field survey

Above table 4.19 shows that landless farmers were taking Rs 47500 (2.71%) from the moneylenders on an average, and non-cultivating farmers were taking an average of Rs. 82500 (4.21%), and the marginal farmers were taking an average of Rs. 92344(42.22%). Small farmers depended more on the moneylenders as on an average they had taken Rs. 96,774(42.86%) and though semi- medium had taken an average of Rs 72,857(7.28%) , the medium farmers depended lesser on the moneylenders with an average of Rs 13,000(0.18%).

Table No: 4.18 COMPARISON OF BANK CREDIT AND SCALE OF FINANCE

SLNO	Farmer Type	land Owned	Total Bank Credit	Bank Credit per acre	Scale Of finance		
					PADDY	Maize	Red Gram
1	Landless	NIL	--	--	--	--	--
2	Marginal	95.3	17,24,000	18,090.24	20,000-24,000	17,000-20,000	11,000-12,500
3	Small	260.6	20,48,000	7,858.79	20,000-24,000	17,000-20,000	11,000-12,500
4	Semi-Medium	58	3,16,000	5,448.28	20,000-24,000	17,000-20,000	11,000-12,500
5	Medium	25.5	35,000	1,372.55	20,000-24,000	17,000-20,000	11,000-12,500

Source: Primary Data & SLBC

The above table 4.18 describes the comparison between the data pertaining to bank credit availed by farmers of Achampet village and scale of finance declared by the state level banker committee (SLBC). The Marginal farmers got Rs.18090.24/- per acre, which is less sufficient for paddy cultivation. However, if one is interested to cultivate maize or Red gram, the loan amount issued by the bank may perhaps may be sufficient. The table also indicates that the loan amount issued by bank is not sufficient for- small, semi-medium and medium farmers to cultivate the above mentioned crops with comparison of scales finance declared by SLBC.

This tells us that marginal farmers were getting fairly good loan amount compared to small, semi-medium and medium farmers. This explains the marginal farmers with 95.3 acres of land holding availed Rs.17,24,000/-, whereas, small farmers having landholding of 260.6 acres, took credit from the bank to the tune of RS.2048000/-..Semi medium farmers having 58 acres availed credit of RS.316000/- and medium farmers owning 25.5 acres availed Rs.35000/- only. This shows that the small, semi-medium and medium farmers availed proportionately lesser amount than marginal farmers.

Table no: 4.19 CROP WISE COST OF CULTIVATION PER ACRE AND SCALE OF FINANCE

Crop Type	Average Cost Of Cultivation	Bank Credit
Paddy	19574.16	17260
Maize	13,484.32	17260

Source of Field survey

The above table 4.19 shows that in paddy, average cost of cultivation is Rs 19574.16 and the farmers took credit from the bank per acre of Rs 17260, but this amount is not sufficient for the paddy, whereas average cost of cultivation of Maize is Rs13484 and it got an average per acre credit of Rs 17260.

Note: Banks are not giving credit on the basis of crops.

4.4 DOES AGRICULTURAL CREDIT MATTER: SOME ECONOMETRIC EXERCISE

We shall examine the issue whether agricultural credit matters for the farmers in the village. We run a simple regression of agricultural credit over the farmer's farm income, using the cross section data from the sample.

The null hypothesis is:

H₀: There is no impact of cost of cultivation on farmer's income.

H₁: There is impact of cost of cultivation on farmer's income.

The estimated equation can be written as:

Model: Farmer's Income = $\alpha + \beta_1$ cost of cultivation + μ .

Table no: 4.20 REGRESSION RESULTS

Dependent Variable	Agricultural Income			
R-squared	0.325945	Adjusted R-squared		0.321130
F-statistic	67.69822	Prob(F-statistic)		0.000
Independent Variable	Coefficient	Std.Error	t-statistic	Prob
Constant	-4368.649	3396.395	-1.286261	0.2005
Agricultural credit	0.335182	0.040737	8.227893	0.000

Source: Field Survey.

The results of the regression are given in the table no 4.20 We found that the sign and coefficient are found to be expected and significant at 1 percent level of significance. Hence we reject the null hypothesis and conclude that agricultural credit matters for agricultural income. The probability value 0.000 and F-statistic value 67.69 is greater than critical value at 1,140 degrees of freedom is 3.90 at 5 percent level of significance. Therefore, we reject the H_0 hypotheses and thus, accept that there is an impact of cost of cultivation on farmer's income. The Coefficient value of cost of cultivation is 0.33 with p-value 0.000 which is less than 0.05 indicates the for every one unit increase in cost of cultivation causes to increase 0.33 units in income. The coefficient value indicates the positive variation of cost of cultivation on income, it means, as the cost of cultivation increases causes to increase income as well and vice-versa.

4.5 CREDIT- INEQUALITIES

We have earlier observed that in Achampet the level of inequalities is not very significant, especially intra-household inequality. We in indeed found that marginal farmers are the highest recipients of agricultural credit compared to other classes. In this section we undertake an inequality analysis by estimating Gini ratios. We also plot Lorenz curves.

The following are our observations. First we found that relatively institutional credit is more equitably distributed than the non-institutional credit. The Gini ratios are 025 and 047 respectively for the two.

LORENZ CURVES FOR CREDIT ACCESS IN ACHAMPET VILLAGE

1. Lorenz curve for credit access from different sources:

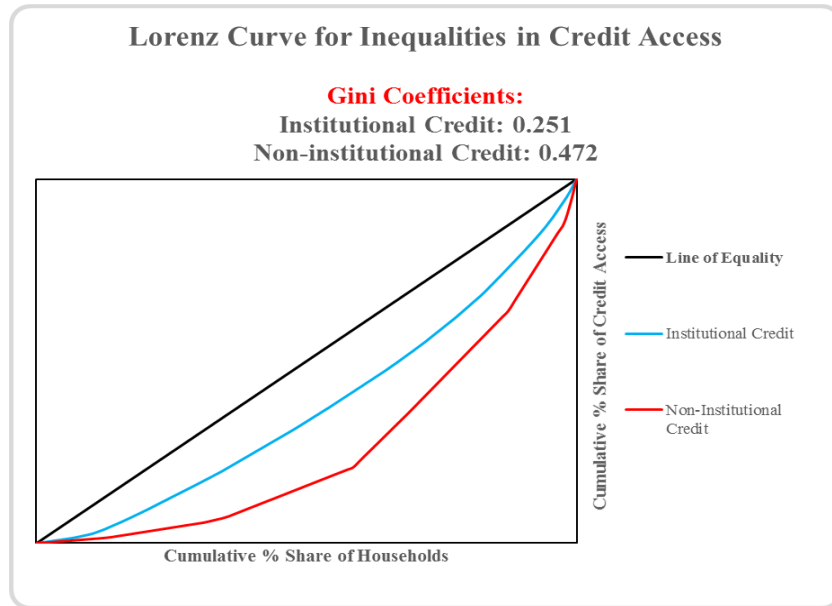


Fig 4.1

As shown in the fig 4.1, one can conclude that access to credit is much less unequal in the case of institutional credit. However, in the case of Non-institutional credit sources, the credit access can be observed to be extremely skewed. From this it can be inferred that the formal lenders are more willing to provide credit to those seeking it whereas the informal ones prefer only to lend to those with a high ability of paying back.

CONCLUSIONS

From the above analysis we draw the following conclusions regarding the distribution of agricultural credit and other issues. The exercise is mainly intended to check the macro observations from a grassroots level. We have randomly selected a village from a district which is pumped in significant level of agricultural credit. Our sample is quite big converging 77 percent of the households. The village stands representative with the high percentage share of small and marginal farmers as the state level. It is an irrigated dry village. We estimated cost of cultivation, average credit received by the households from formal and non-formal sources.

We found that institutional credit covered 55 percent of the total credit needs of the farmers. There are multiple sources of formal credit flowing into the village, like commercial bank, cooperative bank, and SHGs besides gold loans. The scale of finance decided is far above the average crop loan being to the farmers. Hence crop loan is not adequate to meet the credit needs for crops like paddy, though it is adequate to raise maize. It is not possible for farmers to diversify much or increase investments on the crops with this level of credit. The class distribution of institutional credit is quite inequitable. Marginal and small farmers are receiving credit much less than their share in the agrarian structure; whereas semi-medium and medium farmers are getting disproportionately higher credit.

Chapter V

FINDINGS

- ❖ Higher expenditure on agriculture inputs has positive impact on farmer's income; if the farmers put higher investment in cultivation he gets more output (income).
- ❖ Tenant farmers have not been able to get loan eligibility cards. Due to ceilings act provisions, landlords don't agree for written agreement and informal tenancy is pursued. This is not helping any party.
- ❖ Scale of finance declared by the SLBC was partially fulfilling the cultivation costs for marginal farmers to cultivate the Maize and Red gram but it is not sufficient for Paddy. Small, semi-medium and medium farmers are less dependent on banks compared to marginal farmers to cultivate the Paddy, Maize or Red gram.
- ❖ Farmers are mostly serviced by informal credit providers as they pose less restriction when compared to banks.
- ❖ In the field survey, it was observed that even landless farmers availed credit from the banks.
- ❖ For credit, small, marginal and tenant farmers are more dependent on informal sources compared to the medium and big farmers.
- ❖ In the field survey, it was found that credit inequality persists among different classes of farmers.

CONCLUSIONS

India is one of the fast growing economies in the world. But in order to reach this stage for the economy, agricultural sector played a crucial role in the last fifty years. Until agricultural sector achieved some level of growth since 1966, economic growth in India remained weak. The agricultural constraint to the economy had been removed through the agricultural growth. However, this task has not yet completed, as 46 percent of workers are still dependent on agriculture. Given the increasing inequalities and substantial poverty, there is a huge need for an institutional support for this sector to continue to make India experience an inclusive growth. Particularly, in the last two decades agricultural credit policy has not been very kind to the sector. This has begun hurting the bottom half of the cultivators. This dissertation takes this as a departing point for an empirical study to verify the observations made in the literature that credit policy has become iniquitous in the recent period. This study examined issues related to adequacy, coverage and equity of agricultural credit for different classes of farmers, using secondary data as well as primary data from field survey of a village in Telangana.

It is observed that the history of the formal credit had begun from the post-Independence by adopting different policies in the favour of agriculture sector. It is also clearly seen that the credit policies in present India have been shaped by recommendations of various expert committees, set up in the last sixty years. Many studies have been conducted to look into the position of farmers accessing credit. It is observed that the Central Government and RBI have been playing an important role in creating the good environment for the credit institutions.

The three tier structure of credit delivery in the country has evolved after sufficient experimentation with different institutions. Initially, with lot of hope and fan fair cooperative sector was launched after Independence in 1950s. Reserve Bank Committees (RCR) 1966 has highlighted its importance and supported them through huge financial allocations and refinance. But the political structure of the country has miserably failed and proved that society is not yet mature to live with cooperative structure. Cooperatives were made defunct by political interference and opportunism. Narasimham committee 1972 clearly stated the failures of cooperative strategy, termed rural banking as a professional job that can be done only

commercial banks. Thus cooperative structure growth got stunted and replaced by scheduled commercial banks. These have played a crucial role in expanding rural banking and credit because of which agricultural production and productivity has finally increased. However the coverage and equity always remained issues unresolved. A special apex banka called National Bank for Agriculture and Rural Development was created in 1984 to refinance the banks to facilitate a smooth and uninterrupted credit flow to agriculture. The Khusro committee (1986) studied Commercial Banks, Regional Rural Banks and the Cooperatives and recommended the removal of the systemic gap in the organizational structure of cooperative financing system. Several strategies were followed to increase regional coverage of credit. Thanks to these, dependence on money lenders has come down from 70 percent to 34 percent during 1969-91.

However, Narasihman Committee on banking reforms in 1991 proved to be unfortunate turn for agricultural sector. The banks were asked to become profitable, priority sector norms were diluted and rural branch expansion obligations were removed. Bank managers were given more powers and discretion in lending. These have resulted in reduction in credit allocation to the agricultural sector, a significant reduction in rural branches and drop in the rural credit-deposit ratio. Critics have pointed out that the number of small borrowers accounts have drastically came down in the reform era. Thus, disproportionate share of credit began going to big borrowers, worsening the unequal position that we began with. Many scholars have attributed the suicides of small farmers across the country to phenomenon of withdrawal of formal credit in a phase tremendous marketisation and diversification that was introduced. Banks refused to follow scale of finance as a principle for lending. Further, they began increasing the share of indirect lending to agriculture rather than direct credit that accrues to farmers. All these are fall outs of the banking reforms that began in 1991.

Small borrower's accounts continuously kept decreasing since 1985. Their share in credit fell from 49.6 percent in 1985 to 13.3 percent in 2006. However 2 lakh to 10 lakh credit-limit lending increased from 4.3 to 22.6 percent. And Above 25 crore credit limit loans increased from 5.7 percent in 2000 and it increased 17.7 percent in 2010.

Moreover share of direct credit held by marginal, small and big cultivators the period between 1980-81 and 2004-05, and the share of credit held by marginal and small farmers

declined in 1990s, a trend that more or less continued in the 2000s. Share of indirect finance in total agricultural finance has consistently risen from 1985 to 2010 (16.8 percent to 23.9 percent). Share of direct finance in 1985 was 83.2 percent; it has fallen to 76.1 percent in 2010. Share of credit to gather small and marginal farmers held by about 73 to 74 per cent in the mid-1990s; in 2004-05, its share was 71.4%. Thus the institutional credit has become more iniquitous over period in India, making small and marginal farmers its victims.

Crops loans are supposed to follow scale of finance, which is determined on the basis of cost of cultivation for different crops. This should be determined by District Level Technical committee and endorsed by the State Level Technical committee. Scale of finance which is decided by State Level Bankers' Committee (SLBC) every year. In practice there is complete divergence. For example, in 2014 SLBC decided to give credit for Paddy Rs. 20000 – Rs. 24000 and followed by Jowar is Rs. 9000 – Rs. 13000, Sugar cane Rs. 50000 – Rs. 55000, for Cotton Rs. 23000 – Rs. 28000, Ground nut Rs. 15000 – Rs. 18000, and Red Gram Rs. 11000 – Rs.12500, and Maize Rs. 17000 – Rs. 20000 per acre. Compared to this, nowhere banks are lending on this basis. They are giving uniform loan in several areas. In areas which have good market value for lands, banks are lending medium and large farmers more without reference to scale of finance.

While government has taken several measures to reverse these trends, Rangarajan Committee on Financial Inclusion 2006 advised the formation of a National Rural Financial Inclusion Plan to enable access to at least 50% of the financially excluded rural households by 2012. The Expert Committee on Agricultural Indebtedness (2007) focused on access to institutional credit and proposed a distinction between irrigated and non-irrigated areas.

From the review of literature and official data, we understand that the basic nature of social banking following up to 1991 has been reversed. Banks are advised to become profitable and the norms were accordingly changed such as reduction of priority sector credit, non-observance of rural-urban branch ratio etc. As a result, the extent of credit given to agricultural sector began falling from 18 percent to 10 percent by 1999. The rural branches number began to fall; their share has fallen from 88 percent to 66 during this time. Along with that the rural credit deposit ratio also deteriorated from 50 percent to 48 percent. Banks increasingly favoured

lending to big borrowers; the share of small borrowers who borrowed less than Rs.25000 fell from 68 percent to 38 percent in the post-reform period. There is a serious level of inequality of credit disbursement within the agricultural sector. The share of small and marginal farmers began falling. This could be majorly because banks instead of following scale of finance norms began lending on the basis of market value of the farm holdings, which naturally favour large holdings.

There are also serious geographical inequalities in the distribution of credit. At the country level, southern states received 60 percent of the credit in the country. Similarly, in the state of Andhra Pradesh before the bifurcation, Andhra and Rayalaseema districts were receiving proportionately higher bank credit. Another serious issue is that of tenant farmers, who practically are cut off from the formal credit market. The government of Andhra Pradesh made some policy initiatives in the recent times by enacting Licensed Cultivators Act in 2011 which empowers State to issue identity cards to tenant farmers who can be used to procure farm credit, insurance and other schemes. However, in practice the implementation of this program is extremely disappointing. About 5.76 lakh tenant farmers were given identity cards in 2011 and for few group the credit through joint liability system. However, due to apathetic and self-contradictory rules framed for the banks which made managers liable for defaults, this program did not progress. Even revenue department is apathetic in perusing the identification. Thus the overall conclusion is that not only that agricultural credit is relative falling for the sector, the intra-household distribution of agricultural credit is deteriorating fast.

We have randomly selected a village, called Achampet from Medak district in Telangana which received significant level of agricultural credit. Our sample is quite big covering 77 percent of the households. The village stands representative with the high percentage share of small and marginal farmers as the state level. It is an irrigated dry village. We estimated cost of cultivation, average credit received by the households from formal and non-formal sources.

We found that intuitional credit covered 55 percent of the total credit needs of the farmers. There are multiple sources of formal credit flowing into the village, like commercial bank, cooperative bank, and SHGs besides gold loans. The scale of finance decided is far above the average crop loan being to the farmers. Hence crop loan is not adequate to meet the credit needs for crops like paddy, though it is adequate to raise maize. It is not possible for farmers to diversify much or increase investments on the crops with this level of credit. The class

distribution of institutional credit is quite iniquitous. Marginal and small farmers are receiving credit much less than their share in the agrarian structure; whereas semi-medium and medium farmers are getting disproportionately higher credit.

Our empirical survey has confirmed some of concerns raised by several scholars in the literature. We found in our village survey that small and marginal farmers constitute 80 percent in total farmers. There are about 13 percent of tenant farmers. We have estimated the cost of cultivation for paddy and maize and found that full cost of cultivation is about Rs.19000 for paddy and Rs.16000 for maize. And the average loan sanctioned is found to be Rs, 17000, which is not adequate for paddy, but adequate for maize. However, it is not possible to diversify towards high investment cropping methods with this level of lending.

Further we found evidence for the view that there are inequalities in the disbursement of that there are serious inequalities. We find that marginal farmers who constitute 48 percent of total households received 19 percent of institutional credit; small farmers who constitute 23 percent received 19 percent of institutional credit. Whereas, 8.5 percent of semi-medium households received 18 percent of credit and medium farmers who constituted only 1.7 percent of the households received 19 percent institutional credit. We have confirmed this inequality by estimating Gini coefficient which is found to be 0.271. Thus this proves our earlier observation from aggregate data that increasingly small and marginal farmers are receiving smaller credit and semi-medium and medium farmers are garnering greater share of institutional credit. This lends credence to the argument that banks are not perhaps following any equitable norms for lending rather going by the market value of farm holdings. Our regression analysis confirmed the hypothesis that agricultural credit influences agricultural income significantly. Therefore, it is important to keep an adequate access for farmers of all classes to formal credit. In conclusion, we state that agricultural credit cannot be neglected and the state has the responsibility to ensure an inequitable access of credit to all classes of farmers.

RECOMMENDATIONS AND SUGGESTIONS

- ❖ Government should identify real cultivators and give them to Agriculture crop loans without any restriction
- ❖ Government should bifurcate direct and indirect agriculture credit
- ❖ Measures should be put in place to check issue of crop credit by landlords who don't cultivate and use the credit for non-farming uses. The credit should be made available to cultivating tenants.
- ❖ Reduce the indirect finance limit. There should be separate direct and indirect credit targets.
- ❖ Farmers are not getting agricultural credit on the basis of scale of fiancé. The government should differentiate between cultivators and non-cultivators and loans should be given only to real cultivators. There should be proper dissemination of information to farmers about the scale of finance as many farmers are not aware of these things.
- ❖ Very less number of small, marginal and tenant farmers access the crop insurance scheme while no farmer got crop insurance in the sample village.
- ❖ Scale of fiancé should be ensured through legislative provisions in a right based approach.
- ❖ According to scale of finance, credit should be provided for all crops
- ❖ DLTC don't carry regular surveys to determine agriculture cost practically and don't maintain a website. This should be checked for practical estimation of agriculture cost and better outcome.
- ❖ Government should facilitate with support to the banks to reschedule the loans by farmers in events of exigencies such as the neutral calamities etc..
- ❖ Government should put separate budget for tenants farmers
- ❖ Government should provide crop insurance and other allowances such as input subsidies without any restriction
- ❖ Government should give the minimum support price
- ❖ Government should provide the digital weigh machines
- ❖ Government should give debt relief to tenants farmers
- ❖ Bank should give counter guarantee to LEC holders.