Rural Credit and Repayment Performance: A Case of Prakasam District in Andhra Pradesh

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By

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To My Parents…….

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CERTIFICATE

This is to certify that the research work embodied in the present thesis entitled **"Rural Credit and Repayment Performance: A Case of Prakasam District in Andhra Pradesh"** has been carried out by **Gurajala Ravi (Reg.No.04SEPH10),** in partial fulfillment of the requirement for the award of the degree of Doctor of Philosophy in Economics under my supervision.

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I, **Gurajala Ravi** hereby declare that this Thesis entitled "**Rural Credit and Repayment Performance: A Case of Prakasam District in Andhra Pradesh**" submitted by me under the guidance and supervision of **Prof. Debashis Acharya,** is a bonafide research work which is also free from plagiarism. I also declare that it has not been submitted previously in part or in full to this University or any other University or Institution for the award of any degree or diploma. I hereby agree that my thesis can be deposited in Shodganga/INFLIBNET.

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Chapter – I

Introduction and Objectives of the Study

1.0.1 Introduction

Credit is a device for facilitating temporary transfer of purchasing power from one individual or institution to another. It provides the basis for increased production efficiency through specialization of this function. Credit, in the financial sense, "*is the confidence reposed in a person, who enables him to obtain from another, the temporary use of a thing of value; it may accord on the security of real estate in different forms depending on kind of security taken"* (Joshi P L, 1985, p.21). The person who obtains finance from the lender may not have any-productive asset; consequently credit is nothing but the confidence creating power of the borrower.

Credit plays an important role to accelerate the process of agricultural development in the developing countries like India. Credit in right quantity and of the right kind immensely contributes to agricultural development. The role of credit consists in laying the foundation stone of the farm revolution and maintaining the structure built upon it (Sharma R D, 1980, pp.16-17).

India is an agrarian economy. Agriculture in India forms its economic base and has been treated as primary sector of the economy. Even though the relative importance of agriculture in the Indian economy declined, its significance has not diminished. The total population of India is 121.0 crores as per 2011 census, of which people from the rural constitute 68.84 per cent. The majority of these rural people depends on agriculture and allied activities as cultivators and agricultural labourers. Indian agriculture mostly depends on rains and governed by seasons. Frequent crops failures due to the natural causes are quite common. Indian agriculture sector has been dodged with low productivity till early 1970's, however the advent of green revolution made way for increased productivity. But the advent of green revolution in Indian agriculture needed a variety of costly inputs like high yielding variety seeds, chemical fertilizers, pesticides and other agricultural inputs. These inputs could be made available in required quantities to farmers by only by provision of sufficient farm credit to a major section of farmers who come under small and marginal category. Therefore, credit is required for the purpose of relief and rehabilitation because in agriculture, majority of the farmers are poor and are not in a position to invest from own sources in any operations.

The basic approach to rural credit in India has been the dispensation of loans at a concessional rate through government apparatus targeting the rural people engaged either in agricultural and non-agricultural activities. The enactment of the cooperative credit societies Act, 1904 and the subsequent formation of the Primary Agricultural Cooperative Societies (PACS) was the first effort made by the Government in the country to institutionalize the agricultural credit. After independence, the Government of India and the State Government took keen interest in organizing and managing the Cooperative Credit Institutions, Commercial Banks (CBs) and Regional Rural Banks (RRBs) so as to enable the rural people to avail credit at concessional rate.

The era of globalization has brought another institutional approach for rural credit i.e., Self-Help Groups (SHGs). Both Government and Non-Governmental Organizations took keen interest in organizing and registering the SHGs among small group of members. It has been stated that the SHGs have reduced the transaction cost, serving as a link between the borrowers and banks and ensured proper recovery. At present, the institutional agencies for rural credit consist of the Cooperative Banks, CBs, RRBs and SHGs at ground level and NABARD as a refinancing agency at national level.

1.0.2 Institutional Credit Sources:

The existence of a strong and efficient credit institution is more than half the battle won, especially for the developing countries. The success of credit-oriented development project is significantly dependent upon the soundness of the credit structure i.e., of the credit institution and the credit system (Sinha, S.K: 1992, p.9). Credit should be easily accessible, cheap, and safe as well as productive one. Credit becomes a bottleneck to production if it is not available at the right time, in quantity needed and in the required institutional forms (Upendra Kunwar: 1987, p.152)

The government of India first entered into the rural credit market with a scheme of 'Taccavi Loans' under the Land Improvement Loans Act of 1883 and the Agriculturists Loans Act of 1884. This was the first step taken by the government to frame an agricultural credit policy in the country. The Taccavi loans were very small size of loans disbursed during famine and other conditions of distress, at lower rates of interest. These loans were generally inadequate and tied-up with procedures and formalities and were gradually phased out. Institutional sources comprises: a) Co-operative Banks, b) Scheduled Commercial banks, c) Regional Rural Banks (RRBs) and d) National Bank for Agriculture and Rural Development (NABARD). The Primary Agricultural Societies (PACSs) provide mainly short and medium-term loans and LDBs provide long-term loans to agricultural farmers. The Commercial banks, RRBs, provide both short and medium-term loans for agriculture and allied activities. The National Bank for Agricultural and Rural Development (NABARD) is the Apex institution at the national level for agricultural credit and provides refinance assistance to other agencies. The Reserve Bank of India, gives overall direction to rural credit and financial support to NABARD for its operations.

1.0.3 Non-Institutional Sources;

The non-institutional agencies come under the broad category of informal sector. Hart in a study of Ghana in 1971 first coined the term 'informal sector' (Hart, Keith: 1971, p.2). The first official appearance of the term informal sector was in the Report of the International Labour Office's Comprehensive employment Mission to Kenya during 1972. Informal sector is that segment of labour market in the developing countries that has absorbed significant number of job seekers, mostly in a pattern of self-employment. Most of their activities are termed as 'micro enterprises' and are of small, part-time, mostly businesses that are highly labour-intensive in nature. Their activities depend to a large extent on the local and regional demand. The term informal sector covers the activities of a great number of intermediaries such as professional and non-professional moneylenders, pawn shops, merchants and petty traders, landlords, shop keepers, indigenous bankers and finance corporations. The professional and non-professional moneylenders were traditionally called as the non-institutional agencies (Martin Patrick: 1999, p.3).

The non-institutional agencies are also termed as unregulated or unorganized market or informal finance or indigenous financial market. This is largely beyond the official formalities. Its operations are on a small scale and are localized; the transactions remain outside the official statistics. The non-institutional agencies, however, is quite efficient because it: 1) provides at any time, doorstep service, 2) accepts deposits of any amount,

3) extends credit of any amount for any purpose, and 4) does not demand complex formalities. They have large capital and greater risk absorbing capacity with them. The non-institutional agencies operates in a localized market, and has the full information about its clients (Raja Ram Gupta: 2005, p.1229)

The All-India Debt and Investment Survey (AIDIS) 1951-52 to 2001-02 discussed 6 – lender types of players in this market viz., agricultural moneylenders, professional moneylenders, landlords, traders, friends and relatives and others.

1.0.4 Money Lenders

Moneylenders occupy a predominant position among the non-institutional agencies in providing rural finance because the household needs of rural people are not confined only to production credit. Banking is essentially borrowing and lending. The moneylenders do not accept deposit, but they simply lend money and therefore, their business lacks an important element of banking business namely borrowing (Bhagirath Singh: 2004, p.90). They charge higher rate of interest. There are two kinds of moneylenders in the village:

1. Professional moneylenders whose main occupation is money lending;
2. Non-professional moneylenders or agricultural moneylenders whose subsidiary occupation is money lending.

Both these moneylenders are accessible to farmers whenever they need. They have thorough knowledge of the borrowers so that they lend against land promissory note for higher rate of interest. For these groups money lending is the best known sources of investment. The All India Rural Credit Survey Committee commented that moneylenders not only have an opportunity of amassing wealth mainly through the snowballing of compound interest charges, but also get innumerable pecuniary benefits by acquiring a thorough grip over the peasant's life (RRB: 1954, p.167)

1.0.5 Landlords

The small farmers have the practice of borrowing money for their landlords. The landlords offer credit based on the landholding of farmers. They act as a non-professional moneylender. They occupy the lands of farmer-borrowers who do not settle the amount. Consequently the landless labourers are forced to become bonded slaves.

1.0.6 Traders and Commission Agents

Traders and commission agents provided credit to the farmers based on the condition that the farmers should sell their produces at low prices to them. They deduct commission and other charges towards the repayment of loan amount.

1.0.7 Friends and Relatives

Friends and relatives are most popular sources of rural credit market. They lend money to fulfill the urgent requirement to the selected persons with or without consideration. But money lending is not a profession for them.

1.0.8 Others

It refers to any other non-institutional credit agency functioning in villages. Chit funds are also fulfilling the financial needs of the rural households in the unorganized sector of rural credit market. The persons dealing with chit fund contribute certain amount periodically on an installment basis. Generally, the first installment contribution was availed by the promoter as remuneration. The subsequent contributions will be distributed to the members as loan either by orderly rotation or by lots system.

1.0.9 Statement of the Problem

Indian agriculture is presently at a crossroads. The structural readjustment programme and WTO regime affected agriculture at several points. A great deal of attention has been paid to studying the nature and functioning of Rural Credit Markets, for they have become so complex during this period. In the pre-economic reform period, the government wanted to provide rural credit at concessional rate through the cooperative banks and commercial banks. The NABARD was established with the sole objective of integrating the efforts of the various agencies in this context. The post-economic reform period has created adverse climate for rural credit by scaling down the institutional credit available for the priority sector (Majumdar: 1999, p.1 and Puhazhendi & Jayaraman, B., 1999, p.16). This prioritization of rural credit has created panic in the minds of the rural borrowers, dragged them to the doorsteps of the moneylenders, and ultimately increased their indebtedness. Contrary to this, some of the studies showed that access to formal credit has increased the indebtedness of the borrowers (Gautham Purkhayastha: 2001, p.4).

On the other hand, the informal agencies i.e., Non-institutional Agencies, have been dominating the rural credit market with no rules and regulations. The problems like inadequate availability, unequal distribution of formal credit, lack of access to formal credit to rural borrowers and absence of supervision over the end use of loans (N.V. Namboodiri: 2001, p.402) etc., in institutional agencies widened the gap between the institutional agencies and borrowers. Further, the viability of rural credit business for the institutional agencies has been a debatable issue due to increasing overdue, high transaction cost (K.G. Karmakar: 1997, p.481 and Sankar Bhowmick: 2002, p.2), time consuming procedures, delay in payment and absence of involvement of borrowers in the planning process (Daman Prakash: 2001, p.5). This has gradually strengthened the role of the non-institutional agencies in the rural credit market.

Each of the above aspects has drawn considerable research attention during the past, but no broad generalization could be formed regarding the actual nature and functioning of the rural credit market. This has raised many questions, such as:

How is the nature of participation of various categories of rural households in rural credit market?

What determines the rural households' access to formal loan?

Did the institutional credit reduce the indebtedness of the borrowers?

Is there any significant relationship between the access and repayment of institutional credit?

What are the factors responsible for non-repayment of loan?

By addressing all these questions the present research seeks to build a knowledge base about the structure and actual nature of operation of rural credit in Andhra Pradesh.

1.10 Objectives:

1. To analyse the Institutional Credit Growth and indebtedness in India from an agrarian perspective
2. To study the different types of borrowers; with different irrigation sources, access to credit, and their usage of the institutional credit in the agricultural sector
3. To analyse the determining factors affecting the borrowers to repay/not repay the loans, in selected villages.

1.11 Methodology

Prakasam District is selected to study the repayment performance of agricultural farmers. The district divided in to three Revenue Divisions which are 1. Ongole, 2. Kandukur and 3. Markapur. The irrigation sources of these three revenue divisions irrigation sours are predominantly Canal, Tank and Bore well (Rain) respectively. The study villages are selected such that they are from three different revenue divisions and also with different irrigation sources. The following villages are selected for the study, 1. Chinakotta Palli, which is irrigated under Canal, 2. Machavaram, which is irrigated under Tank and 3. Marrivemula, which is irrigated under Bore wells. All three villages have credit access from the banks, though the distance of access differed across the villages. The villages, Chinnakota palli and Machavaram villages are located 10 km away from the bank, while Marrivemula Village access to bank is at Markapur, which is 50 km away from the village.

1.12 Source of Data

To understand the existing agricultural credit structure and recovery performance of the rural banks in the country, the study uses secondary sources of data, which include the

RBI Publications, NABARD Annual reports, All India Rural Credit Surveys, All India Debt and Investment Survey, Statistical Statements Relating to the Co-operative movement in India (RBI and NABARD) and some Research studies. In addition, another source of data is through reference to the library and the review of different articles, papers and relevant previous studies. The primary data of this study has been collected from the sample villages in Prakasam District.

1.13 Hypothesis:

1. Production utilization of credit leads to proper repayment.
2. Institutional credit is not able to solve the problem of indebtedness of the rural borrowers.
3. Repayment practice is much better in wet areas than in dry areas.

1.14 Chapterisation:

Chapter I: Introduction

The present chapter is an introduction to provide a backdrop for the study. We have discussed the justification, objectives, data sources, and methodology and chapter scheme. In the background, we attempt to delineate a critical as well as a constructive description towards the role and relevance of credit for the agriculture sector in India and how its availability and repayment has long term consequences.

Chapter II: Review of Literature

Chapter two provides the theoretical underpinning of the study followed by a detailed and critical assessment of the existing literatures on credit and its impact on agriculture. This chapter has three parts. The first section explains about the different studies on the demand side evolution of credit, while the second section explains about the supply side evolution of credit. The final section discusses about the different studies on the recovery aspect of rural credit, with conclusions being provided on the extent of literature and research gap.

Chapter III: Institutional Credit Growth and indebtedness in India

The third chapter discusses in detail the growth of institutional credit and also the rise of indebtedness in India. The chapter gives a holistic view on the evolution of credit both during the pre and post-independence period. While dealing with the historical perspective, the evolution and growth of credit, ample details have been discussed on the predominant events like nationalization of banks and also on the different institutions in the credit system of India like scheduled commercial banks, regional rural banks and cooperative bank. While detailing on the different functions of the banks, the chapter also discusses the primary research question on why there is a great difficulty in the recovery performance of these banks. This research question would be primarily addressed in the next two chapters.

Chapter IV: Profile of the District and Sample Villages

Chapter 4 primarily discusses the background of the district, the importance of credit in the district and the growth or rural credit in the district. The chapter also discusses the methodology aspects of selection of study villages and role and importance of the villages. As a backdrop to the next chapter the important credit aspects of the villages are also examined in this chapter.

Chapter V: Repayment Performance of borrowers: Analysis of Sample Villages

This is the core chapter of the thesis where in the research questions are addressed and the hypothesis is teste. The source of this chapter is the data collected from households using a questionnaire format in the study villages. Data of different variables affection farmers in the loan repayment like size of the family, demography, education, education, land ownership and size and irrigation sources have been examined in detail. The chapter also discusses the prevailing cropping pattern and the production process in the study villages. Issues that address our primary research questions like awareness of instructions, different credit sources, indebtedness of the households and the major reasons for repayment/non repayment have been captured and examined at length in this chapter.

Chapter VI: Summary and Conclusion

The sixth chapter summarizes and concludes the results of the entire study. The major findings are elaborated and key recommendations have been made.

Chapter - II

Review of literature

2.0.1 Introduction

In this chapter an attempt is made to understand the critical and detailed review of the existing literature on credit and its impact on agriculture. This chapter has two parts. The first section studies about the demand and supply side evolution of credit using reports and surveys by the government, while the second section discusses about the different research studies on rural credit and the recovery aspect of rural credit.

Jayasheela and Birdar attempted to examine the problems of over dues and the reasons for non-repayment of loans disbursed under different schemes from the RRBs in Karnataka. The study revealed that, about 65 per cent of the beneficiaries had deliberately postponed the repayment of loans with the expectation that the Government would waive their loans in future. The study observed that borrowers did not get credit in time and this led to misuse of credit. Owing to cumbersome procedures followed by the RRBs in sanctioning loans, needy borrowers were forced to go to the private moneylenders than to the bank (Jayasheela and Birdar .R.R, 2000). The study showed that, there was lot of restrictions to get loans from Government institutions, especially during the seasonal time. So, people normally look for the moneylenders or private agencies for alternative sources of credit.

Agricultural credit increased after the banks nationalization in 1969. After this policy, change of nationalization of banks, systematic growth in institutional finance was visible and the percentage of non-institutional credit has declined" (Sandeep Kumar, July-Sept, 2002). During the nineties certain reforms and innovations have taken place which were conductive to agricultural growth, productivity and while at the same time are in favor of small and marginal farmers. Special agricultural credit plan scheme, changes in priority sector lending, Rural Infrastructure Development fund, *kisan* credit cards, setting up of local area banks, involvement of non-government organizations etc., are some of the important innovations in this regard. For effective financial assistance to the poor through self-help groups, the central government has given priority to coverage of self-help groups by banks with the help of NABARD. It is assumed that credit can help rural women to take up small enterprises thus adding to their household income.

In *The Indian Central Banking Report* (1931) attention has been drawn to study factors such as poverty arising from the social condition, climate and irregular income, extravagance, the growth of population, the opportunities to borrow because of money-lenders influence and the revenue system of a fixed demand. In the past, "*the most important reasons for the big debt were high interest rates and ancestral debt".* The debt burden assumed greater proportions, also because of the lack of distinction between short and long-term agricultural finance.

The Agricultural Finance-Sub-committee (1945) observed that, everywhere, debt repayment was an important reason for contracting new debt. Debt was incurred also because of social expenditure, consumer needs, and distress circumstances, while debt for capital expenditure was stated to be insignificant. The debt burden depended upon the time at which the survey was conducted. Such a burden may be very low at the end of a successful harvest. It must not be assumed that "*the absence of borrowing was a healthy* *sign in itself because freedom from debt might be as much a sign of lack of credit as of financial strength"*. The report concludes that, to cater for all types of rural credit, agricultural credit corporations (A.C.C.) should be set up in each province to deal with short and long-term loan applications of any individual agricultural producer.

Causes of rural indebtedness were classified into two types, a) 'Basic' and b) 'Alterable.' The basic reasons for indebtedness include the nature of the economy like weather, soil conditions and the size of land-holdings; the Alterable, reasons included, factors like, low-price, very high rate of interest, natural growth of population, litigation etc. The war – time debt was influenced by easy money conditions, high prices, the enactment of debt relief legislations, and sale of land and supplementary income due to war – time causes. To estimate the effects of land sales on debt liquidation, "*the total amount of debt that was liquidated between 1939 and 1945, was entirely due to a war-time rise in prices. In fairness, very little use was made of statistical tools to analyze Indian economic problems*" (*the Government of Madras Report*, 1946).The research concluded that the falling total rural indebtedness was valid for Madras State (1939 to 1945) alone and could not be generalized for rest of India. The general and common causes of borrowing were also witnessed at the village level. Such causes include low income and repayment, emanation from small and uneconomic land-holdings, mismanagement of family property, and expenditure on capital investment, which was used for improving land productive capacity and livestock.

In a first major effort after Independence, Reserve Bank of India set up a committee in 1951, to conduct a compressive rural credit survey; this is also known as '*All India Rural* *credit survey committee*. The survey found "*the dominant position occupied by the money-lenders in the system of rural credit" (RBI, 1952).* The total borrowings of the cultivators for the country as a whole for the year 1951 – 52 were estimated at Rs. 750 cores.

The Reserve Bank of India organized the first *Rural credit follow-up survey,* in 1956 – 57, in eleven districts namely; West Godavari (A.P), Gaya (Bihar), Mandsaur (M.P), Coimbatore (Madras), Broach (Bombay), East Khandesh (Bombay), Dharwar (maysore), Ferozepur (Punjab), Bikaner (Rajasthan), Etawah (U.P), and Nadia (West Bengal). These districts were selected from ten states in the country. In this survey, the rural credit system was studied in relation to two aspects, namely 'demand' and 'supply'. The main objects of the survey was "*to assess the working of the co-operative movement, and hence it decided to select at least ten villages from among those in which primary agricultural credit societies were located" (Rural credit follow-up survey, in 1956 – 57).* In the demand, side, and on the credit activity, it concluded that, the inter-district and the inter-regional differences in the level of credit transactions were much more marking in the case of big and large cultivators than in the case of medium and small cultivators. On the supply side, it is said that during the study period 1956-57, the private credit agencies continued to supply a major portion of credit availed by cultivators in most of the districts.

The Reserve Bank of India had conducted a series of annual follow-up surveys, though in moderate scope during 1957 – 58. Survey was conducted in 12 districts, namely; Burdwan (West Bengal), Moughyr (Bihar), Deoria (U.P), Jullundur (Punjab), Jaipur

(Rajasthan), Sagar (M.P), Sorath (Gujarat), Akola (Maharashtra), Nizamabad (A.P), Bangolore (Mysore), Chingleput (Madras) and quilon (Kerala). In 1958 – 59, it conducted survey in only five districtsnamely; Jalpaiguri (West Bnegal), Mirzapur (U.P), Hissar (Punjab), Ahmedabad (Gujarat) and Cuddapah (A.P). The main objective of the survey were to identify if there are a) any significant changes in the situation on the demand side of credit, including the outstanding debt and borrowings of different classes of cultivator, b) the nature of the performance of different agencies on the supply side of credit, c) any developments of importance, which may be taking place in the context of the larger socio-economic back ground of rural credit. The survey examined in detail the, *"credit operations, family expenditure, capital expenditure, capital formation and the role of co-operative societies" and f*ound that, a) the development of co-operative was uneven among the above selected districts, b) co-operatives proved to be the largest single source of organized credit. c) Repayments were reported by a sizeable section of the families generally in all the selected districts, d) the average debt per family increased over the survey year in all the districts which were by and large due to the greater spread of indebtedness.

The Reserve Bank of India set up the *All India Rural Credit Review Committee in 1966* to reassess the developments that had taken place in the field of rural credit since 1954. The committee submitted its report in July 1969. The major recommendation were; a) "*short term production credit should not be made dependent on the borrower's ability to provide mortgage loans*, b) *the establishment of new organizations, like, the rural electrification corporation for financing rural electrification and c) the small farmers development agency, designed to identify the problems of small farmers".*

The Central Government set up a committee under the chairmanship of B. Sivaraman to review arrangement for *Institutional Credit for Agriculture and Rural Development (CRAFICARD) in 1979.* The committee opined that "*the basic causes of rural poverty were the poor resources base of the rural poor".* The committee clearly knows that, there is a danger of credit becoming a burden, instead of being an instrument for the upliftment and hence suggested that, there was necessary a to do a proper identification of the beneficiaries, activity wise and area-wise and proceed to work out tailor made loans according to the needs of the specific areas and specific target groups. It also recommended that at the national level, all the co-operative institutions as well as the commercial banks have to be under the National Bank for Agricultural and Rural Development for an integrated approach.

Reserve Bank of India set up a *Agricultural Credit Review Committee in 1986*, chaired by A.M. Khusro, in pursuance of an agreement between the world bank and the Government of India. *The report was submitted in August 1989*" (RBI, 1989). The committee main recommendations are a) Re-determination of lending rates except for the re-defined priority sector borrowers subject to the ceiling of 15.5 per cent rate of interest, b) the merger of RRB's into the sponsored commercial banks in view of their intrinsic weakness and built-in non-viability, c) the creation of a national co-operative bank to function as the national apex bank for all co-operatives to provide leadership in banking operative sector and operate as a balancing center at the national level, d) concessional interest rates to be applied only to small farmers who were having land below five actors, and marginal farmers, who having land below two actors.

The Government of India set up a committee, under the chairmanship of M. Narasimham, in 1991, to review the financial system. The main recommendation of the committee were; a) elimination of concessional lending rates even for the priority sector and for Government sponsored programmes, like IRDP, *b)* on structure of rural credit institutions it suggested that, setting up of rural banking subsidiaries by the public sector commercial banks, which should combine the local character of RRB's and the resource skill and organizational/managerial abilities of commercial banks, to take over the rural branches of commercial banks, and where the RRB's and the sponsor commercial banks so desire, to take over the RRB's as well, c) those RRB's which wish to retain their identity should be allowed to engage in all types of banking business, but their focus should continue to be to lend to the largest group, so as to maintain at a minimum the present level of lending to the target group, d) on direct lending, it recommended that*, "the phasing out of all directed lending on the ground that the growth of agriculture and small industry has now reached a stage where the legitimate productive needs of these sectors could be met by bank's on the basis of the bank's commercial judgment"(RBI,1991).* The committee has suggested that, the priority sector to included small and marginal farmers, tiny industry, small business and transport operation, village and cottage industry, rural artisans and other weaker sections and re-fixation of credit target for this group at 10 per cent of aggregate bank credit, which was in line with the present credit flow to this group, f) the committee has further recommended a review at the end of three years to see if the directed credit programme as well as the concessional interest rate to the priority sector can be eventually eliminated. Through these committee recommendations, many changes came in financial system, which have mainly changed the rural credit system. It has given more importance to the rural banks, like commercial banks and regional rural banks, to develop credit facilities to the farmers.

Godgil (1986), in his article reviewed four major segments of farm credit market in India a) the major changes in farm credit policy since 1951, b) growth in credit since the induction of commercial banks into the field of rural credit, c) the performance of formal agricultural credit in relation to its contribution to agricultural growth and equity, d) the impact of above changes on the strength of credit institutions and their viability. He noticed two major changes in the credit system; a) *credit was no longer available for the purchase of land or redemption of debt or consumption (except the small component of credit for consumption built into the scale of crop loans) but for ostensibly productive uses, b) security for loans was subordinated to the anticipated repaying capacity generated by the productive use of credit itself"* (Godgil .M.V, 1986, pp-282-309). About growth in credit, during the period 1973 – 74 to 1982 – 83 he attempted made to examine empirically the extent to which the two processes have occurred over the period. The data showed, though a limited number of farm families have access to formal credit, the level of credit available to them has increased spectacularly and that the asset-debt ratio has moved in favor of the farmers during the last two decades. The study said that, if credit were to concentrate exclusively on non-small farmers in the interest of growth, the existing income disparities may tend to be even wider. About viability of agricultural credit, he referred that, there should be sufficiency of interest revenue from agricultural loans to meet the costs incurred by the lending institutions for dispensing such loans and to leave some surplus for building up reserves to bad debts and to develop the institutions themselves.

In the article "*The flow of agricultural credit with reference to inter-farm sizes bias of formal credit agencies"* Satya Sai, found that there is, an 86 per cent of the credit supplied by the institutional source and 14 per cent supplied by the non-institutional sources. The study also found that flow to institutional farmers was 63 per cent, while for small farmers it is just 21 per cent. However, with regard to medium and large farmers, it is 96 per cent in excess of requirement (Satya Sai. K.J.S, 1988, pp- 398-402). The author suggested that there is a need for re-directing of loan funds that are going to the large farmers to the small farmers.

Ranga Reddy (1990) estimated "*the problems of over dues on the basis of a micro level study of primary agricultural credit societies (PACs) in Guntur District of Andhra Pradesh during the period 1975 – 82"*.The main objectives of the study were to find out the major trends in the magnitude of over dues in twenty selected PACs of Guntur district covering one hundred and ninety two defaulters. The study found that, rural communities typically have a continuing demand for effective financial intermediation because of their heterogeneity. It said that the institutional credit and farm size are positively related in the district. The incidence of over dues was higher in commercial banks followed by co-operatives and regional rural banks. The study concluded that, due to several institutional developments, the organized sector dominates the rural credit scene as it accounted for nearly 63 per cent of rural credit. There was a marked variation in the rates of interest charged by institutional credit agencies and non-institutional agencies. Due to this phenomenon, institutional credit not only tends to concentrate but also results in a high degree of difficulty. To overcome the perennial over dues problems, he suggested that, a) charging differential rates of interest on willful defaulters, b) streamlining the management and strengthening the supervisory staff, c) re-structuring of working capital and d) promote legal action for improving the recovery.

Godgil (1992) in his research article studied "*the impact of the recommendations under three aspects: a) modifying the rural banking structure, b) interest rates on agricultural loans and c) directed programmers of rural credit which, if accepted, would influence the future agricultural credit system"* (Godgil .M.V, 1992, pp.255-265).The study mainly focused on the upward revision of interest rates on agricultural and other priority sector, (like rural industries) rural loans. The step-up in lending rates was likely to be healthier and may produce a greater real impact on output and employment, besides improving the health of credit institutions. The study said that, cheap and indiscriminate credit, which may end with the rationalization of interest rates and abolition of directed credit programmers, could not solve the rural people problems. The need for giving the RRB's a wider mandate may also vanish with the adoption of the new interest rate policy recommended by the committee. The study concluded that, the creation of rural banking subsidiaries by merging into them rural branches of commercial banks as well as the RRBs may not, perhaps be necessary, merely on grounds of viability, if interest rates were rationalized The study showed that, through the rationalization of interest rates, the banks variability can be achieved

Citing Khusro & Narasimha who studied the likely impact on the financial system in the future, the author said "*the committee report favored only a gradual deregulation of interest rates. Does not favor the abolition of direct lending, declining of the rural* *branches of public sector commercial banks and merging them into rural banking subsidiaries"* (Godgil .M.V, 1994, pp.476-490). With regard to examining of lending rates, the author states that a) it was only since 1990 that the movement in rates seems to have some economic rationale, through an element of populism was still discernible in the rate structure, b) the rates on farm loans have been positive, c) the margins do not appear adequate to make agricultural credit available activity for the credit institutions, d) a step-up in the rate of interest on refinance, may adversely affect private fixed capital formation in agriculture, e) farmers can afford to bear higher interest rates if the quality of credit improves. Talking about the future role of NABARD it is agreed that; a) the demand for crop loan refinance will grow due to the extremely low rates on such refinance, b) the total supply of investment credit for agriculture was likely to fall short of demand, leading to reduced capital formation in agriculture, c) owing to its access to large amounts of cost-free resources accumulated in the past, profits in the future despite the low rates on refinance

Singh &Verma (2002), critically examined, "*the impact of credit advances on main crops and milk production enterprises in Soraon block of Allahabad district of Uttar Pradesh for the period 1999 – 2000 to 2000 – 2001"* (Singh R.B, Verma .S.C and GovindBabu, 2002).The research presented a comparative economic analysis of the farm business as a whole for the pre-and post-borrowing conditions of farms under different size-groups of holdings. The per-hectare input cost gross income; family labour income and farm business income were found to be higher in post-borrowing conditions of the farms. Amongst different input items, human labour accounted for the highest share, followed by bullock labour, manures and fertilizers and irrigation in the total cost in both situations. In the post-borrowing conditions credit advances made for different purposes have direct/indirectly resulted in a significant increase in agricultural development, especially in the level of income and employment on different size-groups of farmers.

Rashid Khan &Tewari (2002) in their article examined the gap between changing agricultural credit requirement and flow of institutional agricultural credit in nominal and real terms at all India level. The study also examined the extent of inter-state disparities in the flow of institutional agricultural credit. Using data published for the period 1980-81 to 1999-200, the study established the relationship of short-term agricultural credit flow with average cost of cultivation across 17 agriculturally important (Aminur Rashid Khan and Tewari .S.K, 2002). The results showed that agricultural credit gaps are rising both in nominal as well as a in real terms since the mid-eighties. The increase in credit gaps in real terms has been less severe due to improving terms of trade for farmers. The rate of increase in credit gaps is comparatively lower in the post-liberalization period. The interstate disparities in per hectare flow of institutional agricultural credit gaps increased significantly during 1980 – 81 to 1990 – 91 and these disparities did not deteriorate till 1995 – 96, but increased slightly in 1996 – 97. Therefore, concerted efforts are needed for widening and deepening of institutional short-term credit to keep pace with the rising cost of cultivation in agriculture.

Agrawal Puhazhandhi&Sateya Sai (1997), attempted "*to review the rural credit structure, performance and problems keeping in view of the challenges posed by the latest developments in agriculture and the economy"* (Agrawal .K.P, Puhazhendhi .V and Satya Sai .K.J.S, 1997, pp.2717-2727). In this analysis, they found thatfrom time to time rural credit has been sought to be strengthened by reinforcing rural credit structure with new institutions. When co-operatives failed to live up to expectations, commercial banks were added and then to ensure equity in credit delivery RRBs were included and now came the proposal of private local area banks and linking with Self-Help Groups (SHG's). They argued that, restructuring of rural credit system by way of relationship-shifting or adding new entities and making some changes here and there did not help to remove the ills of the rural credit system. The study highlighted the role of NABARD which has been implementing since 1991-92, a supplementary credit delivery mechanism for rural poor keeping both NGO's and SHG's as an financial/non-financial intermediaries. One of the measures suggested to revamp the rural credit system is to link SHG's with the formal credit system in order to improve the access of the resource poor to credit and to reduce the transaction cost of the formal system. The study concluded that, on the one hand, market driven economy with capital-intensive technology might prepare increased demand for credit in agriculture and rural development. This situation may lead to restricting the reach of credit to the poor further. This called for strengthening the credit structure either by nursing the existing system or by reinforcing with new entities such as SHG's. Increasing the outreach of credit and maintaining the viability standard of the institutions must be the priority for strengthening the existing credit delivery mechanism. The priority sector lending will provide for higher share of credit to rural poor.

Subrata Ghatak (1975) attempted to study on the Rural Money Market System, which was important segment of the Indian economy. The major objectives of the study are, a) *to investigate the nature, composition and working of the organized and unorganized* *money markets, b) to examine the factors affecting the demand side of agricultural credit, interest rates, c) to discuss the working of the major organized agencies* (Subrata Ghatak, 1975). The analysis depended upon data from various source, like All India Rural Credit Survey 1951 – 52, Rural Credit Follow up Survey 1956 – 57, All India Debt and Investment Survey 1961 – 62. The study found that, the Indian rural money markets have distinctly dual character, as it was divided between the organized and unorganized sectors. The unorganized financial agencies, particularly the moneylenders were strong in the supply side. At that time of the study it is found that they supplied 70% of total rural credit. The existing belief about the unproductive use of loans by Indian cultivators, particularly for family consumption has not been substantiated in the study. It appears that capital rather than family expenditure was the most significant explanatory variable affecting both borrowing and debt in most periods. The study concluded that, there has been considerable expansion of lending by the institutional lending agencies to agriculture, particularly in the high yielding variety (HYV) areas. The demand for credit in some areas was still low because of resistance to new technology. The solution may lie in credit supervision, spread of information and land reform. In some districts the co-operative credit plays a significant role in the adoption of those crops, where the degree of risk was fairly high. However, the study findings are confined to changes only at the macro-level and not at the micro level.

Subba Rao (1979) critically analyzed "*the relative share of different size groups in the total amount of co-operative credit and bank credit separately in different states of the country"* (Subba Rao K, 1979). The study found that, in the case of short-term co-operative credit disbursed over the period 1971 – 72 to 1975 – 76 to small farmers the share of short-term co-operative credit declined in Andhra Pradesh, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, and Rajasthan. In some States like Orissa, the corresponding share of the small farmers has increased from 17.5 per cent in 1971 – 72 to 19.5 per cent in 1975 – 76. In the case of bank credit, the study found that, even though in all the states absolute amount of advances by commercial banks increased during the period 1969 – 1977, inter-farm size inequalities existed. This study showed that, after the nationalization of Banks, the institutional credit was increasing.

The performance of five Gram Panchayat level Samabay Co-operative Samities (GPSS) of Dibru Garh District, Assam, has been studied by Dutt (1991). The study primarily discussed "*the social bases of GPSS leaders, solicitation and vested interest in GPSS, the role of GPSS in rural development and constraints faced by the GPSS in rural development, besides giving an overview of the co-operative movement in Assam"* (Dutt S K, 1991).Findings showed that the factors like upper caste, land holdings, income and occupation was on the decline and being replaced by the factors like education, social participation, political background etc. Study found that, politicization of vested interest through giving paid employment to near relatives; granting liberal loans and non-recovery of over dues by concealing the truth were not noticed in these five GPSS. The study suggested that to improve the quality of the management office of chairman ship or Vice-chairmanship should not be allowed to assume their office without necessary training.

Deepak Shah (2002), study evaluates *"the organizational, operational and financial viability of the co-operative credit societies affiliated to the district level institutions"* in

Kolhapur District of Maharashtra (Deepak Shah, 2002). The operational efficiency was measured in respect of various liquidity ratios, profitability ratios and financial average ratios. The most important ratio estimated in this study was the return on owner's equity of the selected societies, which was seen to fall sharply during the post-economic reform period. The return on owner's equity was a function of as to how efficiently a firm manages its own equity of the selected societies could be considered as sign of reduction in the efficiency of the societies in managing their assets and liabilities. The study showed that, a reduction in the operational efficiency of the selected primary agricultural co-operative credit societies (PACSs) during the post-economic reform period as against the pre-economic reform period.

Desai and Nambodiri, critically examined the performance of rural financial institutions by analyzing the data for the period 1960 – 61 to 1980 – 81. The study covers the three-tier, co-operative financial institutions namely; Co-operative Land Development Banks, Scheduled Commercial banks, Regional Rural Banks and Rural electrification corporations. The study found that rural loans and deposits each as percentage of agricultural output and value added has continuously improved during the study period. The annual compound growth rate was over 18 per cent for rural deposits 13 percent for rural loans and 12 per cent for agricultural loans. There was positive association between these two, separately, with various operation of institutional rural finance system, such as banking infrastructure, rural deposits, and different types of loans of agricultural credit societies (Desai .B.M and Nambodiri .N.V, 1991). This study revealed that all financial institutions except Primary Agricultural Credit Societies (PACS) prevailed under constant return to scale in their transaction costs during all the years under reference.

Regional Rural Banks contributed greatly to the development of banking habits among the rural people through extensive branch banking and better service to the customers. The outstanding credit had increased rapidly and the credit-deposit ratio of these banks was commendable (Krishna .C, 1990). Study reveals that, after the RRB's came in to existence, there was increased awareness among rural people regarding getting credit loans from the banks. This is because these banks main activities were to improve the credit facilities to rural people. He observed that Regional Rural Banks, which had spread over almost every nook and corner of the country, played a vital role in the uplifting of the rural economy. The study showed that, the advances of Regional Rural Banks were diversified to different sectors and they brought about a significant change in the rural economy (Goswami S.N, 1992). This study argued that, the RRB's did an important role to developing the rural economy through the credit policies.

Satish P and Gopalakrishna C.K (1997), examined about the viability of banking with regard to the issue of transaction costs. Financial institutions must cover the administrative costs (essentially salaries and establishment expenditure) taxes, the cost of capital and losses from default. The study argued that, the viability of any unit of banking including rural banking was a function of generating sufficient spreads and margins to cover the transaction costs and the risk costs. The transaction cost itself was a function of volume of working funds. The risk cost was a function of default rate or overdue rate. The study found that, at the macro-level proportions of assets and liabilities are feasible proportions for each of the rural financial institutions. All the rural financial institutions are intrinsically viable (Satish .P, Gopalakrishna .C.K, 1997, pp.2711-2716). The study concluded that, there was nothing intrinsically non-viable about rural banking operations or rural financial institutions as such. The non-viability of rural banking has also been based on a viewpoint at the international level that the past approach to rural credit institutions was ill founded and has led non-viability of RFIs. At present, in the Indian financial systems, there was no favoring cheap credit to farm sector from the public sector.

Study by Raja Rao, A (1996), found that the credit granted by the Nagarjuna Gramena Bank to small businesspersons, marginal farmers, small farmers and rural artisans had a favorable impact on the income and employment position (Raja Rao .A, 1996). Study showed that, through increasing credit facilities, the income and employment opportunities were increased, especially in marginal and small farmer’s case. However, they did not reach their targets.

Narayana Reddy (1992), attempted to find out the incidence of different types of linkages prevalent in developing village and backward village. The study was based on two villages of Guntur district in Andhra Pradesh. The study revealed that incidences of interlinked transactions were less in the developed village compared to the backward village. The study found that 50 per cent of the total credit transactions in the developed villages involved labour and constituted one-fourth of the total informal credit and 50 per cent of cases involved cash constituting three-fourths of the total informal credit. In the backward village 58 per cent cases involved input market constituting 62 per cent of the total credit, while input to output and cash to cash constituted 25 per cent and 13 per cent of the total informal credit respectively (Narayana Reddy .M.V, 1992). The study observed that informal interlinked credit transaction in the developed village was advantageous to the weaker sections of the developed village.

After Independence, Government of India established many credit institutions, and conducted annual surveys through the establishment of co-operative, commercial banks and RRB's. The institutional credit increased sharply, particularly after green revolution period. Presently these are contributing 80 per cent of the credit, which is using mainly for production purpose. The co-operative banks contribute more credit, than the other banks. Nearly 40 per cent of credit is coming from the co-operative banks. The activity of commercial banks has gradually been decreasing. The RRB's play's a positive role for agricultural development. The study shows that, agricultural production increased through the growth of institutional credit, when they gave loans mainly for productive purpose. However, in some times, it is misused, like; some people took loans for paying their old burdens. Many studies proved that, without other facilities like, irrigation, water wells, modern and technology, skilled labour, the credit would not increase the agricultural production.

Mihir Shah et al., (2007) article on Rural Credit in 20^{th} Century India, provide a historical perspective of changes of rural credit in India. Given that there is still predominance on the dependence on usurious moneylenders and the operation of a deeply exploitative grid of interlocked, imperfect markets the author's opinion that the rural Indian credit market has a remarkable continuity in the problems faced throughout the 20^{th} century. The study notes the role played by the RBI through its policy of "social coercion" which through licensing and targets was a successful in forcing banks to open branches in hitherto unbanked locations. Citing Tobin's (1970), the authors propose to include "rural credit" along with education and medical care for *"Egalitarian Distribution"* in order to limit the domain of inequality, as lack of credit to rural credit has certainly been one of the factors depressing growth in agriculture in the 1990s, which is today regarded as the main drag on the Indian economy. They note that un-regulated MFIs as a solution can be a potential disaster. The authors suggest that suggest that the Microfinance Institution (MFI) model is unsustainable and might actually end up worsening the situation for the poor, while the Self-Help Group-Bank Linkage (SBL) approach has the potential to make a decisive impact on security and empowerment of the most disadvantaged.

The research report by Tapas Kumar Sarangi (2011) examined, debt situation of the rural people and their indebtedness towards different sources of credit available in the rural market in the light of micro finance institutions. The study has been done using household sample survey in the state of Andhra Pradesh, covering 24 villages in three predominantly tribal districts; Khammam, Mahabubnagar and Warangal. The study focuses on studying the financial position of rural households and their access to credit and in that light observe the utilization and repayment of credit and collection practices followed by the credit providers.

The study found a high rate of indebtedness (80 per cent) across all occupational segments of rural households. The rate of indebtedness is even higher among landless and marginal farmers (90 per cent), who incidentally had a lower share of the institutional loans than the other larger farmers. The study found that unhealthy competition among the micro finance institutions led to a competition for clients, which has in turn contributed to over-indebtedness as people started to borrow from multiple sources. The study found that an average of four loans has been borrowed per household at overall level in Andhra Pradesh. In order to reduce the indebtedness the study suggested increasing the income of rural households in the long run by generating employment and increasing productivity in the state. The study also recommends that there should be continuously monitor the functioning of non-institutional sources of finance, while at the same time strengthen the functioning and lending procedure of the commercial banks and cooperatives should be strengthened. Insurance should always be attached with all kind of borrowings.

Srinivasa Rao and Priyadarshini (2013), in their article examined the role of micro finance as an alternative source of rural credit. The study observed the nature and problems of rural credit in the Indian context, establishing the relationship between micro finance and rural credit. Major findings of this study explore the relationship between rural credit and microfinance instead of non-institutional sources of rural credit. The impact of microfinance has resulted in declining on burden of rural debt, as the share of money lenders and other non-institutional contribution in terms of lending to farmers, poor and women borrowings has gone down wards. Another important impact of micro finance programmes is that reduction of income and consumption disparities, especially vulnerable sections of the society who are now benefiting from collateral or guarantee free.

Chapter – III

Institutional Credit Growth and indebtedness in India

3.0.1 Introduction

Credit in India comprises of formal or institutional sources and informal or non-institutional sources. Formal institutional sources consist of Government, co-operatives, commercial banks and regional rural banks. The informal sector consists of moneylenders, landlords, traders, commission agents, relatives and friends. The formal credit institutions are organized by the Government or with involvement of Government bodies and subject to 'regulation' under the provisions of the Banking Regulation Act as well as the RBI. It is highly 'institutional' in character with its large-scale operations, which are highly complex involving various formalities and procedures. Many a times they provide credit at a concession rate of interest. On the other hand informal credit institutions are not subjected to the regulations of Government. The informal credit institutions are characterized by 'non-institutional' and personalized operations. These institutions are flexible in their operations with simple procedures and link credit with non-credit activities; the rates charged vary from interest free loans to exorbitant rates.

The main objective of this chapter is to have a clear understanding about the growth of institutional credit in India. This chapter is divided into three parts: the first part analyses the expansion of institutional credit since independence from the supply side, while the second part analyses it from the demand side. The final section gives concluding observations on this chapter.

Over the past four decades, the rural credit scenario has observed significant changes. The Review of Rural Credit Reports (1954, 55) and various rounds of All India Debt and Investment Survey (AIDIS) (1967, 1977, 1986) also show the changing profile of rural indebtedness in the country. The objective of the rural credit policy in India since 1951 is to enlarge the role of institutional credit agencies. Government and RBI took many steps in this direction like setting up of cooperatives, Regional Rural Banks, creation of NABARD, and aiding in the formation of self-help groups. The policies might be changing from time to time but the ultimate objective is to increase the share of the institutional credit in the rural areas (Reserve Bank of India, 1989). Due to these policies, the share of institutional credit raised from 7.1% in 1951-52 to 66.3% in 1991. This policy objective has only received partial success in this direction, because even now the non-institutional sources are playing vital role in the village credit market

3.0.2 Supply side evolution

In supply side, we examine the phenomenal expansion of institutional credit since Independence. We first review the rural credit approach, undertaken by various banking agencies by studying the data relating to the amount advanced and policies formulated. We classify the entire time period into four phases based on the type of policy used in particular time.

In first phase the main objective is to improve credit facilities (availability) to the poor and reduce usurious rates of interest and the exploitation that goes with it. Before 1951, majority of the rural credit supply was in the hands of informal sources like moneylenders. According to report All India Rural Credit Survey (1951-52), only 6.4% of quantum of agriculture credit was in the hands of cooperatives and government

(*Reserve Bank of India, 1955, p.5*). Below table shows the share of various credit agencies in 1951-52 (see Table-3.1).

Table – 3.1

Proportion of Amount Borrowed by Cultivators from Different Agencies.

(Percentage)

SL.No	Amount Borrowed from	AIRCS(1951-52)
1.	Government	3.3
2.	Co-operatives	3.1
3.	Commercial banks	0.9
4.	Landlords	1.5
5.	Moneylenders	69.4
6.	Traders and Commission Agents	5.5
7.	Relatives	14.5
8.	Others	1.8
9.	**Total**	**100.0**

Notes: *AIRCS: All India Rural Credit Survey* (1951-52)
Source: *Reserve Bank of India*, 1969.

The table shows that, only 7.3% of credit is being contributed by the institutional sources, while the remaining 92.7% of credit is contributed by the non-institutional sources. Out of the total non-institutional credit again, money lenders have the highest share (69.7 per cent), followed by relatives (14.5 per cent) and traders and commission agents (5.5 per cent).

The Report on Credit Survey (1954), recommended that cooperative credit was the most appropriate agency for the supply of rural credit. Based on report, the government and reserve bank put special affords to strengthen the cooperatives by providing financial support to them. The major emphasis was given to support the targets of agriculture production and hence greater importance was given to short and medium term loans. The short term loans are to meet the working capital needs of farmers for a maximum of one year and with interest rate of 11.5% while the medium term loans were provided for the purchase of agriculture implements, like digging of wells, diesel engine, horticulture etc. for which loan amounts to a maximum limit of Rs.10, 000 with 11% rate of interest. A major part of long-term loans given by land mortgage banks was for the farmers by freeing the land mortgaged by them to the private moneylenders (*Report on Credit Survey, 1954)*. These apart, long-term loans were also given by Primary Cooperatives, Land Development Banks (PCLDBs) for the purchase of tractor, pump sets, land leveling etc. with the duration of 5 to 10 years at 9.5% rate of interest.

Due to the implementation of RCS (Report on Credit Survey) recommendations, the share of cooperatives increased tremendously. It rose from 3% in 1951 to 15.5% in 1961 at the all India level. Below table shows the share of various credit agencies in 1961 (see Table-3.2)

Table – 3.2

Operation of Amount Borrowed by Cultivators from Different Agencies (1961-62)

(Percentage)

SL.No.	Amount Borrowed from	AIRDIS (1961-62)
1.	Government	2.6
2.	Cooperatives	15.5
3.	Commercial banks	0.6
4.	Landlords	0.6
5.	Moneylenders	49.2
6.	Traders and Commission agents	8.8
7.	Relatives	8.8
8.	Others	13.9
9.	Total	**100.0**

Notes: *AIRDIS: All India Rural Debt and Investment Survey* (1961-62)
Source: *Reserve Bank of India* (1969)

Above table shows that the share of moneylenders decreased from 69.7% in 1951-52 to 49.2% in 1961-62, while the share of cooperative credit has increased from 3.1% in 1951-52 to 15.5% in 1961-62. However, the share of other informal agencies, increased like traders, commission agents and others has also (*Reserve Bank of India, 1954*). With regard to Andhra Pradesh (A.P), the amount of agricultural credit from cooperatives increased from Rs.43.33 lakhs in 1951 to Rs.145.69 lakhs in 1961, but private moneylenders continued to be predominant (*op.cit, 1962*).

All India Debt and Investment Survey (1991) revealed that expenditure continued to be the major purpose accounting for almost half of the total borrowings. The recommendations of the report included the establishment of large size Primary Agriculture Credit Societies (PACSs), and financial and technical strengthening of rural cooperatives. In 1963, agriculture refinance corporation (ARC) was established with a view to supplement medium-term and long-term finance to credit institutions (State Cooperative Banks, Central Land Development Banks and Scheduled Commercial banks) to finance private fixed capital formation in agriculture like, reclamation and preparation of land, soil conservation, mechanized farming, dairying.

The below table - 3.3 shows the source of outstanding loans of cultivator households in rural India over the years. It can be clearly seen that the share of institutional credit has risen over the last few decades as it grew from 31.7 per cent in 1971 to over 61.1 per cent in 2002. However when we closely look in to the data, the increase in share can be observed only during the period between 1971-1991 as it increased by double from 31.7 per cent to 63.2 per cent in 1981 and 66.3 per cent during 1991.

Table – 3.3

Distribution of Outstanding Loan of Cultivator Households by Source (Rural) (Per Cent) (1971, 1981, 1991 and 2002)				
Credit agency	**1971**	**1981**	**1991**	**2002**
Government	7.1	3.9	5.7	1.7
Co-operative societies/Banks	22	29.9	23.6	30.2
Commercial banks	2.4	28.9	35.2	26.3
Insurance	0.1	0.3	0.2	0.3
Provident fund	0.1	0.2	0.5	0.2
Other institutional agencies	-	-	1.1	2.4
All institutional agencies	**31.7**	**63.2**	**66.3**	**61.1**
Landlords	8.1	3.6	3.7	0.9
Agriculturist moneylenders	23.0	8.3	6.8	9.9
Professional moneylenders	13.1	7.8	10.7	16.9
Traders	8.4	3.2	2.2	2.6
Relatives and friends	13.1	8.7	4.6	6.2
Others	2.6	5.2	2.6	2.4
Unspecified	-	-	3.1	-
All non-institutional agencies	**68.3**	**36.8**	**33.7**	**38.9**
All agencies	100	100	100	100

Sources: *NSS 48th Round, Report No. 420, Indebtedness of Rural Households as on 30.06.91, Debt and Investment Survey, 1992; NSS 59th Round, Report No. 501, Household Indebtedness in India as on 30.06.2002, All India Debt and Investment Survey, 2003.*

The decade of 1991-2002 depicts a sharp fall in the share of institutional credit as it fell from an all-time high of 66.3 in 1991 to 61.1 per cent in 2002. A break up of institutional credit source shows that while the share of government has drastically decline from 7.1 per cent during 1971 to just 1.7 per cent during 2002, however the share of cooperatives continued to be the backbone for credit for rural cultivator households as its share rose from 22.0 per cent to 30.2 per cent during the same period. Nevertheless, the role of commercial banks started to increase post 1981 as their share drastically rose to 28.9 per cent in 1981 and 35.2 per cent in 1991, from a meagre 2.4 per cent in 1971. However post reform period the share of commercial banks has also started to witness a sharp decline as it fell by 10.0 per cent from its all time high of 35.2 per cent in 1991 to 26.3 per cent in

2002. With regard to non-institutional credit, all the segments have witnessed decline in share, with the highest decline in share being recorded for agriculturalist money lenders whose share fell from 23.0 per cent in 1971 to 9.9 per cent in 2002. Share of landlords declined from 8.1 per cent to 0.9 per cent, while that of relatives and friends also fell from 13.1 to 6.2 per cent between 1971 and 2002 respectively. However, it is interesting to note that the post reform period has observed an uptick in the share of professional money lenders whose share rose to an all-time high of 16.9 per cent from 10.7 per cent in 1991. In fact share of most of the non-institutional credit sources have observed an uptick during the post reform period, given that the share of commercial banks role has started to come down.

Table – 3.4

All-India Agency-wise Ground Level Credit Flow (Rs Crore) (2006–07 to 2011–12)

Agency	**2006–07**	**2007–08**	**2008–09**	**2009–10**	**2010–11**	**2011–12 (P)**
Co-operative banks	42,480	48,258	45,966	63,497	78,007	86,185
Regional rural banks	20,435	25,312	26,765	35,217	44,293	54,239
Commercial banks	166,485	181,088	228,951	285,800	345,877	368,616
Total	**229,400**	**254,658**	**301,908***	**384,514**	**468,291****	**509,040**

Note: P: Provisional; * includes Rs 226 crore by other agencies; ** includes Rs 114 crore by other agencies.

Sources: *NABARD Annual Report, 2010–11, 2011–12, website (https://www.nabard.org/english/allpublication.aspx, accessed on 11 April 2013).*

The all India wise flow of credit from different institutional sources over the last 6 years is given the above table – 3.4. The growth rate of the flow of credit flow shows that commercial banks are lagging behind others over the years.

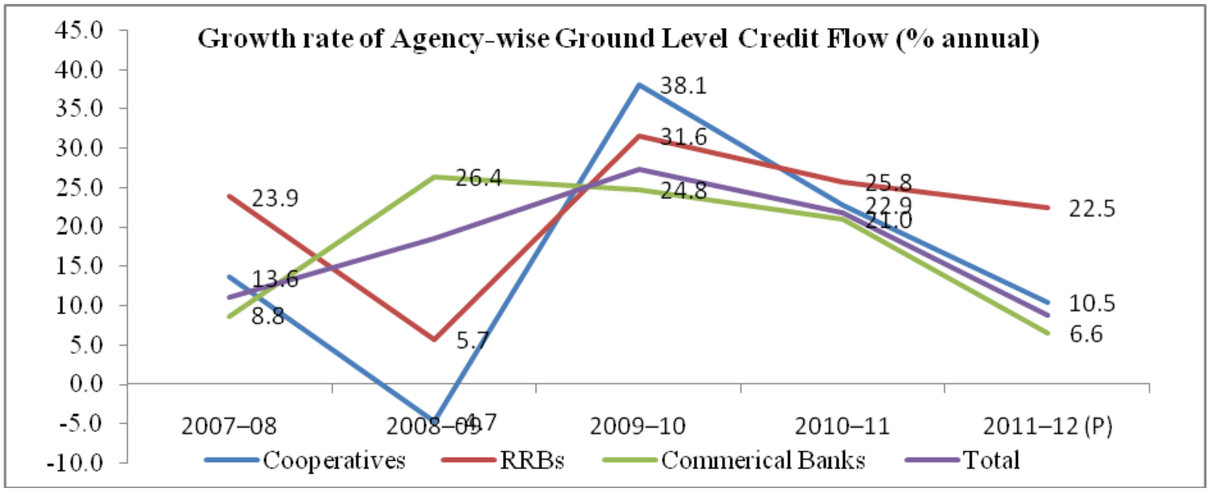


Table – 3.5

All-India Sectoral Deployment of Gross Bank Credit (Rs Billion)					
Sectors	**Outstanding as of**		**Percentage variation**		**% share to total**
	March 2011	**March 2012**	**2010–11**	**2011–12**	**2011–12**
Agriculture and allied activities	4,603	5,226	10.6	13.5	12.0
Industry	16,208	19,659	23.6	21.3	45.0
Infrastructure	5,266	6,191	38.6	17.6	14.2
Micro and small industries	2,291	2,592	11.0	13.1	5.9
Services	9,008	10,330	23.9	14.7	23.6
Trade	1,863	2,209	13.2	18.6	5.1
Commercial real estate	1,118	1,205	21.4	7.8	2.8
Tourism, hotels & restaurants	277	313	42.9	12.9	0.7
Computer software	151	154	20.3	2.1	0.4
Non-banking financial companies	1,756	2,218	54.8	26.3	5.1
Personal loans	6,854	7,683	17.0	12.1	17.6
Credit card outstanding	181	204	-10.2	12.9	0.5
Education	437	502	18.6	14.8	1.1
Housing (including priority sector housing)	3,461	3,880	15.0	12.1	8.9
Advances against fixed deposits (including FCNR [B], NRNR Deposits, etc.)	605	685	24.4	13.2	1.6
Total non-food gross bank credit	**36,674**	**42,897**	**20.6**	**17.0**	**98.1**
Total gross bank credit	**37,315**	**43,714**	**20.8**	**17.1**	**100.0**

Notes: *Percentage variation could be slightly different as absolute numbers have been rounded off to Rs billion. Components may not add up due to rounding off numbers of Rs billion. FCNR (B): Foreign Currency Non-Resident (Bank); NRNR: Non-Resident Non-Repatriable.*

Source: *Report on Trend and Progress of Banking in India 2011–12, Reserve Bank of India, 2012, website (http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0TPB021112FLS.pdf, accessed on 1 May 2013).*

The above table – 3.5 gives a glimpse of the all India sectoral deployment of gross credit. Looking at the share of total bank credit we can clearly observe that the share of bank credit to agriculture sector is around 12.0 per cent of its total lending as compared to 45.0 per cent to industry, 23.6 per cent to services, 17.6 per cent to personal loans and 14.2 per cent to infrastructure.

The second phase is spread around for fourteen years from 1969 to 1983. In this phase we observed a phenomenal change in the rural credit structure. The government of India took a multiphase credit approach. The main reason behind this was due to the introduction of high yielding variety of seeds in agriculture, which in turn increased the farm expenditure of the agriculture households. The existing cooperatives were unable to face this new demand with their existing resources. So, the committee recommended the adoption of multi-agency approach, which led to the social control on commercial banks and nationalization of 14 major banks in 1969 (*All India Rural Credit Review Committee, 1969*). Thus, the commercial banks were included in the field of agriculture credit and they provided short-term loans for seasonal agriculture operations as well as for irrigation facilities, mechanization of farms and all other production needs of the farmers. The commercial banks also advanced interest loans like gold loans, credit to traders for procurement and storage of fertilizers, pesticides and agriculture produce (Reserve Bank of India, 1969). This resulted in an enormous increase in the supply of bank credit to agriculture sector. The immediate impact of this expansion i.e. the loans included in the commercial banks resulted the decline in the share of non-institutional sources as can be observed in the earlier tables.

With these results the commercial banks direct advances increased rapidly from 54 crores in 1969 to 7,030.13 crores in 1981. Below table – 3.6 shows that the direct loans advance increase from 134 crores in 1969 to 927 crores in 1981 (see Table-3.3). Even in Andhra Pradesh these loans increased from Rs. 462 lakhs in 1975-76 to Rs. 1,177 lakhs in 1980-81. The Primary Land Development Banks (PLDBs), loans advances were increased from Rs.21.crores to Rs.56 crores, while in the case of cooperative land development bank; these direct loan advances increased from Rs. 31 crores to Rs. 181 crores (Reserve Bank of India, 1986). With regard to the Central Cooperative Bank it increased from Rs.34 crores to Rs.177 Crores in the same period.

During this period several programs for the elimination of rural poverty (e.g. small farmer's development agency, intensive rural development program and drought prone area programme) were launched with credit as the main instrument for their implementation. New institute like National Bank for Agricultural and Rural Development (NABARD) and Regional Rural Bank (RRB) were created to increase supply of formal credit to the poor sections of the rural community. The RRBs were setup on the realization that the high cost profile of commercial banks was not conductive to meet the credit needs of the rural population, especially among the weaker sections *(All India Debt and Investment Survey 1991)*. These banks are having the feature of both the commercial banks and cooperatives like low cost and professionalized staff and offered their services confined to a specified districts.

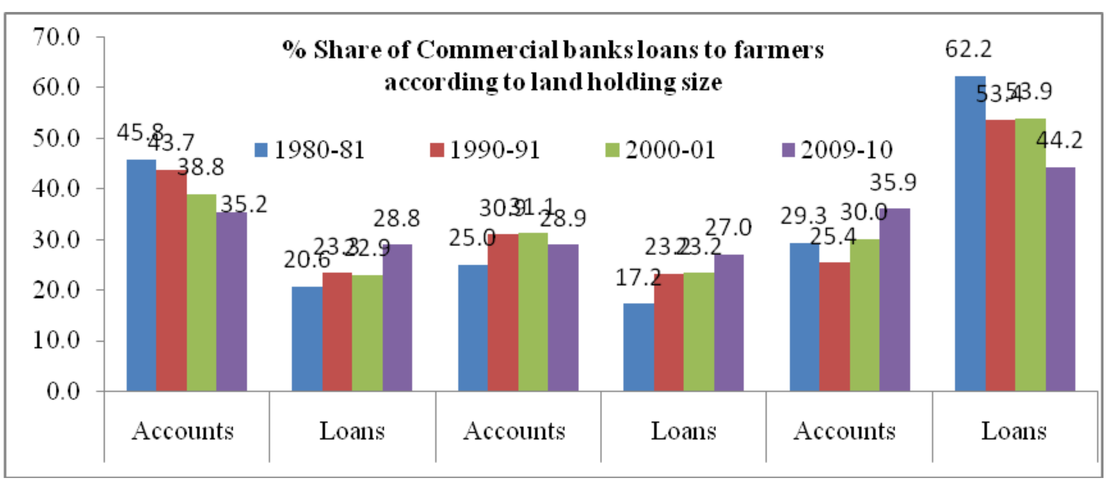
Table – 3.6

All-India Scheduled Commercial Banks' Direct Finance to Farmers According to Size of Landholdings (Outstanding) (Short-term and Long-term Loans)								
Year (End-June)	Marginal farmers (Up to 2.5 acres)		Small farmers (Above 2.5 acres to 5 acres)		Medium and large farmers (Above 5 acres)		Total	
	No. of accounts ('000)	Amount (Rs billion)	No. of accounts ('000)	Amount (Rs billion)	No. of accounts ('000)	Amount (Rs billion)	No. of accounts ('000)	Amount (Rs billion)
1980–81	3,017	4.8	1,645	4.0	1,931	14.5	6,593	23.3
1981–82	3,202	6.1	1,821	5.1	2,119	17.2	7,142	28.4
1982–83	3,573	7.6	2,147	6.7	2,504	19.6	8,224	33.9
1983–84	4,029	9.5	2,564	9.1	2,414	24.4	9,007	43.0
1984–85	4,397	11.6	3,001	11.6	2,649	29.4	10,046	52.6
1985–86	5,104	15.3	3,557	14.8	3,135	36.8	11,796	66.9
1986–87	5,227	16.8	3,707	16.8	3,116	40.2	12,050	73.9
1987–88	5,871	20.1	4,190	20.4	3,542	50.3	13,603	90.9
1988–89	6,073	23.2	4,354	23.1	3,593	54.6	14,020	101.0
1989–90	6,082	27.3	4,351	26.7	3,706	64.9	14,140	118.9
1990–91	6,137	28.9	4,346	28.7	3,563	66.2	14,045	123.9
1991–92	6,063	32.4	4,439	30.5	3,669	70.6	14,170	133.5
1992–93	6,057	34.4	4,460	33.3	3,878	74.4	14,395	142.1
1993–94	6,007	36.0	4,282	34.1	3,637	79.0	13,926	149.1
1994–95	5,463	38.9	4,047	36.6	3,492	83.6	13,002	159.1
1995–96	5,557	43.3	4,255	43.0	3,461	92.7	13,273	178.8
1996–97	5,296	48.9	4,219	50.3	3,575	104.7	13,090	204.0
1997–98	4,890	50.6	4,034	54.4	3,354	117.5	12,278	222.5
1998–99	4,408	55.1	3,711	56.8	3,389	126.5	11,507	238.4
1999–00	4,544	61.8	3,777	64.5	3,379	147.2	11,700	273.5
2000–01	4,600	72.1	3,689	73.1	3,555	169.6	11,844	314.9
2001–02	4,902	87.6	3,961	96.9	3,394	190.8	12,257	375.3
2002–03	4,749	98.1	4,092	113.2	3,835	238.3	12,676	449.6
2003–04	6,086	148.0	4,806	139.7	4,377	287.9	15,268	575.6
2004–05	7,299	205.0	5,874	207.6	5,274	372.2	18,447	784.8
2005–06	8,239	297.2	6,677	292.6	6,321	527.7	21,237	1,117.4
2006–07	9,954	373.4	7,548	378.2	6,985	648.1	24,487	1,399.6
2007–08	11,345	464.6	9,512	466.3	8,739	809.6	29,596	1,740.4
2008–09	11,708	602.0	9,570	597.9	10,884	993.5	32,162	2,193.4
2009–10	17,321	779.5	14,220	729.2	17,657	1,195.0	49,198	2,703.7

Note: *Outstanding loan is principal+unrecovered interest.*

Source: *Handbook of Statistics on Indian Economy*, RBI Annual Publications website *(http://www.rbi.org.in/scripts/AnnualPublications.aspx?head=Handbook of Statistics on Indian Economy, accessed on 1 May 2013).*

The above table – 3.6 shows the direct finance to farmers according to their land holding, from scheduled commercial banks over the period 1980-2010. The number of accounts and also the total loans has witnessed a constant rise across all years and across different segments of farmers in the country. Looking at the below graph which gives a detailed view of the segmentation we can however clearly see that the share of number of accounts of marginal farmers to the total number of accounts has witnessed a decline over the years as it fell from 45.8 per cent during 1980-81 to 35.2 per cent during 2009-10. During the same time the share of medium and large farmer accounts have increased from 29.3 per cent to 35.9 per cent. With regard to loans, we can see that the share of marginal and small farmer's loans to the total loans has increased over the periods as it grew from 20.6 per cent to 28.8 per cent and 17.2 per cent to 27.0 per cent respectively. Coincidentally while the number of accounts of large farmers increased their loan share has declined from 62.2 per cent to 44.2 per cent, meaning that credit is being percolated across the different segments over the years.



The below table – 3.7 shows the All-India Indirect Institutional Credit for Agriculture and Allied Activities (Rs Billion). From the table we can see that the share of loans issued

Table – 3.7 - All-India Indirect Institutional Credit for Agriculture and Allied Activities (Rs Billion)										
Year	Loans issued					Loans outstanding				
	Co-operatives	SCBs	RRBs	REC	Total	Co-operatives	SCBs	RRBs	REC	Total
1971–72	3.2	-	-	0.4	3.6	1.4	1.7	-	0.6	3.7
1972–73	4.9	-	-	0.5	5.4	1.4	1.9	-	1.1	4.4
1973–74	4.3	-	-	0.5	4.8	2.0	2.1	-	1.6	5.7
1974–75	5.1	-	-	0.8	5.9	3.0	2.8	-	2.4	8.2
1975–76	5.6	-	-	0.8	6.3	2.4	3.0	-	3.2	8.5
1976–77	6.2	-	0.02	0.9	7.1	2.6	3.5	-	4.0	10.1
1977–78	5.7	-	0.03	1.1	6.8	3.8	5.1	-	5.0	13.9
1978–79	8.3	-	0.1	1.5	-	4.8	6.3	-	6.4	17.5
1979–80	8.9	-	-	1.7	-	3.4	7.3	0.1	7.8	18.7
1980–81	11.5	-	-	1.8	-	6.4	10.0	0.2	9.3	25.8
1981–82	15.0	-	0.1	1.9	-	8.4	11.6	0.2	10.9	31.1
1982–83	19.6	-	0.1	2.5	-	13.4	13.1	0.2	12.9	39.6
1983–84	24.0	-	0.1	3.0	-	17.0	13.9	0.3	14.9	46.1
1984–85	29.9	-	0.1	3.3	-	22.0	14.6	0.3	16.7	53.6
1985–86	37.4	-	-	3.5	-	28.9	13.7	0.3	19.2	62.1
1986–87	18.6	-	-	4.4	-	21.3	14.2	0.3	22.9	58.8
1987–88	24.5	2.7	0.1	6.5	33.8	23.1	15.1	0.4	28.3	66.9
1988–89	19.4	1.9	0.1	8.0	29.5	23.8	15.4	0.4	34.6	74.2
1989–90	16.9	2.1	0.1	7.1	26.2	22.3	14.3	0.5	39.6	76.7
1990–91	17.3	2.0	0.1	7.1	26.5	23.6	11.9	0.2	45.2	80.9
1991–92	20.0	2.0	0.1	5.9	27.9	24.9	14.3	0.4	48.7	88.3
1992–93	20.7	1.6	0.05	4.7	27.1	25.9	15.5	0.4	51.7	93.9
1993–94	100.8	3.3	0.004	6.9	111.0	134.1	21.0	0.3	56.5	212.0

1994–95	123.4	5.8	0.001	9.7	138.9	165.2	28.7	0.3	61.9	256.1
1995–96	173.7	10.4	0.01	8.3	192.4	174.1	36.7	0.3	66.3	277.4
1996–97	189.3	12.7	0.01	7.9	209.9	197.0	49.9	0.5	71.5	318.9
1997–98	199.7	19.0	0.1	10.9	229.8	208.2	63.3	0.1	78.0	349.6
1998–99	208.2	20.0	0.1	22.0	250.3	220.2	81.2	0.3	88.4	390.1
1999–00	821.9	34.3	0.1	30.5	886.8	673.6	129.7	0.3	121.9	925.5
2000–01	913.4	39.7	-	41.1	994.1	795.7	188.3	-	141.9	1,125.8
2001–02	840.9	79.9	-	47.2	968.0	890.9	182.4	-	159.4	1,232.7
2002–03	921.5	62.6	-	66.1	1,050.2	929.2	236.9	-	165.1	1,331.2
2003–04	935.7	89.4	-	60.2	1,085.2	1,023.1	285.2	-	183.0	1,491.3
2004–05	1,141.3	217.3	-	74.4	1,433.0	1,101.3	360.7	-	210.6	1,672.7
2005–06	1,220.7	277.5	-	74.9	1,573.1	1,199.3	571.8	-	245.6	2,016.7
2006–07	1,357.4	387.7	-	107.3	1,852.4	1,363.9	825.6	-	312.6	2,502.2
2007–08	1,457.8	402.8	-	129.5	1,990.1	1,479.8	934.4	-	386.2	2,800.4
2008–09	-	737.2	-	171.6	-	-	1,107.0	-	506.5	-
2009–10	-	828.4	-	211.3	-	-	1,455.5	-	659.8	-
2010–11	-	-	-	245.2	-	-	1,469.2	-	817.3	-

Source: Handbook of Statistics on Indian Economy, RBI Annual Publications website (http://www.rbi.org.in/scripts/AnnualPublications.aspx?head=Handbook of Statistics on Indian Economy, accessed on 1 May 2013).

from cooperatives is the highest followed by Scheduled commercial banks and RECs. The loans issued from cooperatives increased from 3.2 billion during 1971-72 to 1,457.8 during 2007-08, while that of scheduled commercial banks which were non-existent before 1987-88, increased from 2.7 in 1987-88 to 828.4 billion rupees during 2009-10. The role of RRBs remained more or less muted over the study period, while that of RECs noticed an increase from 0.4 billion rupees in 1971-72 to 245.2 billion rupees during 2010-11. With regard to outstanding loans by these agencies Cooperatives have the highest amount 1479.8 billion rupees (2007-08), followed by scheduled commercial banks (1469.2 billion rupees in 2010-11). The outstanding loan amount has also witnessed a gigantic from the early decade of 2000, compared to other periods.

Table – 3.8

Outstanding (Direct) advances to farmers – All India (in crores**)**

Year	RRBs	CBs	PACs	LDBs	Total
1980	226.61	1,900.68	2,373.39	1,534,86	6,035.94
1981	385.25	2,326.40	2,621.40	1,697.08	7,030.13
1982	551.70	3,496.36	2,965.20	1,861.22	8,874.48
1983	722.41	4,172.60	3,223.44	2,048.84	10,177.29
1984	1,048.24	5,282.60	3,697.56	2,231.86	12,260.26
1985	1,374.22	6,638.26	3,980.65	2,386.41	14,379.54
1986	1,747.27	7,997.81	4,323.20	2,624.83	16,693.11
1987	2,192.95	9,395.67	4,635.86	2,829.41	19,053.89
1988	2,760.91	10,891.31	5.261.72	3,089.84	21,998.78
1989	2,895.63	11,893.63	6,240.35	3,429.00	25,416.50
1990	3,547.50	12,388.60	6,696.00	3,899.00	26,531.10
1991	3,803.59	13,346.18	6,019.00	4,215.00	27,383.77
1992	4,187.71	14,209.58	7,444.00	4,732.00	30,573.29

Source: *Report of currency and finance*, various issues, Vol-II, 1980-1992.

The RRBs extend mainly two types of loans, direct and indirect loans, and the direct loans given by the branches directly to the borrowers, whereas the indirect loans are given to the borrowers through the farmer's service cooperative societies adopted by the banks. The purpose of the direct loans given is agricultural, primarily for crop production, agricultural investment and agricultural allied activities. Here the crop production loans are short-term in nature whereas for purposes like development of minor irrigation, for purchase of farm equipment and draft animals and for pursuing activities like dairying its long term. RRBs follow mainly collateral based lending both for direct and indirect loans, except in the case of poverty alleviation schemes, under which is compelled to lend without insisting on any collateral (*Godgil, M V, 1986, p.286*). As a result to obtain a loan from the RRB, a borrower should possess their land, gold deposit or should be a beneficiary under a government scheme. This implies that, households without assets or proper collateral get automatically rationed out and they are denied access.

During the third phase period, it is observed that, through there is expansion of institutional agencies in the supply of credit, it has given rise to a number of problems like uncoordinated credit disbursals, over lapping and duplication of banking facilities, government intervention, not allowing bankers to choose the borrowers and consequent lagging recovery and several other problems arising from different systems, security norms service charges, interest rates etc. followed by different banks (Katula and Gulati, 1992, PP.701-792). However among all these, the over dues and default is the main problem for institutional credit irrespective of the type of institution. It has been observed that the institutional network is to continue dispensing agriculture credit; effective recycling of credit is of paramount importance. Otherwise over dues, where which are considered to be a hardened constant, would erode the financial viability of these institutions. A thorough analysis was under taken in a study by RBI (1989) of the three main credit institutions; the commercial banks, regional rural banks and cooperatives, which highlighted the common as well as specific weakness of these systems in generating, sustaining and augmenting the credit cycle. The study came to the conclusion that the institutions expect that, deposit mobilization was better in the commercial banks. They also observed that over dues to be an all-pervasive phenomenon and are neutral to all types of institutions.

The percentages of over dues to demand on an average from 1980 onwards have been around 40% for the PACS (Primary Agriculture Credit Societies) at the all India level. While in case of Andhra Pradesh it has been around more than 45% during the period 1979-80 to 1988-89. During the same time, at the all India level the total loans issued by different institutions increased from Rs.6, 036 crores in 1979-80 to Rs. 25,416 crores in 1988-89. Showing an annual growth rate of 15.4% the total over dues against ultimate borrowers increased from Rs. 1,898 crores to Rs. 6,416 crores, and showing an annual growth rate of 12.95% (*Reserve Bank of India*, *1989*). In case of A.P the total loans issued increased from Rs. 706 crores in 1979-80 to Rs. 1,409 crores in 1988-89. Below table gives the brief description of over dues all over India (see Table-3.9).

Table – 3.9

Over dues from Direct Advances to Farmers (in cores)

Year	RRB	CBs	PACs	LDBs	Total
1980	41.47	562.83	1,088.54	205.41	1,898.25
1981	68.11	727.02	1,086.39	242.6	2,124.12
1982	128.07	893.48	1,248.41	191.45	2,461.41
1983	191.71	1,069.37	1,417.15	228.74	2,907.07
1984	265.41	1,351.28	1,531.34	199.93	3,347.96
1985	351.93	1,528.05	1,630.25	267.78	3,818.01
1986	439.08	1,743.65	1,806.25	323.22	4,310.03
1987	569.72	1,969.63	1,896.08	405.33	4,840.93
1988	702.65	2,267.31	1,896.25	495.02	5,596.95
1989	815.33	2,568.28	2,131.97	389.17	6,416.36
1990	1,140.18	2,865.43	2,407.08	803.2	7,795.81
1991	1,252.78	3,486.93	2,987.00	671.12	7,613.83
1992	1,436.60	3,852.86	2,203.00	758.59	9,079.05

Source:*Report on currency and finance,* various issues, Vol-II, 1980 – 1992.

The above table 3.9 shows the over dues from direct advances to farmers at the all India level from 1980 to 1992. We can clearly see that the largest over dues are under the scheduled commercial banks, followed by PACs and regional rural banks. While the share of over dues among PACs is higher across the time periods (1088.54 crore in 1980 to 2203.00 crore in 1992), there has been a meteoric rise of over dues both among RRBs (41.47 to 1436.60) and scheduled commercial banks (562.83 to 3852.86 crore) during the same period.

Table – 3.10

Over dues as a share of Loan outstanding–All India. (in crores)

Year	RRB	CBs	PACs	LDBs	Total
1980	18.30	29.61	45.44	13.38	31.44
1981	17.67	31.25	41.10	14.29	31.21
1982	23.21	25.55	42.10	10.28	27.73
1983	26.53	25.62	43.82	11.16	28.56
1984	25.31	25.57	41.41	8.95	27.30
1985	25.60	23.62	40.95	11.22	26.55
1986	25.12	21.80	41.77	12.31	25.81
1987	25.97	20.96	40.90	14.32	25.40
1988	25.44	20.81	40.51	16.04	25.44
1989	28.15	19.58	37.31	11.35	25.24
1990	32.14	23.18	44.61	20.60	29.38
1991	32.94	26.13	36.00	15.92	27.80
1992	34.31	27.11	40.72	16.03	29.69

Source: *Report on currency and finance*, various issues, Vol-II, 1980 – 1992.

The above table – 3.10 shows the all India share of over dues to total loan outstanding of different banking units during 1980 to 1992. We can clearly notice that the primary agriculture societies are the biggest suffers in this as the overdue share to total loan outstanding is at 40.0 per cent over all the study period. However, it is the RRBs which have recorded the highest increase in the over dues over the period as their share to total outstanding loans have increased from 18.3 per cent in 1980 to over 34.31 in 1992.

The below table – 3.11 shows the all India trend of loans issued and outstanding loans of direct institutional credit for agriculture and allied activities over a period of 40 years, i.e from 1970-71 to 2010-11. With regard to loans issued, we can see that the biggest leap is observed for scheduled commercial banks as it grew from just 0.1 billion rupees in 1971-72 to 12.6 in 1980-81, 46.8 in 1990-91 to over 1882.5 billion rupees in 2009-10. Over the same period cooperatives observed loans grow from 7.4 billion rupees in 1970-71 to 20.3, 48.2 to 749.4 billion rupees during 1980-81, 1990-91 and 2009-10 respectively. The increase in loans from cooperatives observed an uptick during early 1990s, while for the commercial banks it witnessed the highest increase from the mid of 2000.

Even with regard to the outstanding loans, similar trend can be observed between different lending sections. Here also commercial banks have the largest amount of loans outstanding compared to others followed by cooperatives and regional rural banks.

Table - 11

All-India Direct Institutional Credit for Agriculture and Allied Activities (Total) (Short-term and Long-term) (Rs Billion) (1970–71 to 2010–11)									
Year	**Loans issued**					**Loans outstanding**			
	Co-operatives	**State governments**	**SCBs**	**RRBs**	**Total**	**Co-operatives**	**SCBs**	**RRBs**	**Total**
1970–71	7.4	0.7	-	-	8.2	-	-	-	-
1971–72	7.7	1.0	0.1	-	8.8	16.0	2.7	-	18.7
1972–73	9.6	1.8	0.2	-	11.6	18.4	3.4	-	21.8
1973–74	8.8	0.9	2.2	-	11.9	19.7	4.4	-	24.1
1974–75	10.4	0.8	2.7	-	13.9	21.7	5.6	-	27.2
1975–76	11.9	0.8	4.0	0.02	16.7	23.6	7.9	-	31.5
1976–77	14.3	0.8	5.1	0.2	20.4	28.0	10.3	-	38.3
1977–78	14.4	1.0	5.7	0.4	21.6	30.7	13.4	-	44.1
1978–79	16.2	1.2	8.0	1.0	26.4	33.8	18.2	-	52.1
1979–80	18.2	1.3	9.7	-	29.3	38.5	23.6	1.7	63.8
1980–81	20.3	1.4	12.6	-	34.4	43.2	30.4	1.8	75.4
1981–82	24.8	1.5	15.0	1.7	43.0	48.2	35.4	2.7	86.4
1982–83	27.2	1.9	12.2	2.2	43.5	51.6	41.4	3.8	96.8
1983–84	29.4	1.9	18.6	2.6	52.4	57.3	52.8	5.1	115.2
1984–85	31.5	2.4	24.6	3.1	61.7	63.7	66.1	7.0	136.8
1985–86	36.7	3.5	27.3	4.0	71.6	69.5	84.2	8.7	162.3
1986–87	37.0	2.1	33.3	4.8	77.2	74.7	93.5	10.6	178.8
1987–88	47.1	4.8	35.3	4.8	92.0	83.5	114.2	13.1	210.8
1988–89	48.7	2.7	38.1	4.2	93.8	94.1	128.4	15.5	238.0
1989–90	54.1	2.9	42.8	6.5	106.3	105.7	152.8	18.4	276.9
1990–91	48.2	3.6	46.8	3.3	101.9	105.3	170.3	17.5	293.2
1991–92	58.0	3.4	48.1	6.0	115.4	121.8	169.8	19.8	311.4

1992–93	64.8	3.9	49.6	7.0	125.3	137.7	182.9	22.1	342.6
1993–94	84.8	3.8	54.0	7.5	150.1	153.2	191.1	25.6	369.9
1994–95	98.8	4.1	74.1	10.8	187.7	168.1	209.2	30.1	407.4
1995–96	124.8	5.5	92.7	13.8	236.9	191.3	234.3	34.7	460.2
1996–97	132.5	6.7	106.7	17.5	263.5	205.6	263.3	40.4	509.2
1997–98	141.6	8.6	115.4	21.0	286.6	213.9	284.5	46.8	545.2
1998–99	151.0	4.2	146.6	25.2	327.0	222.0	298.2	53.9	574.1
1999–00	256.8	5.2	163.5	29.9	455.3	419.5	334.4	59.9	813.8
2000–01	273.0	4.9	164.4	39.7	481.9	461.4	382.7	72.5	916.5
2001–02	305.7	4.4	186.4	45.5	542.0	521.1	451.1	82.9	1,055.0
2002–03	340.4	-	252.6	58.8	651.7	590.6	538.0	102.6	1,231.3
2003–04	400.5	-	362.0	71.8	834.3	714.0	681.0	117.2	1,512.3
2004–05	450.1	-	483.7	119.3	1,053.0	788.2	955.2	167.1	1,910.5
2005–06	481.2	-	806.0	153.0	1,440.2	823.3	1,356.0	215.1	2,394.4
2006–07	540.2	-	1,152.7	202.3	1,895.1	894.4	1,690.2	274.5	2,859.1
2007–08	576.4	-	1,134.7	238.4	1,949.5	656.7	2,028.0	332.2	3,016.8
2008–09	587.9	-	1,606.9	265.0	2,459.8	640.5	2,561.2	373.7	3,575.3
2009–10	749.4	-	1,882.5	346.4	-	764.8	3,154.4	462.8	-
2010–11	-	-	-	439.7	-	-	-	550.7	-

Notes: *SCBs: Scheduled Commercial Banks; RRBs: Regional Rural Banks; Outstanding loan is (principal+unrecovered interest). Data upto 1990–91 pertain to the period July–June and April–March thereafter. In case of SCBs, data for all the years pertain to the July–June period; RRBs came into existence in 1975–76. The data since 1999–2000 are strictly not comparable with the earlier years as it covers not only Primary Agricultural Credit Societies (PACSs) but also State Co-operative Agriculture and Rural Development Banks (SCARDBs) and Primary Co-operative Agriculture and Rural Development Banks (PCARDBs), while the earlier period covers PACs only. In direct credit, borrowers would be directly held responsible for its repayment to the lending agency.*

Source: *Handbook of Statistics on Indian Economy, RBI Annual Publications website (http://www.rbi.org.in/scripts/AnnualPublications.aspx?head=Handbook of Statistics on Indian Economy, accessed on 1 May 2013).*

Since 1991, we can find a significant shift in the rural credit policy as a new feature called micro finance, entered the credit programme. Some of the research studies conducted by NABARD during the early eighties showed that despite having an extremely wide network of rural bank branches, which implemented specific poverty alleviation programmes that sough creation of self –employment opportunities through bank credit for almost two decades, a very large number of the poorest of the poor continued to remain outside the fold of the formal banking system. These studies gave signals that the existing banking policies, systems, procedures, deposit and loan products were perhaps not most suited to meet the immediate needs of the very poor. What they really needed was a better access to these services and products, rather than cheap subsidized credit. NABARD mentioned in its annual report 2003, that the key issues pertaining to rural credit especially loan for developmental purposes neglected the following considerations: a) the priority of the rural poor was for consumption credit, production credit and insurance in that order. b) Consumption needs included credit for short periods for emergent needs. c) The dividing line between consumption credit and production credit for the poor was very thin. Consumption requirements were met by the informal sources at exploitative interest rates, as the poor borrowers were unable to offer to the banks any security for the small consumption loans. d) Main constraint faced by banks in extending credit in cost in financing large numbers in small quantities. e) The same constraint applied to provision of other financial services like small savings, where very small savers scattered in the rural areas were to be harnessed.

Through the above reasons, NABARD felt a need for an alternative to the present system of lending inspired by the achievements of Bangladesh Grameena Bank, and started the programme of Micro Finance. The definition of micro finance according to NABARD is, "Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards". In this new way of lending the credit will be rectified. Unlike other credit programmes this programme is associated with the motivation and training. In India NABARD adopted two way linkage model of micro finance, one is Bank-group Bank, here bank will give the necessary training for the group and loan is given to that group, while in the second one, there is NGO linkage; here the training part is taken by NGO and on its recommendation banks will give loans to these groups. But before taking loans each group has to save at least for six months in order to show their credit worthiness. According to NABARD official estimates, this programme achieved tremendous success in India as banks are getting 90% recovery rates (*NABARD, Annual Report, 2003*). The constant affords of NABARD is giving fruitful results as the number of groups increasing every year. The following table gives the development of this scheme for the last 10-year (see Table-3.12). It can be seen here that that the cumulative number of SHGs has increased from 255 during 1992-93 to a whopping7,17,360 in 2002-03, while the amount of bank loan has witnessed uptick from 0.29 crore to 1,418.8 crore during the same period

Table – 3.12

Performance of Micro Finance for the Last Ten Years.

Year	No. of SHGs (cumulative)	Bank Loan (in crores)
1992 – 93	255	0.29
1993 – 94	620	0.65
1994 – 95	2,122	2.44
1995 – 96	4,157	6.06
1996 – 97	8,598	11.84
1997 – 98	14,317	23.70
1998 – 99	32,995	57.07
1999 – 00	94,645	1,92.98
2000 – 01	2,13,213	4,80.87
2001 – 02	4,61.478	1000.0
2002 - 03	7,17,360	1,418.8

Source: *NABARD Annual Report*, 2003.

The below table – 3.13 shows the state wise and agency wise progress under micro finance savings of self-help groups as on march 2012. We can notice that with regard to the total number of SHGs, Andhra Pradesh is leading with around 14 lakh groups, followed by Tamil Nadu (9 lakh), Maharastra (8 lakh) and West Bengal (6.8 lakh). Even with regard to the total savings amount Andhra Pradesh tops, followed by Karnataka and Tamil Nadu. Looking at a segment wise breakup we can see that with regard to number of SHGs, commercial banks contribute to around 58.0 per cent of the total over all SHGs in the country, followed by RRBs (26.7 per cent) and Cooperative banks (15.2 per cent). Even with regard to the total saving amount, the highest is contributed again by commercial banks (63.3 per cent), followed by RRBs (19.8 per cent) and cooperative banks (16.7 per cent).

Table 3.13

State-wise and Agency-wise Progress under Microfinance-savings of Self-Help Groups (SHGs) with Banks (as on 31 March 2012)

States	Commercial banks		Regional rural banks		Co-operative banks		Total	
	No. of SHGs	Savings amount (Rs lakh)	No. of SHGs	Savings amount (Rs lakh)	No. of SHGs	Savings amount (Rs lakh)	No. of SHGs	Savings amount (Rs lakh)
Andhra Pradesh	1,062,591	114,991	405,904	31,828	27,409	2,196	1,495,904	149,016
Arunachal Pradesh	6,983	103	959	54	421	29	8,363	186
Assam	102,764	5,992	149,291	3,039	24,510	815	276,565	9,846
Bihar	150,445	9,742	154,668	4,300	0	0	305,113	14,042
Chhattisgarh	47,850	2,650	58,756	3,597	23,248	1,148	129,854	7,394
Goa	5,400	492	0	0	3,014	377	8,414	869
Gujarat	136,741	9,768	58,713	2,983	31,172	1,212	226,626	13,963
Haryana	22,655	1,618	18,114	1,848	3,415	212	44,184	3,678
Himachal Pradesh	29,621	1,362	7,101	868	28,919	1,058	65,641	3,289
Jammu & Kashmir	4,324	341	774	22	1,251	70	6,349	433
Jharkhand	58,869	5,133	30,734	1,588	0	0	89,603	6,722
Karnataka	260,010	39,996	176,156	23,426	192,477	36,791	628,643	100,213
Kerala	494,562	31,603	42,879	1,264	78,273	8,504	615,714	41,371
Madhya Pradesh	85,730	8,444	64,452	2,337	13,406	448	163,588	11,229
Maharashtra	430,614	45,357	94,519	3,882	301,914	23,123	827,047	72,362
Manipur	5,955	103	5,784	106	972	10	12,711	219
Meghalaya	9,057	231	2,507	143	2,527	40	14,091	415

Mizoram	2,104	44	2,202	507	670	22	4,976	573
Nagaland	6,353	133	679	51	3,679	191	10,711	374
Odisha	235,829	12,366	226,745	17,948	77,455	5,822	540,029	36,136
Punjab	27,600	3,968	4,257	287	5,486	408	37,343	4,663
Rajasthan	108,277	4,168	67,927	4,268	75,450	4,351	251,654	12,787
Sikkim	4,626	178	0	0	654	82	5,280	260
Tamil Nadu	718,907	61,425	52,708	4,315	153,777	13,300	925,392	79,040
Tripura	11,636	253	16,696	2,736	5,689	389	34,021	3,378
Uttar Pradesh	196,140	26,180	265,849	10,410	9,195	232	471,184	36,821
Uttarakhand	24,377	4,161	16,019	1,398	7,745	355	48,141	5,913
West Bengal	350,641	23,145	199,733	6,506	135,074	8,043	685,448	37,694
All-India	**4,618,086**	**415,298**	**2,127,368**	**130,014**	**1,214,895**	**109,829**	**7,960,349**	**655,141**

Notes: SHG: Self-help Group; All-India includes figures for UTs.

Source: Status of Microfinance in India, NABARD, 2011–12 website (https://www.nabard.org/Publication/SMFI2012.pdf, accessed on 6 September 2013).

3.0.2 Demand Side Evolution

During the last five decades, the structure of rural credit market underwent many changes due to government policies. The Debt and Investment Survey conducted by the Reserve Bank of India for every ten years, monitors these changes. The recent of these surveys is *All India Debt and Investment Survey 1991*. The main objective of the survey was to generate reliable estimates on assets, liabilities and capital expenditure of households in rural and urban sectors. The reference period of the survey for collection of data was the period July, 1991 to June, 1992. In this section we try to explain the changes taken place in the credit market structure. These changes are identified with certain indicators like, incidence of the credit; which shows how much amount of credit is available for the production and consumption purpose; here the share of credit for production purpose is an indicator of development. Another indicator taken for understanding the change is debt according to rate of interest. The data in 1991 is compared with the previous year's data.

3.0.3 Incidence of Indebtness

One of the important aspects covered in the survey of 1991, is the estimate of incidence of indebtedness of households in rural areas. It is measured as the percentage of households reporting indebted to either institutional or non-institutional agencies. Another indicator taken along this is average debt per household, which is the average debt taken by the households. Both of these indicators give us an idea about the number of households in the total population, who have entered the credit market and amount of loan they have taken.

The description of the incidence of indebtedness and average debt per household for the year 1991 and along with this the data of previous two survey years 1981 and 1991 are also given in below (see Table-3.14)

Table – 3.14

Incidence of Indebtedness and Debt – Asset Ratio of households

Particulars	Rural Households			
	Year	Cultivator	Non-cultivators	All
Incidence of Indebted Ness (Percentage)	1971	46.1	34.3	42.8
	1981	22.3	12.4	20.0
	1991	25.9	18.5	23.4
Average Debt per Households (Rs)*	1971	605	223	500
	1981	803	205	661
	1991	2292	1151	1906

Source: RBI, *All India Debt and Investment Survey*, 1991.

- At respective year's prices.

From the table we observe that the percentage number of people depending on the credit market decreased substantially from 42.8% to 23.4%. But this decrease is more among non-cultivator class than in cultivator class as the incidence of indebtedness among non-cultivators decline from 34.3 in 1971 to 18.5 per cent in 1991, while that of cultivator declined from 46.1 per cent to 25.9 percent However, from the table, we can see that the values of the average debt increased substantially from Rs.803 in 1981 to Rs.2, 294 in 1991. The incidence of indebtedness fell sharply between 1971 and 1981, the ratio marginally increased between 1981 and 1991.But this change is not equal according to the source; we can find the differences between institutional and non-institutional sources. Table 3.15, gives the change in the structure of credit market from 1971 to 1991.

Table – 3.15

Distribution of cash Debt According to Credit Agencies, 1971 to 1991.

(in percentage)

Credit Agency	Rural Households								
	Cultivators			Non-cultivators			All households		
	1971	1981	1991	1971	1981	1991	1971	1981	1991
Institutional Credit	31.7	63.2	66.3	10.8	36.7	55.3	29.2	61.2	64.0
Government, etc.,	7.1	3.9	5.7	3.4	4.5	7.6	6.7	4.0	6.1
Co-operative Banks	22.0	29.8	23.6	6.0	13.9	14.2	20.1	28.6	21.6
Commercial banks,etc	2.4	28.8	35.2	0.8	17.3	27.9	2.2	28.0	33.7
Insurance	0.1	0.4	0.2	0.2	--	0.6	0.1	0.3	0.3
Provident Fund	0.1	0.3	0.5	0.4	1.0	1.5	0.1	0.3	0.7
Other Agencies	--	--	1.1	--	--	3.4	--	--	1.6
Non-Institutional	68.3	36.8	30.6	89.2	63.3	40.6	70.8	38.8	32.7
Landlord	8.1	3.7	3.7	12.6	8.4	4.9	8.6	4.0	4.0
Agri-moneylender	23.0	8.3	6.8	23.8	11.4	8.2	23.1	8.6	7.1
Profe-moneylenders	13.1	7.8	10.7	18.7	13.4	9.8	13.8	8.3	10.5
Traders	8.4	3.1	2.2	10.9	5.8	3.6	8.7	3.4	2.5
Relative/Friends	13.1	8.7	4.6	19.0	14.4	8.8	13.8	9.0	5.5
Others, Doctors, etc.,	2.6	5.2	2.6	4.2	9.9	5.4	2.8	5.5	3.2
Unspecified	--	--	3.1	--	--	4.0	--	--	3.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: RBI, *All India Debt and Investment Survey*, 1991.

From the table 3.15, we find that; the share of institutional sources is increasing in the rural credit market from the last three decades. Simultaneously the share of non-institutional is decreasing from 1970 to 1991. From this data we can tell that even through the share of institutional credit is increasing it is not reflecting in the share of cultivators.

Table – 3.16

Relative Share of Borrowings of Cultivators Households from Different Source						
Sources credit	**1951**	**1961**	**1971**	**1981**	**1991**	**2002**
Non-Institutional	92.7	81.3	68.3	36.8	30.6	38.9
*Of Which **Money Lenders***	69.7	49.2	36.1	16.1	17.5	26.8
Institutional	7.3	18.7	31.7	63.2	66.3	61.1
*Of which **Cooperative Societies/Banks***	3.3	2.6	22.0	29.8	23.6	30.2
Commercial Banks	0.9	0.6	2.4	28.8	35.2	26.3
Unspecified	-	-	-	-	3.1	-
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note: *Figures in percent*. Source: *Ramesh Golait (2007), RBI*

From the above table 3.16 we can see that the relative share of borrowings of cultivators from different credit sources. We can see that the share of non-institution has declined from 92.7 per cent in 1951 to just 38.9 per cent in 2002, while that of money lenders fell from 69.7 per cent to 26.8 per cent during the same period. However we have to observe that the share of money lenders is witnessing an increase from the last two decades as it grew from 16.1 per cent in 1981 to 17.5 in 1991 to 26.8 per cent in 2002. This increase in money lenders share coincides with the decline of credit from cooperative societies even as commercial banks share has increased.

Table – 3.17

Flow of Institutional Credit to Agriculture &Allied activities (Rs.in crores)							
Agency	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Cooperative Banks(A)	42480	48258	46192	63497	78121	87863	64664
Share (%)	18	19	15	17	16.88	17.21	26.99
RRBs	20435	25312	26765	35218	44293	54450	32127
Share (%)	9	10	9	9	9.46	10.65	13.41
Commercial banks	166485	181088	228951	285799	345877	368616	142838
Share (%)	73	71	76	74	73.86	72.13	59.61
Total	229400	254658	301908	384514	468291	511029	239626

Source: website (https://www.nabard.org/Publication/SMFI2012.pdf, accessed on 6 September 2013).

The table 3.17shows the flow of institutional credit to agriculture and allied activities. We can clearly observe that the commercial banks though the highest, is experiencing a decline as it reduced from 73.0 per cent in 2006-07 to 59.6 per cent in 2012-13. During the same time the share of cooperative banks witnessed the highest uptick as it increased from 18.0 per cent to 26.9 per cent, while that of regional rural banks observed an increase from 9.0 per cent to 13.4 per cent.

Table – 3.18

Share of Rural Household Debt by Source in India in Percentage

Credit Agency	**1951**	**1961**	**1971**	**1981**	**1991**	**2010**
Cooperatives and commercial Banks	5.7	10.3	24.4	58.6	58.8	52.8
Government and other formal sources	3.1	5.5	5.5	4.6	7.5	7.8
All Institutional Agencies	**8.8**	**15.8**	**31.7**	**63.2**	**66.3**	**60.6**
Professional and Agriculturist	68.6	62.0	36.1	16.1	17.5	18.2
Moneylenders						
Traders		7.2	8.4	3.1	2.2	4.8
Landlords		7.6	8.6	4.0	4.0	5.7
Relatives and Friends	14.4	6.4	13.1	11.2	4.6	4.4
Other Source	8.2	0.8	2.1	2.4	2.3	4.6
All Non-Institutional Agencies	**91.2**	**84.0**	**68.3**	**36.8**	**30.6**	**37.7**
Sources not specified	0	0.2	0	0	3.1	1.7
Total	100	100	100	100	100	100

Source: *All India Debt and Investment Survey*, RBI, 2011.

Table 3.18 shows that, the share of households in the institutional credit is high compared to the non-institutional source and the number of households depending on institutional sources. However the share of non-institutional sources is experiencing an uptick during the recent period which is a dangerous phenomenon. The Hindustan Times (HT) and invest India Economic Times (IIEF) using IRES data (2004) has brought out sterling facts about corners, who use money lenders as the source of credit. The study has revealed the following facts. The share of various sources in rural credit by earners reveals that the share of money lenders in total credit is In the case of Non-Institutional sources of farmers borrowings still dominated table no.3 predict money lenders hegemony in the credit market still significant. According to this table the size of land holding will determines credit options to rural people. Higher percentage of population still they were suffering under higher rate of interests and other unexplained terms. Non-institutional credit borrowing range 77% to 32% is there 70%. In absolute terms, it is in the order of Rs.67, 000 crores. The share of public sector banks is 10 percent followed by Co-operative Societies at 9 percent. The share of Self Help Groups (SHGs) is 1 percent. Government loans also account for barely 1 percent and other sources account for 9 percent.

3.0.4 Distribution of cash debt according to purpose

The purpose of the loan is an important as the source of loan. If the amount of credit taken is used as capital expenditure, the productivity will increase in the subsequent years. And if the credit is used for family consumption, there will be no addition income generation in the subsequent years. The All India Debt and Investment Survey 1991 included purpose of the loan as one of the component.

The purpose of loans classified in the survey are, farm business and non-farm business with further details into capital and current expenditure nature, household expenditure and others. Loans used for capital and current expenditure purpose in household enterprises in farm or non-farm business are termed as loans for productive purposes. The distribution of cash debt, classified according to the purpose of the loan for rural households, and a comparative picture for the decadal points 1971, 1981 and 1991, is given below (see Table-3.19).

Table – 3.19

Distribution of Cash Debt by Purpose of Loan and Type of Households – 1991.

(percentage)

Credit Agency	Rural Households								
	Cultivators			Non-cultivators			All Households		
	1971	1981	1991	1971	1981	1991	1971	1981	1991
1.In farm Business									
Capital expenditure	34.7	45.2	14.4	5.0	8.6	2.4	31.2	42.5	12.0
Current expenditure	15.0	18.5	3.2	2.5	5.9	0.7	13.5	17.6	2.7
2.Non-farm Business									
Capital expenditure	3.2	6.3	4.7	8.0	19.0	9.8	3.7	7.3	5.8
Current expenditure	1.1	1.6	1.5	5.7	4.3	3.8	1.7	1.8	2.0
3. Productive purpose	54.0	71.6	23.8	21.2	37.8	16.7	50.1	69.2	22.5
4.Household expenditure	37.8	20.1	36.1	63.3	50.9	55.2	40.9	22.3	40.1
5.Other purpose	0.3	0.2	25.2	0.4	0.1	13.5	0.3	0.2	22.8
6.Unspecified	7.9	8.1	14.9	15.1	11.2	14.6	8.7	8.3	14.6
All purposes	100	100	100	100	100	100	100	100	100

Source: RBI, *All India Debt and Investment Survey*, 1991.

Above table 3.19, compares the distribution of cash debt according to purpose for the last three decades 1991, 1981 and 1971. Here we observe that the expenditure of production purpose has increased significantly from 54% to 71% between 1971 and 1981 but it decreased tremendously to 23% in 1991. But the same time the debt relating to unspecified expenditure has increased from 0.2% to 25.2%, which is very difficult to explain until and unless this component of ‘unspecified is defined and re-classified, until then it is very difficult to explain the logic behind sharp fall in the share of production expenses.

3.0.5 Distribution of Cash Debt According to Interest Rate:

The cost of debt is indicated by the interest rate at which the loans are contracted; and this plays an important role in household indebtedness. The loans contracted at 12-15 percent interest rates, accounted for the largest share in rural households in terms of amount outstanding as on June 1991. Considering the loans contracted at interest rates between 10% and 25%, about 69% of total amount outstanding was reported by rural households. The comparison of credit associated with interest rates between the periods 1981 and 1991 is given below (see table 3.11)

Table – 3.20

Proportion of Households Reporting Cash Loan and Distribution of Amount of Cash Loan Outstanding According to Rate of Interest.

Interest Rate Class (%)	Rural Households			
	1981		1991	
	P	S	P	S
Nil	4	11.2	3.6	8.4
Up to 4	0.4	1.7	0.4	1.7
4 – 6	0.6	1.7	0.7	1.4
6 – 8	0.5	1.4	0.3	1.1
8 – 10	0.8	4.1	0.5	2
10 – 12	2	14.7	3.8	10.8
12 – 15	5.3	29.9	6.6	29
15 – 20	2.2	13.6	3.1	15.8
20 – 25	2.6	12.7	3	13.6
25 – 30	0.6	1.1	0.2	0.6
30 & above	2.9	8	4	10.2
All	19.4	100	23.4	100

Source: RBI, *All India Debt and Investment Survey*, 1991.

P: Proportion of households reporting cash debt (%)

S: Share of amount of cash debt outstanding (%)

From the table 3 - 20, we observe that, the changes in the interest rates as on end-June 1981 and end-June 1991, were more or less similar except one or two classes such as, the share of interest free loans contracted at interest rates between 10 to 25% remained more or less the same around 70%. The share of loans contracted at interest rate of 30% or more increased marginally by about 1-2 percentage. The proportion of households reporting loans in this interest rate range also increased marginally between the two time points.

The table reveals that the shares of institutional sources are increasing in the rural credit market; especially the number of households taking loans from the cultivating class is increasing significantly. But at the same time it said this growth results are not benefiting the cultivators' class, as non-cultivating households take majority of the loans. The debt investment survey (1991) failed to explain the changes taken place in the loan. As the share in production expenditure fell sharply from 71.6% to 23.8% between the periods 1981 and 1991, this is explained only when the reason like other expenses is re-classified and given clear picture. In the share of credit according to interest rate, we did not find significant changes between 1981 and 1991. Only change, which we can identify as significant is decrease in the share of interest free loan, which is regarded as the interlinked transactions is decreasing.

CHAPTER - IV

Socio-Economic Background of Prakasam District

4.0.1 Introduction

This chapter explains the socio-economic background of the Prakasam District. The socio economic dynamics of the district; including demographic details, cropping patterns and geographical location have been elaborated in this chapter.

Spread over an area of 17,626 Sq.Kms, Prakasam District came into existence on 02-02-1970 with the carving out portions of Markapur Revenue Division from Kurnool, Ongole Revenue Division from Guntur and Kandukur Revenue Division from Nellore Districts. The area of the district is much more in size when compared to other coastal districts of Andhra Pradesh, with 102 KMs. of coastline spread over in 10 Mandals.

4.0.2 Location of the District

Spread in an area of an area of 17,626 sq. km, Prakasam district accounts for 6.41 percentage of the total area of the state and is ranked fourth in terms of size. The District is bounded on East by Bay of Bengal, in the South partly by Nellore and partly by Cuddapah Districts, the West by Kurnool district and the North by partly Guntur and partly Mahaboobnagar. The district is situated in a tropical region between 14-57-00 to 16-17-00 Northern latitude and 78-43-00 to 80-25-00 Eastern longitudes.

4.0.3 Climate

Given the location around sea, the climate of the district is moderate, both in winter and summer especially in the coastal areas of the district. In the non-coastal areas of the district the heat in the summer is severe, especially in the tracts of upland areas.

4.0.4 Soils

Red loams, Black cotton and Sandy loams cover the major portion of the district. In the total area of the district, 51 per cent of the area is covered by Red soils, 41 per cent of the area is black cotton soils, about 6 per cent of the area is sandy soil and the rest 2 per cent of the area is other type of soil. The black cotton soil predominantly occurs in all the Mandals of Ongole Division except Chirala, Vetapalem and Chinaganjam Mandals. The Red loamy soils predominantly occur in the mandals of Kandukur and Markapur Divisions. The sandy soil is present in vast areas of the Mandals of Chirala, Vetapalem, Chinaganjam and Ulavapadu.

4.0.5 Rainfall

The district receives rainfall from the South-West as well as North-East monsoons. The district received lesser rainfall of 750.9 MM when compared to that of the State which is 925.0 MM. Among the total average rainfall in a year 46.93 per cent is received during the Southwest monsoon period (June to September) and 42.22 per cent during the North-East Monsoon period (October to December)[9]. The district is frequently affected by drought and cyclones. The maximum and minimum normal temperatures recorded in the district are 38.20c and 19.7^{0}c respectively. Generally, the maximum temperature is recorded during the summer months especially in May and June.

4.0.6 Hills

The important hill ranges in the district are the picturesque Nallamalas and the Veligandas. The Nallmalas traverse the erstwhile taluks of Giddalur and Markapur, while the Veligandas are formed in the erstwhile taluks of Giddalur and Kanigiri. These Hills separate this district from Kurnool and Cuddapah districts. There are two passes in the Nallmalas namely the Nandi Kanuma and Mambala Kanuma. The Nandikanuma forms the main artery of communication between Kurnool and Bellary districts on the east whereas the later links Atmakur and Kurnool on the west Dornal, Yerragondapalem and Markapuram on the east.

4.0.7 Sea Coast

The district has a fairly long coastline of 102 kms. The Mandals having seacoast are Chirala, Vetapalem, Chinaganjam, Naguluppalapadu, Ongole, Kothapatnam, Tangutur, Singarayakonda, Ulavapadu and Gudlur. There are some beaches on the seacoast. Important among them are Vadrevu, Motupalle, Kothapatnam, Voolapalem and Ramayapatnam. Motupalle, Vadarevu, Kothapatnam, Ithamukkala were the important ports of the district.

4.0.8 Forestry

The total forest area in the district accounts for 442499.00 hec., forming 25.11 per cent of the total geographical area. In the coastal line Chirala, Vetapalem, Chinaganjam, Kothapatnam, Singarayakonda and Ulavapadu are having forests containing casurina and cashew plantations. The famous Nallamala forest is situated mainly in Giddalur, Komarole, Racherla, Arthaveedu, Yerragondapalem, Pullalacheruvu and Dornala Mandals.

The district was renamed as Prakasam District, from Ongole, in 1972 in memory of the eminent freedom fighter, later Chief Minister of the composite Madras State and the first Chief Minister of Andhra State. Tanguturi Prakasam Pantulu, who was born at Vinodarayunipalem, a hamlet of Kanuparthi village of this district.

After the introduction of the system of revenue mandals in 1986, the 9 taluks of the district were reorganized into 56 mandals. But, there is no change in the position of the revenue divisions. The present number of Gram Panchayatis and mandals situated in each revenue division is as follows:

Table – 4.1

Revenue Division wise Mandals and Gram Pancyayats in Prakasam District

Name of the Revenue Division	No. of Mandals	No. of Gram Panchayats
Ongole	20	362
Kandukur	24	478
Markapur	12	200

Source: *Census*, 2011

4.0.9 Demography of the District

According to the 2011 census, the district had a population of 3,397,448 of which male and female were 1,714,764 and 1,682,684 respectively. The population density is around 193 persons per square kilometer, while the sex ratio stands at 981. The literarcy rate of the district is 63.08, with male and female literacy at 72.92 and 53.11 per cent respectively. The Prakasam district is predominantly rural with more than 84 per cent of the population inhabiting the rural areas. The household wise demographic details of the district is given in the below table.

Table – 4.2

Total Population and Literacy of Prakasam District

R/U	Total Households	Population			Literacy		
		Male	**Female**	**Total**	**Male**	**Female**	**Total**
Rural	691813	1382641	1350225	2732866	852588	583325	1435913
Urban	168650	332123	332459	664582	255098	213424	468522
Total	**860463**	**1714764**	**1682684**	**3397448**	**1107686**	**796749**	**1904435**
Percentage (%)							
Rural	80.40	50.59	49.41	100.00	59.38	40.62	100.00
Urban	19.60	49.97	50.03	100.00	54.45	45.55	100.00
Total	**100.00**	50.47	49.53	100.00	58.16	41.84	100.00

Source: *Census*, 2011

4.10 Education System

There are 2,939 primary schools, 571 upper primary schools, 486 high schools, 134 junior colleges and 49 degree colleges in the district. In addition to these there are 11 P.G. centers and also one Law College is functioning at the district head quarter.

The district is predominantly rural in character and hence there is less industrialization. The economy is also predominantly dependent on agriculture. With regard to industries there are just 12 large and medium scale industries existing in the city viz., ITC Ltd, I.L.T.D. In addition to this 11,093 small scale industries exist in the district. The predominant industries are Agro products and oils, Tobacco re-drying factories, cotton growers' cooperative spinning mills and textiles, etc.

4.11 Agricultural

Prakasam District is mainly an agricultural district with low level of industrialization and weak service sector. Agricultural economy of the district is discussed with data on selected aspects like (i) land use (ii) irrigation (iii) cropping pattern (iv) yield of principle crops and agricultural implements and machinery which are presented for five time points 1970-71, 1980-81, 1990-91, 2001-01 and 2009-2010.

4.12 Land Use

Data on land use pattern in 1970-71, 1980-81, 1990-91, 2000-01 and 2009-2010 are presented in Table 4.3; comparatively the area that was under forests, barren and cultivated land, cultivable waste, permanent pastures and other grazing lands, land under miscellaneous uses during 1970-71 has declined by 2009-10. The shifts have resulted in increasing the net sown area of around 2.5 per cent. The land put to non-agricultural uses has also showed increasing trend though it is negligible in percentage terms.

4.13 Irrigation Facilities

The district is one of the districts in the state where the extent of the irrigated area to the cultivated area is only 38 per cent. Further this is one of the two districts in the coastal Andhra Region where the canal irrigation is almost negligible. The area irrigated by canals is about 5 per cent of the total irrigated area. With the scanty and unreliable rainfall the dependence on tanks and wells of irrigation, the plight of agricultural is really deplorable. Looking at table 4.4 we can clearly observe the irrigation pattern in the district over the last four decades. The area under canal irrigation increased from 39.08 per cent during 1970-71 to over 49.2 2001 and remained stagnant over the next decade. However during the same time area under tanks remained stable at around 20.0 per cent while that of tube wells reduced from 32.1 to 22.2 during 2001.

Table –4.3 - Land usage in Prakasam District

Sl.No.	Category of Land use	1970-71	1980-81	1990-91	2000-01	2009-10	Decadal Changes (in%)		(Area in Hectares)	
							1970-71 to 1980-81	1980-81 to 1990-91	1990-91 to 2000-01	2000-01 to 2009-10
1	Forests	4,46,768	4,46,768	4,42,500	442500	401983	--	-0.96	--	4.4
	%	26.06	26.06	25.82	25.84	26.25				
2	Barron & Cultivated land	1,49,873	1,31,334	1,58,653	155873	158269	-12.37	20.8	-4.83	1.53
	%	8.75	7.66	9.26	9.1	-8.99				
3	Land put to Non-agricultural uses	1,21,477	1,22,844	1,42,930	147640	169701	1.13	16.35	2.73	14.94
	%	7.08	7.17	8.34	8.62	9.65				
4	Culturable Waste	1,06,368	1,16,385	76,037	62615	69638	9.42	-32.52	-14.32	11.21
	%	6.21	6.79	4.44	3.66	3.96				
5	Permanent pastures and other grazing lands	78,397	72,121	71,699	66381	58206	-8	-0.58	-4.37	-12.31
	%	4.57	4.21	4.18	3.89	3.3				
6	Land under Miscellaneous uses (tree crops & growers not shown in area)	20,254	11,384	9,017	10706	10865	-43.79	-20.79	24.66	1.48
	%	1.18	0.66	0.52	0.62	0.63				
7	Current Fallows	1,05,323	1,04,780	1,27,357	87907	113346	0.52	21.54	-0.19	28.93
	%	6.15	6.11	7.43	5.13	6.44				
8	Other fallows land	1,41,991	84,106	69,176	128343	84917	100.29	-17.75	106.26	-33.83
	%	8.29	4.91	4.3	7.49	4.83				
9	Net Area sown	5,43,611	6,24,340	6,16,693	610624	632608	-10.75	2.43	-9.7	3.6
	%	31.71	36.43	35.98	35.65	35.95				
10	Geographical Area	17,14,062	17,14,062	17,14,062	--	--	--	--	--	--
	%	100	100	100						

Note: *The land use figures are triennial averages but 1990-91 and 1998-99 figures are two-year average.*

Source:*1. Season of crop reports, 1970-71, 1980-81, 1990-91, 2000-01 and 2009-10 Andhra Pradesh Bureau of Economics & Statistics, Hyd.,*

2. Handbook of Statistics, Prakasam District, 1998-99, Chief Planning Office, Prakasam District, Ongole.

Table – 4.4 - Source of Irrigation (Area in Hectares)										
	Category of Land use	**1970-71**	**1980-81**	**1990-91**	**2000-01**	**2009-10**	**Decadal Changes(in%)**			
Sl.No.							**1970-71 to 1980-81**	**1980-81 to 1990-91**	**1990-91 to 2000-01**	**2000-01 to 2009-10**
1	Canals	43,900	78.722	89,603	72946	73944	79.32	13.82	-13.73	1.36
	%	39.08	35.15	45.36	49.2	34.1				
2	Tanks	27,036	22,200	36,597	32384	20764	-17.89	64.85	-12.68	-35.88
	%	24.07	15.55	18.52	21.8	9.5				
3	Tube wells (including other wells)	36,119	38,311	52,080	83579	95710	6.07	35.94	16.8	14.51
	%	32.16	26.84	26.36	22.25	22.9	6.07	35.94	16.8	14.51
4	Other Sources	5,272	3,497	19,285	1731	25961	-33.67	451.47	37.16	1399.76
	%	4.69	2.46	9.76						
5	Net Irrigated Area	1,12,327	1,42,730	1,97,565	148170	216379	27.07	38.42	-0.52	46.03
	%	100	100	100						
	Area Irrigated more than once	22,381	29,436	28,964	16383	12221	31.52	-1.6	-65.03	-25.4
7	Gross irrigated Area	1,34,708	1,72,166	2,26,529	164553	228600	27.8	31.58	-8.77	38.92

Note: *Area of Irrigation is triennial averages. The percentages are shown in parenthesis. Canals, Tanks, Tube Wells (including other Wells) and other same of irrigation are counted in net irrigated area and area irrigated more than once are counted in gross Irrigated area.*

Source: 1. *Season and Croup Report of Andhra Pradesh, 1970-71, 1980-81, 1990-91, 2000-01 and 2009-10, Bureau of Economics and Statistics, Hyderabad.*

2. *Hand book of Statistics, Prakasam District, 1998-99, Chief Planning Officer, Ongole.*

4.14 Cropping Pattern

Jowar, Bajra and other millets are the principle food crops in the district. Paddy occupies about 20 per cent of the cropped area. Among the non-food crops, tobacco claims the pride of the place in the district as it ranks first in the state. The area under tobacco accounts for more than 12 per cent of the cropped area. The important non-food crops grown in the district are tobacco, red gram, sesamum, black gram, green gram and groundnut etc. The cropping pattern of district and the changes in it by 2009- 10 compared to 1970-71 is presented in Table – 4.5. The percentage of the area under food crops has been reduced from 71 per cent of 1970-71 to 60 per cent during 2009-10, whereas the area under non- food crops has been gradually increased from 28.4 per cent to 40 per cent during 1970-71 to 2009-10.

Table - 4.5 - **Cropping Pattern In Prakasam District, 1971-2010** (Area in Hectares)

Sl.No.	Category of Land use	1970-71	1980-81	1990-91	2000-01	2009-10	DecadalChanges(in%) 1970-71 to 1980-81	1980-81 to 1990-91	1990-91 to 2000-01	2000-01 to 2009-10
1	Rice	73,010	1,03,921	1,40,162	147491	131391	42.33	34.87	4.12	40.42
	%	11.18	15.67	20.84	19.54	19.78				
2	Redgram	9,671	13,924	28,661	95973	68336	43.98	105.84	66.08	-14.68
	%	1.48	2.1	4.26	12.72	10.29				
3	Blackgram	1,856	4,238	14,857	38154	8815	128.34	250.57	-17.62	--
	%	0.28	0.64	2.21	5.06	1.33				
4	Greengram	4,798	3,055	9,973	33289	3150	-36.33	226.45	62.9	--
	%	0.73	0.46	1.48	4.41	0.47				
5	Groundnut	22,738	26,790	73,013	14771	9574	17.82	172.54	-73.89	8.72
	%	3.48	4.04	10.86	1.96	1.44				
6	Sesmum	3,637	9,167	13,216	26777	4053	152.05	44.17	93.14	--
	%	0.55	1.38	1.96	3.55	0.61				
7	Sugarcane	399	520	N.A.	--	--	30.33	--	--	--
	%	0.06	0.07							
8	Tobacco	86,385	62,696	46,402	61802	81738	-27.42	26	60.54	32.25
	%	13.23	9.46	6.9	8.19	12.3				
9	Coconut	30	44	93	--	--	46.67	111.36	98.92	--
	%	--	--	--						
10	Chillies	12,351	9,175	N.A.	20990	17773	-25.72	--	--	-9.38
	%	1.89	1.38		2.78	2.68				
11	FoodCrops	4.67,307	4,70,106	3,92,269	482694	397807	0.6	-16.56	-19.1	5.9
	%	71.57	70.91	58.33	63.97	59.89				
12	Non-FoodCrops	1,85,582	1,92,892	2,80,229	271985	266315	3.94	45.28	-0.89	-2.08
	%	28.42	29.09	41.67	36.03	40.1				
	Total Cropped Area (Food & Non-Food)	6,52,889	6,62,998	6,72,498	754679	664122	1.55	1.43	-11.51	2.55
	%	100	100	100	100	100				

Note: 1. *Area figures refer to triennial averages few 1970-71 and two year averages for the remaining year. 2. N.A. refers to Not Available*

Source : *1. Season and Croup Report of Andhra Pradesh, 1970-71, 1980-81, 1990-91, 2000-01 and 2009-10, Bureau of Economics and Statistics, Hyd.*

2. Hand book of Statistics, Prakasam District, 2009-2010, Chief Planning Officer, Ongole.

4.15 Occupational Distribution

The occupational distribution of different social groups at district level as per 2001 census has been presented in the table 4.6. Out of total population, main and marginal workers together constituted 50.25 percent and non-workers constituted 49.75 percent.

Table: 4.6

Distribution of Workers among Different Sectors in Prakasam District (as per 2001 Census)

Classification	Total	Scheduled Caste	Scheduled Tribes
Main Workers	13.07(42.73)*	2.87(44.09)*	0.49(41.53)*
Marginal workers	2.30(7.55)*	0.65(9.98)*	0.13(11.02)*
Total Workers	15.37(50.25)*	3.52(54.15)	0.62(52.54)*
Non-workers	15.22(49.75)*	2.98(45.85)*	0.56(47.46)*
Total population	30.59(100.0)*	6.51(100.0)*	1.18(100.0)*
Main Workers Classification			
Cultivators	3.60(27.54)**	0.18(6.27)**	0.039(8.14)**
Agricultural labourers	5.10(39.02)**	2.12(74.22)**	0.28(58.46)**
Household industry	0.49(3.75)**	0.02(0.70)**	0.02(4.18)**
Other workers	3.88(29.69)**	0.54(18.82)**	0.14(29.23)**

Source: *Census, 2001, C.P.O, Prakasam District,*

Note: ** figures in parenthesis indicate the percentage share in total population.*

*** Figures in parenthesis indicate the percentage share in total Main workers.*

Among the main workers agriculture labourers constituted the biggest portion (39.02 per cent), followed by other workers (29.69 per cent), cultivators (27.54 percent) and others in household industry (3.75). With regard to the SCs the proportion is even skewed as almost 74.2 per cent of the workers are employed as agriculture labourers, followed by others workers at 18.81 per cent and only 6.27 per cent as cultivators. However coming to STs the difference is not that high as that of SCs as out of the total workers registered 52.54 percent and non-workers constituted 47.46 percent and among the main workers 58.46 percent reported as agricultural labourers. It could be observed from the data that comparatively, SC and ST social group workers proportion is slightly higher than the general population. However the analysis reveals that agriculture is main occupation of among all social groups in Prakasam district.

4.16 Distribution of Operational Holdings

As per the World Agricultural Census, 1991 the total number of operational holdings of Scheduled Castes in the district are 63,581 covering an extent of 1,44,950 acres. The average size of the holdings in the district is 2.28 and 2.35 for Scheduled Caste and Scheduled Tribe respectively while for others it is 4.13. The below table explains the number of operational holdings and area operated across the size and social groups in Prakasam district. According to 2001 census, only 5.80 lakh out of 30.59 lakhs people have access to land. Among the total holdings 55.22 percent belongs to marginal farmers, 24.36 percent belongs to small farmers, 14.18 percent belongs to semi-medium farmers, 5.08percent belongs to medium farmers and 0.52 percent belongs to large farmers. Marginal farmers are controlling 18.88 percent of land, small farmers are controlling 25.24 percent of land, semi-medium farmers are operating 28.63 percent of land, medium and large farmers are controlling 20.94 percent of land and 6.52 percent of land respectively.

The table 4.7 further explains that, major proportion of land has been concentrated among the non-SC/ST social groups. Among the total holdings non-SC/STs registered 86.43 percent and occupied 91.05 percent of land in total operated area, whereas the SC/STs together constituted 13.66 percent and occupied only 8.96 percent of land in total operated area.

Table: 4.7

Number of Operational holdings and Area Operated across the Size And Social Group (area in acres) 2001 Census

Size of Holdings (in acres)	Scheduled Caste		Scheduled Tribe		Others		Total	
	Nos	Area	Nos	Area	Nos	Area	Nos	Area
Marginal Farmers 0.01-2.46 acres	46224 (7.96)	19533 (2.44)	7848 (1.35)	3491 (0.44)	266729 (45.92)	128097 (16.0)	320801 (55.22)	151120 (18.88)
Small Farmers 2.47-4.93 acres	14734 (2.54)	20741 (2.59)	2513 (0.43)	3502 (0.44)	124280 (21.39)	177776 (22.21)	141527 (24.36)	202020 (25.24)
Semi-Medium Farmers 4.94-9.89 acres	5939 (1.02)	14429 (1.80)	1085 (0.19)	2698 (0.34)	78980 (13.60)	212456 (26.54)	86004 (14.81)	229583 (28.63)
Medium Farmers 9.88- 24.70 acres	701 (0.12)	3750 (0.47)	215 (0.04)	1173 (0.15)	28622 (4.93)	162672 (20.32)	29538 (5.08)	167596 (20.94)
Large Farmers 24.71-49.2 and above	53 (0.01)	1690 (0.21)	23 (0.00)	586 (0.07)	2962 (0.51)	47786 (5.97)	3038 (0.52)	50062 (6.25)
Total	67651 (11.64)	60143 (7.51)	11684 (2.01)	11450 (1.43)	501573 (86.34)	728787 (91.05)	580908 (100.0)	800381 (100.0)

Source: *District Handbook, 2004, Chief Planning Officer, Ongole, Prakasam District.*
Note: *figures in parenthesis indiçât the percentages.*

Moreover most of the SC/ST landholders are reported as marginal and small farmers. The analysis reveals that the land distribution has been skewed and most of the land has been concentrated in the hands of non-SC/ST communities. The landlessness of SC/ST communities has been resulted the extensive dependency on landlords for their livelihood.

4.17 Fisheries

Prakasam district has a long coastline of about 102 k.m. in the east and has smaller rivers covering a length of 548 k.m. of running water. The people traditionally engaged in fishing activities in this district are the, agnikula kshatriyas, yanadis, mutrases, vada baligos, pattapus, chakalies, bestas, boyas and harijans. The fishermen in the interior parts are compelled to seek other alternative employment for their living because their earnings from fishing are meager.

The Government supplied mechanized boats also on hire purchase system to the cooperatives, which came forward to supply credit. In Prakasam district, there were 29 marine and 45 inland fishermen's cooperative societies by February 1993, with 10,348 members. The paid-up share capital of these societies was Rs.46,200 (*Andhra Pradesh Gazetteers, 2000, pp. 144- 146*). Below table shows the total marine inland fish caught during 1991-91 to 1993-94(see Table – 4.8).

Table: 4.8

Production of Marine and Inland Fishes in Prakasam District (in tonnes)

Particulars	1990 – 91	1991 – 92	1992 – 93	1993-94
Marine	45,500	50,400	56,600	59,900
Inland	9,450	11,600	15,728	16,730
Total	54,950	62,000	72,328	76,630

Source*: Andhra Pradesh, Prakasam District Gazetteers*, 2000.

The fish production was increasing continuously as the total which was 54,950 tonnes in 1990-91 rose by around 30 tonnes to around 76,630 tonnes, by 1993-94.

4.18 Trade

In Prakasam district, there are 12 agricultural market committees with 23 godowns. Out of these 13 are in rural areas with a storage capacity of 20,000 Mts (*op.cit, 2000*). Regulation of trade was enforced in respect of cotton and groundnut in the district.

4.19 Credit Sources

The credit sources in the district are divided into institutional and non-institutional credit sources. In non-institutional sources includes, Agricultural moneylenders, professional moneylenders, Merchants, traders, friends and relatives. The enquiries conducted in the early 1950s revealed that about 93% of the credit was met by these sources and the rest by the Co-operatives and Government agencies. *Nidhis* and Chit funds were organized by knowledgeable people, as early as in 1850, in order to relieve them from the clutches of money-lenders.

The Andhra Bank was the first to open its branch at Ongole as early as in 1936, followed by another branch at Chirala in 1942. In Prakasam district the institutional source includes that, commercial banks, o-integration-operative banks, regional rural banks. These are the most important financial agencies for mopping up the available savings and investing them to productive purposes.

4.20 District Lead bank Commercial banks

Before the formation of the district in February 1970, there were 16 branches of four commercial banks, i.e., the Andhra Bank. The vysya bank limited, the state bank of India, and the union bank of India. The nationalization of banks in 1969 witnessed rapid expansion of banking facilities in rural areas. The State Bank of India, the Syndicate Bank, and the Andhra Bank has the largest number of branches in the district, i.e., 41, 38 and 37 respectively. Thus the district with 16 bank branches in 1970 rose to 167 branches by the end of March 1995, recording a remarkable increase. (*Andhra Pradesh, District Gazetteers, 2000, p-181*). The Rayalasseema Grameena Bank, the Pinakini Grameena Bank and the district co-operative central bank, with 67 branches are the other banks involved in the lead bank scheme. The details of the lead bank branches are given (see table 4.9)

Table: 4.9

Lead bank branches in district (up to 1995)

Sl. No.	**Name of the Bank**	**No. of Branches**
1.	State Bank of India	41
2.	Syndicate Bank	38
3.	Andhra Bank	37
4.	Union Bank of India	12
5.	The vysya Bank Limited	8
6.	Indian Bank	6
7.	Canara Bank	4
8.	Pubjob National Bank	4
9.	Indian overseas Bank	3
10.	State Bank of Hyderabad	4
11.	Central Bank of India	3
12.	Vijaya Bank	1
13.	Corporation Bank	2
14.	Bank of Boroda	1
15.	The Karur Vysya Bank Limited	1
16.	The Lakshmi Vilas Bank Limited	1
17.	The Federal Bank Limited	1
18.	The Prakasam District Cooperative Central Bank Limited	29
19.	Pinakini Gramena Bank	23
20.	Rayalaseema Grameena Bank.	15
	Total	234

Source**:** *Andhra Pradesh, Prakasam District Gazetteers*, 2000.

By March 1995, there were in all 234 branches involved in the leading operations in the district under the lead bank scheme. Ongole (20) and Chirala (11), *mandals* have the largest concentration of bank branches, perhaps, Ongole is the district headquarters and Chirala, the largest commercial centre in the district. A phenomenal increase in the mobilization of deposits as well as advances by the banks is noticeable in the last two decades. The total deposits which were only Rs.315 lakhs in 1970, increased to Rs. 57,366 lakhs by March 1995. Similarly, under advances, this stood at Rs. 440 lakhs in 1970, increased to Rs. 45,394 lakhs by March 1995. The Credit Deposit Ratio (CDR), which decreased to 79 from 139.7 by the end of March 1995 (Andhra Pradesh District Gazetteers, 2000, p.182) showing a positive trend in deposit mobilization.

At the end of December 1993, the Regional Rural Banks spread over the district with 38 branches, among 32 *mandals*. The Co-operatives contributing, 4540.85 lakhs of agricultural loans in 1994-95, through the 29 branches.

4.21 Credit Requirements of the District

The credit requirements of the district are met under annual credit plan prepared by the designated bank and seven such plans were prepared for the years 1989 – 90 to 1995 – 96. The particulars of credit under the annual credit plans are given.

From the table 4.10, found that, from 1980 to 1989, the target achieved in agriculture and allied activities (except 1986). After 1989-90 onwards, the credit supply cannot achieve their target. In 1995-96, the targeted amount in agriculture and allied activities were Rs.17, 044 lakhs, achievement was only Rs.13, 148 lakhs (*A.P. District Gazetteers, 2000, p.180*). It found that the credit requirements from 1990-91 onwards increased rapidly. Because, the farmers showed more interest on commercial crops, which required more credit for production, like to buy new seeds, fertilizers, and cultivating tools.

Table: 4.10

Credit requirements in Prakasam District in 1980-96 (Lakhs)

Year	Agriculture and Allied activities		Industries		Small Business & Service Sector		Total	
	Target	Achiev-ment	Target	Achiev-ment	Target	Achiev-Ment	Target	Achiev-ment
1980	2,769	2,881	173	196	89	92	3,031	3,169
1981	3,255	4,342	280	426	131	203	3,666	4,971
1982	3,550	4,206	321	384	139	265	4,010	4,855
1983	4,077	4,613	326	346	257	343	4,660	5,302
1984	4,634	5,403	376	757	310	374	5,320	6,534
1985	5,286	5,490	506	566	610	434	6,384	6,490
1986	6,320	5,626	600	495	614	524	7,534	6,644
1987	6,300	6,260	600	416	625	672	7,525	7,348
1988-89	6,135	7,385	780	456	625	774	7,540	8,615
1989-90	6,786	5,597	733	353	710	433	8,229	6,383
1990-91	9,114	4,842	771	220	780	402	10,665	5,464
1991-92	9,966	7,194	1,005	496	802	455	11,773	8,145
1992-93	10,828	8,339	721	427	431	428	11,980	9,194
1993-94	12,906	10,360	716	560	544	505	14,164	11,425
1994-95	13,366	10,727	819	405	1,290	640	15,475	11,772
1995-96	17,044	13,148	1,124	777	1,600	903	19,768	14,828

Source: *Andhra Pradesh, Prakasam District Gazetteers*, 2000.

4.22 Profile of the Study Villages

It is a well known fact that majority of population in India lives in villages where agricultural sector provides employment to nearly 3/4 of its work force. Therefore there is needed to look into the socio-economic conditions that prevail in the villages and thereof the dynamics of rural society.

Prakasam District is selected to study the repayment performance of agricultural farmers. The district divided in to three Revenue Divisions which are 1. Ongole, 2. Kandukur and 3. Markapur. The irrigation sources of these three revenue divisions irrigation sours are predominantly Canal, Tank and Bore well (Rain) respectively. The study villages are selected such that they are from three different revenue divisions and also with different irrigation sources. The following villages are selected for the study

1. Chinakotta Palli, which is irrigated under Canal,
2. Machavaram, which is irrigated under Tank and
3. Marrivemula, which is irrigated under Bore wells.

All three villages have credit access from the banks, though the distance of access differed across the villages. The villages, Chinnakota palli and Machavaram villages are located 10 km away from the bank, while Marrivemula Village access to bank is at Markapur, which is 50 km away from the village.

4.23 Location of the villages

Chinakotta Palli is situated between East and North corner of the mandal headquarters Addanki, which is 12 km away from the village and 50 km away from the district headquarter. The bus and auto access is available frequently during the day, while the nearest railway station is 10 km away from the village.

Machavaram village is situated south end of the mandal headquarter kandukur, which 10 km away from the village and 55 km away from the district headquarter. The bus access is available frequently during day, while the nearest railway station Kavali, is situated at 15 km from the village

Marrivemula village is situated between west and North corner of the district and East of the mandal headquarter Pullala Cheruv. The bus access will available only 2 times of a day, while the nearest railway station is Markapur which is again 50kms from the village.

4.24 The Climate and Rainfall

The climate of the villages is generally hot and humid. The temperature usually reaches its peak in May-June months and lowest in December and January (Report of the *Mandal* Revenue Office). The rainy season usually starts from the middle of June and continuous up to November. The villages receives 3/4 of its annual rainfall from the north-east monsoons, i.e., from October to December. The intensity of rainfall is very high in the beginning of the period and gradually declines towards end of the period.

4.25 Soils

In the total area of the district, 51 per cent of the area is covered by Red soils, 41 per cent of the area is black cotton soils, about 6 per cent of the area is sandy soil and the rest 2 per cent of the area is other type soil.

Chinakotta Palli village and all the mandals of the Ongole division except three are predominantly distributed with block cotton soil. The Red Loamy soils are predominantly occurring in the mandals of Kandukur and Markapur Divisions. Machavaram village is covered by the Sandy soil, and Marrivemula village is covered by Red soil.

4.26 Demographic details

The below table 4.11 gives the demographic details of the three study villages. The total households in the three villages are 1162, 1632 and 708 in Chinakothapalle, Machavaram and Marrivemula respectively. The distribution of population is around 50.0% for male and female in all the three villages.

Table – 4.11

Population and Literacy

Total Population and Literacy of the Sample Villages							
Name of the Village	**Total Households**	**Population**			**Literacy**		
		Male	**Female**	**Total**	**Male**	**Female**	**Total**
Chinakotha Palle	1162	2351	2313	4664	1418	990	2408
Machavaram	1632	3259	3156	6415	1818	1369	3187
Marrivemula	708	1580	1506	3086	720	481	1201
In Percentage (%)							
Chinakotha Palle		50.41	49.59	100.00	58.89	41.11	100.00
Machavaram		50.8	49.2	100.00	57.04	42.96	100.00
Marrivemula		51.2	48.8	100.00	59.95	40.05	100.00

Source: *Census*, 2011

4.27 Irrigation Source

These three villages have three different irrigation sources. Chinakotta Palli village is predominately irrigated by the Canal, while Machavaram village is irrigated by the Tank. With regard to Marrivemula village it is dominated by bore well irrigation.

4.28 Land particulars:

The below table 4.12, shows the land particulars in selected villages. We can clearly observe from the above table that the total number of large farmers is significantly lower than the marginal farmers in all the three villages, however the total land under their cultivation is very high than the other two segments. In Machavaram village however, the largest segment of farmers are under small farmer category and incidentally also hold the largest area under cultivation.

Table – 4.12

Land particulars of the selected sample villages (in Acres)

Particulars	Chinakotta Palli	Machavaram	Marrivemula	Total
Marginal Farmers	27	15	28	70
Land Cultivated	20	26	29	75
Small Farmers	37	61	46	144
Land Cultivated	98	144	123	365
Large Farmers	36	24	26	86
Land Cultivated	145	124	175	444
Total Land	263	294	327	884

Source: *Field Survey*

The distribution of farm household and area under cultivation is highly skewed in Chinakottapalli village than the other two study villages.

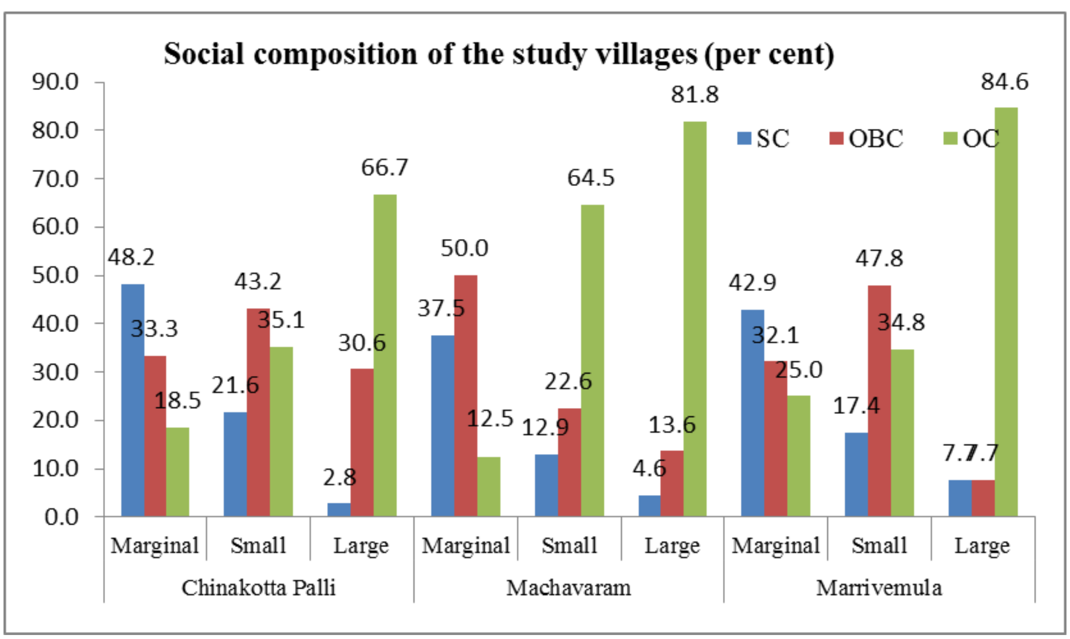
Table – 4.13

Social Composition of the Selected Sample

Name of the Village	Caste	Marginal Farmers	Small Farmers	Large Farmers	Total
Chinakotta Palli	SC	13	8	1	22
	BC	9	16	11	36
	OC	5	13	24	42
	Total	**27**	**37**	**36**	**100**
Machavaram	SC	6	8	1	15
	BC	8	14	3	25
	OC	2	40	18	60
	Total	**16**	**62**	**22**	**100**
Marrivemula	SC	12	8	2	22
	BC	9	22	2	33
	OC	7	16	22	45
	Total	**28**	**46**	**26**	**100**

Source: *Field Survey*

Majority of the farmers in Chinakottapalli are small (37 per cent), and large farmers (36), followed by marginal farmers (27) (Table-4.13). Among social classification the majority of the farmers among marginal category belong to SCs (48.2 per cent), followed by OBCs (21.6 per cent) and very insignificant (2.8 per cent) from the OCs. With regard to Machavaram we can see that the largest segment of farmers fall under the small farmer category (62 per cent), followed by large (22 per cent) and marginal (16 per cent). Looking at the caste wise classification of farmers, we can see that both among large and small segments, OCs form the largest land category at 81.8 per cent and 64.5 per cent respectively. However, in this village, the majority of marginal farmers are from among the OBCs (50.0 per cent), followed by SCs (37.5 per cent). Coming to Marrivemula, major chunk of farmers are from small farmers (46.0 per cent), followed by marginal (28.0 per cent) and large farmers (26 per cent). Looking at the caste wise classification, here again, majority of the marginal farmers are from SCs (42.9 per cent), followed by OBCs (32.1), while with regard to small farmers, majority of them are from OBCs (47.8 per cent), and OCs (34.8 per cent). The proportion of large farmers in this village is highly skewed towards OCs as 84.6 per cent of the large farmers are from this category, with SCs and OBCs having just 7.7 representations for each of them.



Chapter – V

Repayment Performance of barrowers: Analysis of Sample Villages

5.0.1 Introduction

The repayment performance of the agricultural farmers analysed in this chapter. The data collected from Prakasam district which divided into three revenue division; 1. Ongole Revenue Division, 2. Kandukur Revenue Division and 3. Markapur Revenue Division. From each revenue division one village selected with different irrigation sources. The three selected villages are; 1. Chinakotta Palli which is irrigating under Canal, 2. Machavarm which is irrigating under Tank and 3.Marrivemula, irrigating under Bore Wells depending on rain. The three villages have banking facility and easy excess to get agricultural loans. Chinakotta Palli village borrowing from Andhra Bank, Addanki Branch, Machavarm village borrowing from State Bank of India, Kandukur Branch and Marrivemula village borrowing from State Bank of India, Marrivemula Branch. The major crops growing in three village are Paddy in Chinakotta Palli and Machavaram village and Cotton and (Mirchi) redchiily or greenchilly in Marrivemula village.

5.0.2 Population

It is observed from the table (5.1) data collected from 3 villages namely Chinakotta Palli (V1), Machavaram (V2) and Marrivemula (V3). Farmers divided in to three types, based on their land holdings, Marginal farmers, Small and Marginal farmers and Large farmers. The table reveals that in Chinakotta Palli village the proportion of Small and Median farmers are higher compared with other two villages. From all three villages the percentages of small and Marginal farmers are higher in Machavaram village.

Table – 5.1

Total Population of Sample Villages and in Percentage

Particu-lars	Gender	Chinakotta Palli	Machavaram	Marrivemula	Total
V1	Male	30	56	43	129
		46.15	55.45	50.59	51.39
	Female	35	45	42	122
		53.85	44.55	49.41	48.61
	Total	**65**	**101**	**85**	**251**
		100	**100**	**100**	**100**
V2	Male	57	126	91	274
		55.34	51.43	55.15	53.41
	Female	46	119	74	239
		44.66	48.57	44.85	46.59
	Total	**103**	**245**	**165**	**513**
		100	**100**	**100**	**100**
V3	Male	51	51	59	161
		53.68	52.58	52.21	52.79
	Female	44	46	54	144
		46.32	47.42	47.79	47.21
	Total	**95**	**97**	**113**	**305**
		100	**100**	**100**	**100**
Grand Total	Male	**138**	**233**	**193**	**564**
		52.47	52.6	53.17	52.76
	Female	**125**	**210**	**170**	**505**
		47.53	47.4	46.83	47.24
	Total	**263**	**443**	**363**	**1069**
		100	**100**	**100**	**100**

Source: *Field Survey*

5.0.3 Social Compose of Selected Sample

Table 5.2 indicates social composition of Scheduled Caste, Backward Caste and Other Castes based on land holding size from selected samples of three villages. The percentage of Scheduled Caste category of marginal farmers is 48.15, 37.5 and 42.86. From the selected villages where as Backward Caste people percentage of marginal farmers' category are 33.33, 50 and 32.14 respectively.

Table – 5.2

Social Compose of Selected Sample – in Percentage

Village	Caste	Marginal Farmers	Small Farmers	Large Farmers	Total	Marginal Farmers	Small Farmers	Large Farmers	Total
V1	SC	13	8	1	22	48.15	21.62	2.78	22.00
	BC	9	16	11	36	33.33	43.24	30.56	36.00
	OC	5	13	24	42	18.52	35.14	66.67	42.00
	Total	**27**	**37**	**36**	**100**	**100.00**	**100.00**	**100.00**	**100.00**
V2	SC	6	8	1	15	40.00	13.11	4.17	15.00
	BC	8	14	3	25	53.33	22.95	12.50	25.00
	OC	2	40	18	60	13.33	65.57	75.00	60.00
	Total	**15**	**61**	**24**	**100**	**100.00**	**100.00**	**100.00**	**100.00**
V3	SC	12	8	2	22	42.86	17.39	7.69	22.00
	BC	9	22	2	33	32.14	47.83	7.69	33.00
	OC	7	16	22	45	25.00	34.78	84.62	45.00
	Total	**28**	**46**	**26**	**100**	**100.00**	**100.00**	**100.00**	**100.00**
Grand Total		70	144	86	300	23.33	**48.00**	28.67	100.00

Source: *Field Survey*

Where as in case of Other Caste category are 18.52, 12.50 and 25.00. In the same way, the Small and Medium farmers constitute21.62, 12.90 and 17.39 of Scheduled Caste category farmers, 43.24, 22.58 and 47.83 of Backward Caste category farmers and 35.14, 64.52 and 34.78 of Other Caste category farmers are in three villages. When it comes to the large farmers, the percentage from three villages are 2.78, 4.55 and 7.69 of Scheduled Caste category farmers, 30.56, 13.64 and 7.69 of Backward Caste category farmers, 66.67, 81.82 and 84.62 of Other Caste category farmers.

5.0.4 Caste wise and Land holdings

From the table 5.3, we can observe the farmers social compose and land particulars of the selected sample of three villages.In Chinakotta Palli village the total Scheduled Caste (SC) marginal farmers 59.00 percent and their land holding are 20.00 percent, small and medium farmers are 36.36 and their land holdings are 65.00 percent and large farmers are 4.55 percent and land holdings are 15.00 percent.

Table – 5.3

Farmers Caste wise and Land holdings of Selected Sample in Percentage

Village	Particulars	SC		BC		OC		Total	
		F	L	F	L	F	L	F	L
V1	M	59.09	20.00	25.00	6.48	11.90	4.35	27.00	7.60
	S	36.36	65.00	44.44	37.96	30.95	26.96	37.00	37.26
	L	4.55	15.00	30.56	55.56	57.14	68.70	36.00	55.13
	T	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
V2	M	40.00	22.73	32.00	16.25	3.33	1.76	16.00	8.84
	S	53.33	63.64	56.00	56.25	66.67	41.76	62.00	48.98
	L	6.67	13.64	12.00	27.50	30.00	56.47	22.00	42.18
	T	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
V3	M	54.55	25.00	27.27	13.89	15.56	3.33	28.00	8.59
	S	36.36	50.00	66.67	66.67	35.56	25.24	46.00	37.73
	L	9.09	25.00	6.06	19.44	48.89	71.43	26.00	53.68
	T	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Total		**19.67**	**14.50**	**31.33**	**29.45**	**49.00**	**56.06**	**100.00**	**100.00**

Source: *Field Survey* *Note: F – Farmers, L- Land holdings*

The total Backward Caste (BC) marginal farmers are 25.00 percent and their land holdings are 6.68 percent, small and medium farmers are 44.44 percent and land holdings are 37.96 percent and large farmers are 30.56 percent and land holdings are 55.56 percent. The total Other Caste (OC) marginal farmers are 11.90 percent and their land holdings 4.35 percent, small and medium farmers are 26.96 percent and land holdings are 68.70 percent and large farmers are 57.14 percent and land holdings are 68.70 percent. The total farmers in Chinakotta Palli village are 27.00 percent marginal farmers and their land holding are 7.60, small and medium farmers are 37.00 percent and land holdings are 37.26 percent and large farmers are 36.00 percent and land holdings are 55.13 percent.

The total farmers in three villages, Scheduled Caste farmers are 19.67 percent and their land holdings are 14.50 percent, the Backward Caste farmers are 31.33 percent and land holdings are 29.45 percent and the Other Caste farmers are 49.00 percent and land holdings are 56.06 percent.

In table 5.4, the data is covered for the span of ten years. This table indicates that total selected sample borrowings from 1999 to 2008. It is also indicates the village wise marginal farmers, small and medium farmers and large farmers borrowings. In the span of ten years, in Chinakotta Palli village the total borrowings of marginal farmers are 27, small and medium farmers are 37 and large farmers are 36. The other village Machavaram total barrowings of marginal farmers are 15, small and medium farmers are 61 and large farmers are 24. In Marrivemula village the total borrowings of marginal farmers are 28, small and medium farmers are 46 and large farmers are 26. Out of three hundred selected samples, the total borrowings of marginal farmers are 70, small and medium farmers are 144 and large farmers are 86.

The source of repayment performance for three elected villages are majorly divided in to three types, they are. Earned money from crop, owned money and borrowed from friends and Relatives. The table 5.6 explains that the sources of repayment among farmers in Chinakotta Palli village. The marginal farmers 43.75 percent paid from the source of earned money from the crop, 31.25 percent paid from the source of owned money and 25.00 percent paid from the source of borrowed from friends and relatives. In the same small and medium farmers 42.86 percent paid from the earned money from the crop, 42.86 percent paid from the owned money and 14.29 percent paid from the borrowed money from friends and relatives. The large farmers 42.86 percent repaid from the source of earned money from crop, 50.00 percent repaid from the source of owned money, 7.14 percent repaid from the borrowed from friends and relatives. The total farmers 43.24 percent repaid from the source of earned money from the crop, 40.54 percent repaid source from the owned money and 16.22 percent repaid source from the borrowed from the friends and relatives.

5.0.5 Total Borrowings

Table – 5.4

Selected Sample Total Borrowings – farmers wise – from 1999 to 2008

Particulars	Chinakotta Palli				Machavaram				Marrivemula			
Year	Marginal Farmers	S & M Farmers	Large Farmers	**Total**	Marginal Farmers	S & M Farmers	Large Farmers	**Total**	Marginal Farmers	S & M Farmers	Large Farmers	**Total**
< 1999		1	1	**2**								
2000			1	**1**								
2001										1	1	**2**
2002		2		**2**					1	3	1	**5**
2003		2	2	**4**					1	6	3	**10**
2004	2	3	1	**6**		13	2	**15**	5	7	6	**18**
2005	1	5	1	**7**		12	3	**15**	4	8	6	**18**
2006	4	1	2	**7**		11	4	**15**	4	9	3	**16**
2007	11	11	13	**35**	10	16	9	**35**	12	11	6	**29**
2008	9	12	15	**36**	5	9	6	**20**	1	1		**2**
Total	**27**	**37**	**36**	**100**	**15**	**61**	**24**	**100**	**28**	**46**	**26**	**100**

Source: *Field Survey*

5.0.6 Repayment Performance

Table 5.4 reveals that the total farmers' repayment status, in the span of ten years. In Chinakotta Palli village, out of hundred selected sample, 37 farmers repaid their agricultural loan, 63 farmers did not paid their agricultural loan.

Table – 5.5

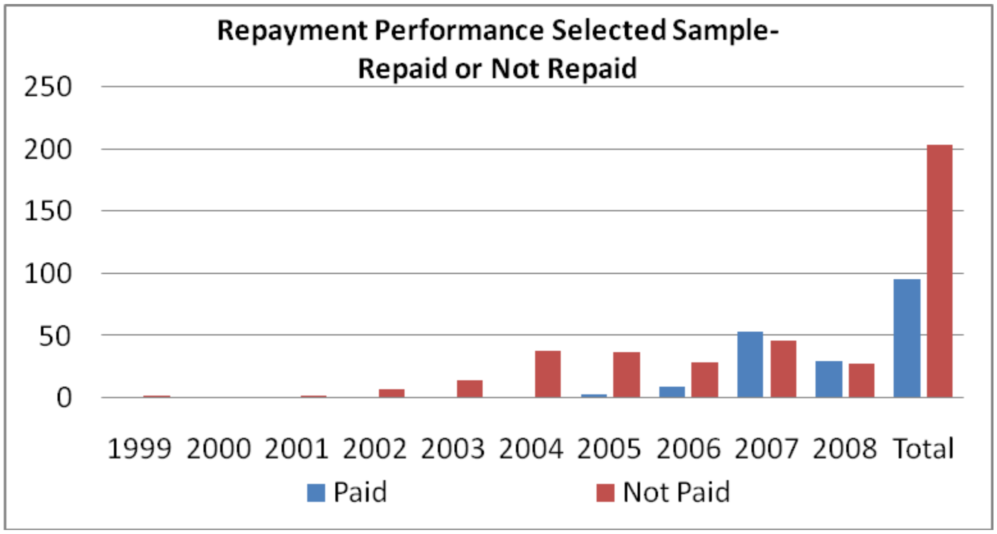
Repayment Performance – Repaid or Not Repaid

Year	V1		V2		V3		T	
	Paid	Not Paid	Paid	Not Paid	Paid	Not Paid	Paid	Not Paid
< 1999		2					0	2
2000		1					0	1
2001						2	0	2
2002		2				5	0	7
2003		4				10	0	14
2004		6	1	14		18	1	38
2005		7	3	12		18	3	37
2006	3	4	5	10	1	15	9	29
2007	16	19	24	11	13	16	53	46
2008	18	18	12	8		2	30	28
Total	**37**	**63**	**45**	**55**	**14**	**86**	**96**	**204**

Source: *Field Survey*

In Machavaram village, out of hundred selected sample, 45 farmers repaid their agricultural loan repayment, 55 farmers did not paid their loans. In Marrivemula village the repayment of the farmers very low, out of hundred selected sample 14 farmers repaid their agricultural loans; 86 farmers did not paid their agricultural loan. From the table we found that in Chinakotta Palli village, last two years (2007 & 2008) the farmers repaid loans are less than fifty percent. In Machavaram village we can observe same percentage of repayment by farmers, where as in Marrivemula village very few farmers repaid their agricultural loans. The total repaid and not repaid loans samples can be observed from bar diagram.

5. B - 1



5.0.6 Source of Repayment

Table – 5.6

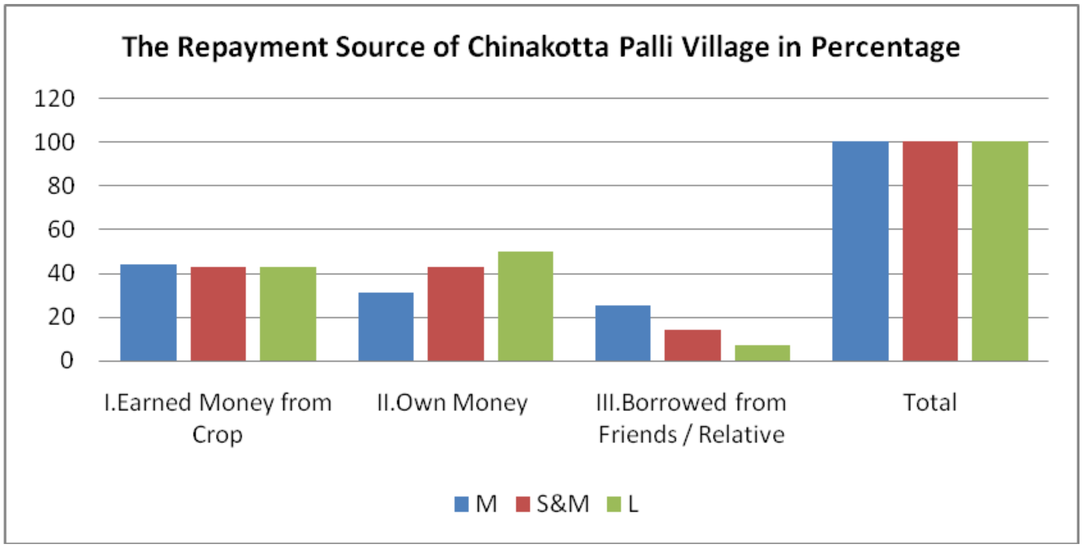
Source of Repayment Performance in Chinakotta Palli Village inPercentage

Particulars	I.Earned Money from Crop	II.Own Money	III.Borrowed from Friends / Relative	Total
Marginal Farmers	7	5	4	***16***
%	43.75	31.25	25.00	100
Small and Medium	3	3	1	***7***
Farmers-%	42.86	42.86	14.29	100
Large Farmers	6	7	1	***14***
%	42.86	50	7.14	100
Total	16	15	6	***37***
%	43.24	40.54	16.22	100

Source: *Field Survey*

The borrowings from friends and relatives, marginal farmers constitutes 66.67 percent, small and medium farmers 16.67 percent and large farmers 16.67 percent. When you see the large farmers more of them repaid from the source of earned money from the crop (37.50 percent) and owned money (46.67 percent), the farmers depended on borrowings from friends and relatives are very less (16.67 percent). When compare three types of farmers in Chinakotta Palli village from the source point of view, marginal farmers more depending on borrowing from friends and relative 66.67 percent, in the case of large farmers it is differ only 16.67 percent depending on borrowings. All the differences can also see in below bar diagram.

5. B - 2



Machavaram village repayment performance showed in table 5.7, from the source of earned money from crop, the marginal farmers constitute, 50.percent, small and medium farmers 52.00 percent and large farmers 50.00 percent.

When the source of repayment from owned money, the marginal farmers constitute 25.00 percent, small and medium farmers are 28.00 percent and large farmers are 33.33 percent.

Table – 5.7

Source of Repayment Performance of Machavaram Village – In Percentage

Particulars	**I.Earned Money from Crop**	**II.Own Money**	**III.Borrowed from Friends / Relative**	**Total**
Marginal Farmers	4	2	2	***8***
%	50.00	25.00	25.00	100.00
Small and Medium	13	7	5	***25***
Farmers - %	52.00	28.00	20.00	100.00
Large Farmers	6	4	2	***12***
%	50.00	33.33	16.67	100.00
Total	23	13	9	***45***
%	51.11	28.89	20.00	100.00

Source: *Field Survey*

The source of repayment, borrowing from friends and relative, the marginal farmers are 25.00 percent, small and medium farmers are 20.00 percent and large farmers are 20.00 percent. In this village large number of the marginal farmers depends on borrowings. We can see the variation in bellow bar diagram also.

5. B - 3

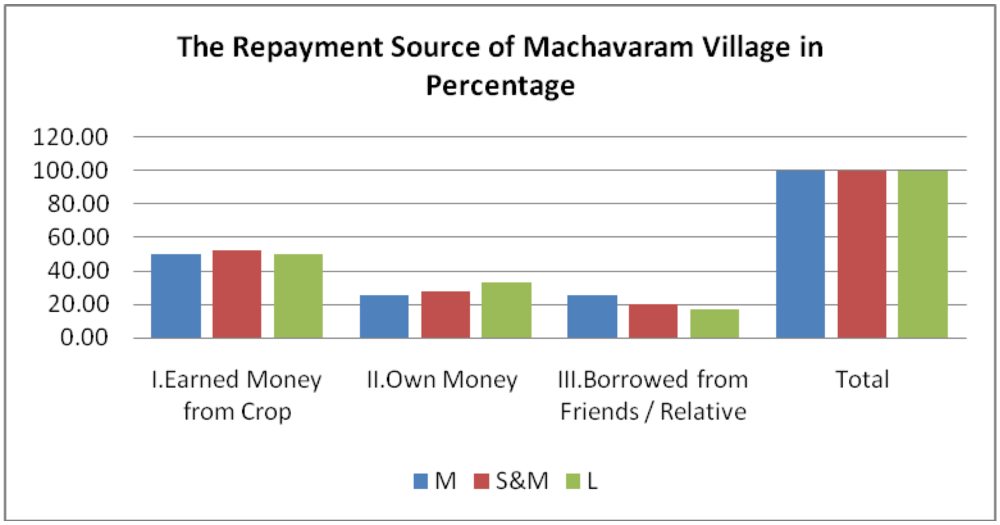


Table – 5.8

Source of Repayment Performance of MarrivemulavVillage – In Percentage

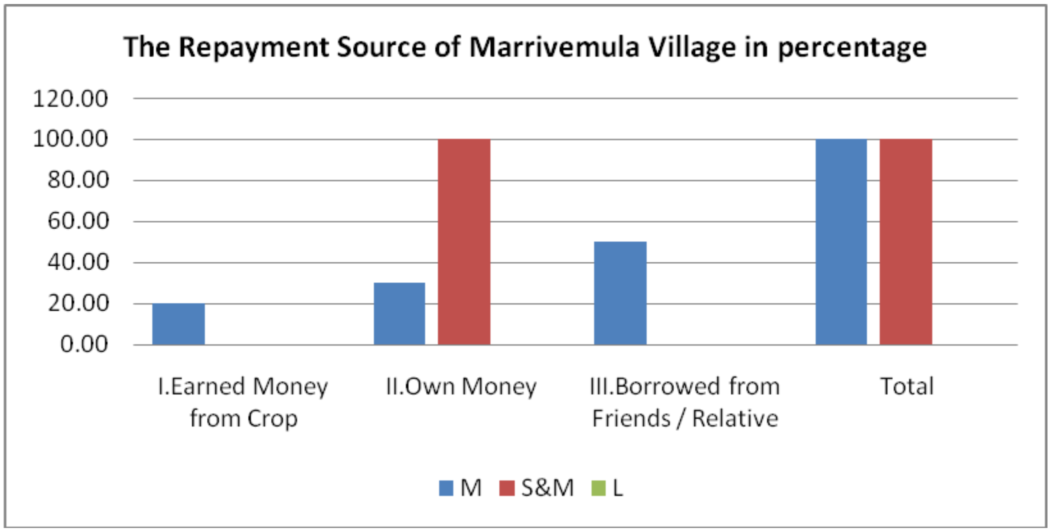
Particulars	I.Earned Money from Crop	II.Own Money	III.Borrowed from Friends / Relative	Total
Marginal Farmers	2	3	5	***10***
%	20.00	30.00	50.00	100.00
Small and Medium	0	4	0	***4***
Farmers-%	0.00	100.00	0.00	100.00
Large Farmers	0	0	0	***0***
%	0.00	0.00	0.00	0.00
Total	2	7	5	***14***
%	14.29	50.00	35.71	100.00

Source: *Field Survey*

In table 5.8 showed the repayment performance is very low in selected sample of Marrivemula village. The marginal farmer's repayments are around 20. Percent paid from the source of earned money from the crop, 30.00 percent paid from the source of owned money and 50.00 percent paid from the borrowings from friends and relatives.

When come to small and medium farmers, all of them paid from the source of owned money. The large farmers repayment is nil in this village. In below bar diagram we can also find the differences.

5. B - 4



5.0.7 Repayment Performance in Three Villages

The repayment performance of three villages shown in table 5.9, the marginal farmers 38.24 percent repaid from the source of earned money from crop, 29.41 percent repaid from the source of owned money and 32.35 percent repaid from the source of borrowed from the friends and relatives.

Table -5.9

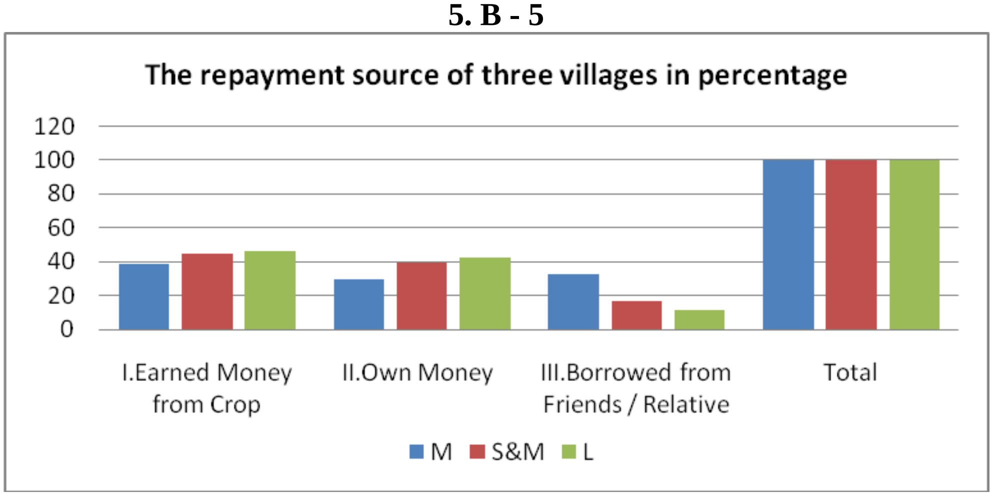
Source of Repayment Performance in Three Villages – In Percentage

Particulars	I.Earned Money from Crop	II.Own Money	III.Borrowed from Friends / Relative	Total
Marginal Farmers	13	10	11	34
%	38.24	29.41	32.35	100
Small and Medium Farmers	16	14	6	36
%	44.44	38.89	16.67	100
Large Farmers	12	11	3	26
%	46.15	42.31	11.54	100
Total	41	35	20	96
%	42.71	36.46	20.83	100

Source: *Field Survey*

The small and medium farmers, 44.44 percent repaid from the source of earned money from the crop, 38.89 percent repaid from the source of owned money and 16.67 percent repaid from the source of borrowed from the friends and relatives. The large farmers 46.15 percent repaid from the source of earned money from the crop, 42.31 percent repaid from the source of owned money and only 11.54 percent repaid from the source of borrowed from the friends and relatives. The total farmers repaid, like from the source of earned money from the crop is 42.71 percent, from the source of owned money is 36.46 percent and from the source of borrowed from friends and relatives is 20.83 percent. The total three villages' repayment source we can observe below diagram.

5. B - 5



5.0.8 Factors effecting on agricultural loan repayment performance

Factors effecting on agricultural loan repayment performance divided in to three types, 1. Crop Failure / Very Less Productivity, 2. Because of Old Debt and 3. Expected the Govt. Loan Waiver Scheme. Out of 300 selected samples in three villages, 204 farmers did not repaid their loan because of above reasons. The table – 5.10 shows the factors effecting repayment performance of farmers in Chinakotta Palli village.

Tabel – 5.10

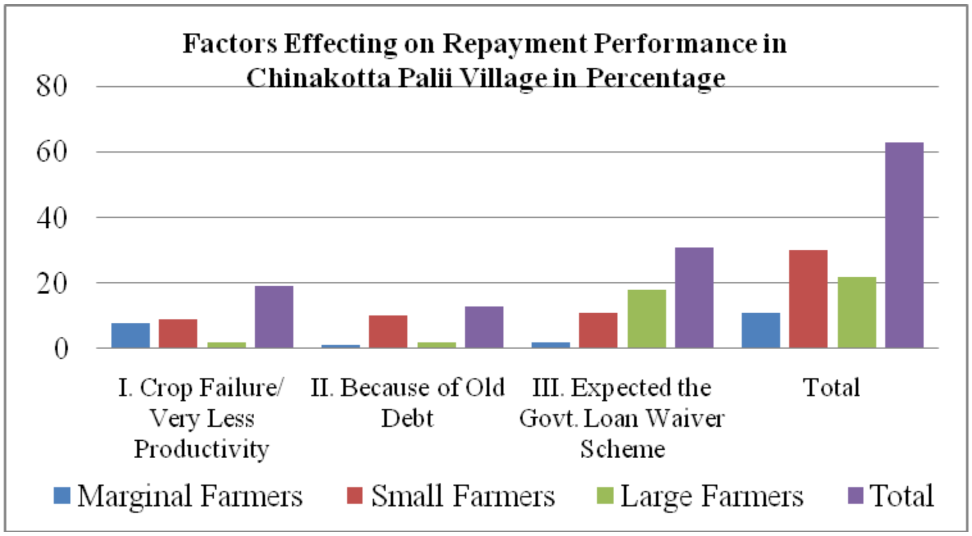
Factors Effecting on Repayment Performance in Chinakotta Palii Village in - Percentage

Particulars	I. Crop Failure/ Very Less Productivity	II. Because of Old Debt	III. Expected the Govt. Loan Waiver Scheme	Total
Marginal Farmers	8	1	2	11
%	42.11	7.69	6.45	17.46
Small & Medium	9	10	11	30
Farmers - %	47.37	76.92	35.48	47.62
Large Farmers	2	2	18	22
%	10.53	15.38	58.06	34.92
Total	19	13	31	63
%	100	100	100	100

Source: *Field Survey*

Because of crop failure/very less productivity, 42.11 percent marginal farmers, 47.37 percent small & medium farmers and 10.53 percent large farmers not able to pay their agricultural loan. The other factor effecting farmers' repayment is 'because of old debt', marginal farmers 7.45 percent, small and medium farmers 76.92 percent and large farmers 15.38 percent did not repaid their loan. When you see another factor affected is expected the Government loan waiver scheme, because of this, 6.45 percent marginal farmers, 35.48 small and medium farmers and 58.06 large farmers did not pay their loans. In 2007 and 2008, the majority of large farmers expected the loan waiver scheme, small and medium farmers did not pay mainly because of old debt and majority of marginal farmers did not pay because of crop failure/very less productivity. It is observed those 17.46 percent marginal farmers, 47.62 percent small and medium farmers and 34.92 percent large farmers unable to repay their loans in Chinakotta Palli village. Below bar diagram shows the factors effecting farmers' loan repayment in Chinakotta Palli village in percentage.

5. B - 6



In Machavaram village, more farmers repaid their agricultural loan compare with other villages. It shows from Table 5.11 that due to crop failure/very less productivity, 19.05 percent marginal farmers not able to repay their loan, small and medium farmers 57.14 percent and large farmers 23.81 percent did not repay their loan..When come to the next factor, because of old debt, 5.56 percent marginal farmers, 83.33 percent small and medium farmers and 11.11 percent large farmers unable to repay their agricultural loan. Here also observed that small and medium farmers are more affected because of old debt. The third factor is expectation about the implementation the Government loan waiver scheme, with this opinion the 12.5 percent marginal farmers, 56.25 percent small and medium farmers and 31.25 percent large farmers unable to pay their agricultural loan. The loan waiver scheme is one of the major factor that farmers have not paid their loans as the farmers expected that the this scheme would be implemented

Table – 5.11

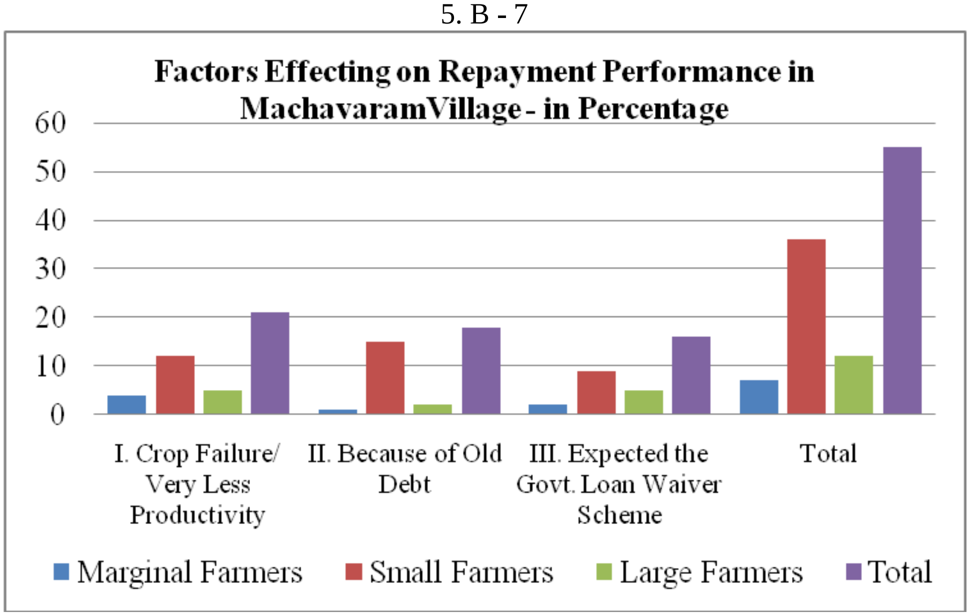
Factors Effecting on Repayment Performance in Machavaram Village in Percentage

Particulars	I. Crop Failure/ Very Less Productivity	II. Because of Old Debt	III. Expected the Govt. Loan Waiver Scheme	Total
Marginal Farmers	4	1	2	7
%	19.05	5.56	12.5	12.73
Small & Medium Farmers - %	12	15	9	36
	57.14	83.33	56.25	65.45
Large Farmers	5	2	5	12
%	23.81	11.11	31.25	21.82
Total	21	18	16	55
%	100	100	100	100

Source: *Field Survey*

From the table 5.11, 12.73 percent marginal farmers, 65.45 small and medium farmers and 21.82 large farmers unable to repay their loans in Machavaram village. All these differences are also observed in the following bar diagram.

5. B - 7



In Marrivemula village, majority of farmers unable to repay their loan, out of 100, only 14 farmers repaid their loans, remaining 86 farmers did not repay. In table – 5.12

observed that 19.05 percent marginal farmer, 38.10 percent small and medium farmers and 42.86 percent large farmers unable to repay their loan because of crop failure and very less productivity. It shows that more small & medium and large farmers unable to repay their loan because of crop failure or very less productivity. Because of old debt, 23.81 percent marginal farmers, 47.62 percent small and medium farmers and 28.57 percent large farmers unable to repay their loans. Some of the farmers expected the government loan waiver scheme, among them, 17.39 percent marginal farmers, small and medium farmers 60.87 percent and large farmers 21.74 percent. Finally the table shows that in Marrivemula village, very few of marginal and large farmers expected theloan waiver scheme when compare with small & medium farmers.

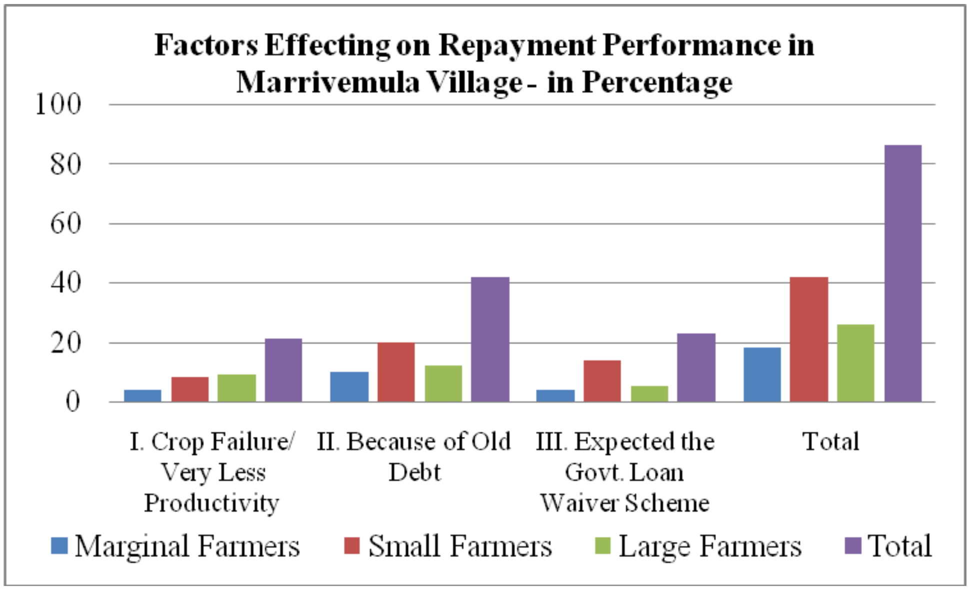
Table – 5.12

Factors Effecting on Repayment Performance in Marrivemula Village in Percentage

Particulars	I. Crop Failure/ Very Less Productivity	II. Because of Old Debt	III. Expected the Govt. Loan Waiver Scheme	Total
Marginal Farmers	4	10	4	18
%	19.05	23.81	17.39	20.93
Small & Medium	8	20	14	42
Farmers - %	38.1	47.62	60.87	48.84
Large Farmers	9	12	5	26
%	42.86	28.57	21.74	30.23
Total	21	42	23	86
%	100	100	100	100

Source: *Field Survey*

5. B – 8



5.0.9 Repayment Performance - Total Selected Sample

In table – 5.13 shows the factors effecting on repayment performance selected sample in three villages. Due to the crop failure/very less productivity, 26.23 percent marginal farmers, 47.54 small and medium farmers and 26.23 percent large farmers unable to repay their loans. Because of old debt, 16.44 percent marginal farmers, 61.64 percent small and medium farmers and 21.92 percent large farmers did not repay their loans.

Table – 5.13

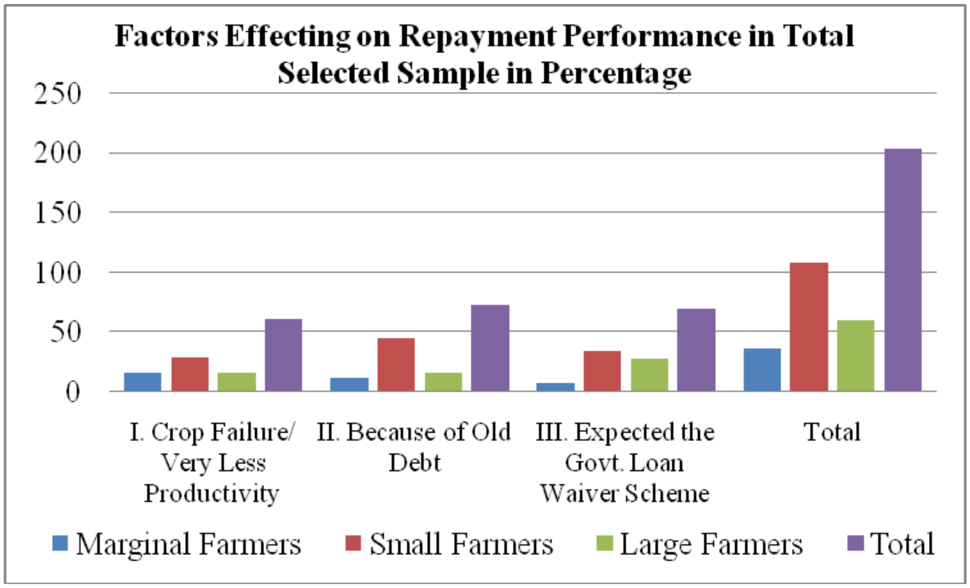
Factors Effecting on Repayment Performance - Total Selected Sample in Percentage

Particulars	I. Crop Failure/ Very Less Productivity	II. Because of Old Debt	III. Expected the Govt. Loan Waiver Scheme	Total
Marginal Farmers	16	12	8	36
%	26.23	16.44	11.43	17.65
Small & Medium	29	45	34	108
Farmers - %	47.54	61.64	48.57	52.94
Large Farmers	16	16	28	60
%	26.23	21.92	40	29.41
Total	61	73	70	204
%	100	100	100	100

Source: *Field Survey*

Because of expected government loan waiver scheme, 11.43 percent marginal farmers, 48.57 percent small and medium farmers and 40.00 percent large farmers did not repay their loans. Totally 17.65 percent marginal farmers, 52.93 small and medium farmers and 29.41 percent large farmers did not repay their agricultural loans

5. B - 9



Chapter – VI

Summary and Conclusion

Credit plays an important role to accelerate the process of agricultural development in the developing countries like India. Credit in right quantity and of the right kind immensely contributes to agricultural development. In India agriculture forms its economic base and has been treated as primary sector of the economy. Even though the relative importance of agriculture in the Indian economy declined, its significance has not diminished. The majority of rural people depend on agriculture and allied activities as cultivators and agricultural labourers.

Indian agriculture mostly depends on rains and governed by seasons. Frequent crops failures due to the natural causes are quite common. Indian agriculture sector has been dodged with low productivity till early 1970's, however the advent of green revolution made way for increased productivity.

The advent of green revolution in Indian agriculture needed a variety of costly inputs like high yielding variety seeds, chemical fertilizers, pesticides and other agricultural inputs. These inputs could be made available in required quantities to farmers only by provision of sufficient farm credit to a major section of farmers. Credit is required for the purpose of relief and rehabilitation because in agriculture majority of the farmers are poor and are not in a position to invest from own sources in any operations.

The enactment of the cooperative credit societies Act, 1904 and the subsequent formation of the Primary Agricultural Cooperative Societies (PACS) was the first effort made by the Government in the country to institutionalize the agricultural credit. After independence, the Government of India and the State Government took keen interest in organizing and managing the Cooperative Credit Institutions, Commercial Banks (CBs) and Regional Rural Banks (RRBs) so as to enable the rural people to avail credit at concessional rate.

The era of globalization has brought another institutional approach for rural credit i.e., Self-Help Groups (SHGs). It has been stated that the SHGs have reduced the transaction cost, serving as a link between the borrowers and banks and ensured proper recovery. The institutional agencies for rural credit consist of the Cooperative Banks, CBs, RRBs and SHGs at ground level and NABARD as a refinancing agency at national level.

Credit should be easily accessible, cheap, and safe as well as productive one. Credit becomes a bottleneck to production if it is not available at the right time, in quantity needed and in the required institutional forms.

The government of India first entered into the rural credit market with a scheme of 'Taccavi Loans' under the Land Improvement Loans Act of 1883 and the Agriculturists Loans Act of 1884. The Taccavi loans were very small size of loans disbursed during famine and other conditions of distress, at lower rates of interest. These loans were generally inadequate and tied-up with procedures and formalities and were gradually phased out. Institutional sources comprises, Co-operative Banks, Scheduled Commercial banks, Regional Rural Banks (RRBs) and National Bank for Agriculture and Rural Development (NABARD). The Commercial banks, RRBs, provide both short and medium-term loans for agriculture and allied activities. The National Bank for Agricultural and Rural Development (NABARD) is the Apex institution at the national level for agricultural credit and provides refinance assistance to other agencies.

The non-institutional agencies come under the broad category of informal sector. The first official appearance of the term informal sector was in the Report of the International Labour Office's Comprehensive employment Mission to Kenya during 1972. The professional and non-professional moneylenders were traditionally called as the non-institutional agencies. These agencies are also termed as unregulated or unorganized market or informal finance or indigenous financial market.

The non-institutional agencies, is quite efficient because it provides at any time, doorstep service, accepts deposits of any amount, extends credit of any amount for any purpose, and does not demand complex formalities.

Moneylenders occupy a predominant position among the non-institutional agencies in providing rural finance because the household needs of rural people are not confined only to production credit. They charge higher rate of interest. There are two kinds of moneylenders in the village, Professional moneylenders whose main occupation is money lending, Non-professional moneylenders or agricultural moneylenders whose subsidiary occupation is money lending.

They have thorough knowledge of the borrowers so that they lend against land promissory note for higher rate of interest. These groups money lending is the best known sources of investment.

The small farmers have the practice of borrowing money for their landlords. They act as a non-professional moneylender. They occupy the lands of farmer-borrowers who do not settle the amount. Consequently the landless labourers are forced to become bonded slaves. Friends and relatives are most popular sources of rural credit market. They lend money to fulfill the urgent requirement to the selected persons with or without consideration. But money lending is not a profession for them.

The structural readjustment programme and WTO regime affected agriculture at several points; the attention has been paid to study the nature and functioning of Rural Credit Markets. The government wanted to provide rural credit at concessional rate through the cooperative banks and commercial banks.

The NABARD was established with the sole objective of integrating the efforts of the various agencies to provide rural credit. The prioritization of rural credit has created panic in the minds of the rural borrowers, dragged them to the doorsteps of the moneylenders, and ultimately increased their indebtedness.

The informal agencies have been dominating the rural credit market with no rules and regulations. The institutional agencies widened the gap between institutional agencies and borrowers like inadequate availability, unequal distribution of formal credit, lack of access to formal credit to rural borrowers and absence of supervision over the end use of loans. This has gradually strengthened the role of the non-institutional agencies in the rural credit market.

Each of the above aspects has drawn considerable research attention during the past, but no broad generalization could be formed regarding the actual nature and functioning of the rural credit market. The present research seeks to build a knowledge base about the structure and actual nature of operation of rural credit in Andhra Pradesh.

Over the past four decades, the rural credit scenario has observed significant changes. The Review of Rural Credit Reports (1954, 55) and various rounds of All India Debt and

Investment Survey (AIDIS) (1967, 1977, 1986) also show the changing profile of rural indebtedness in the country. Since 1951, India is to enlarge the role of credit agencies, the policies might be changing from time to time but the ultimate objective is to increase the share of the institutional credit in the rural areas.

The share of institutional credit has risen over the last few decades as it grew from 31.7 per cent in 1971 to over 61.1 per cent in 2002. The decade of 1991-2002 depicts a sharp fall in the share of institutional credit as it fell from an all-time high of 66.3 in 1991 to 61.1 per cent in 2002. The institutional credit share of government has drastically decline from 7.1 per cent during 1971 to just 1.7 per cent during 2002. The share of cooperatives continued to be the backbone for credit for rural cultivator households as its share rose from 22.0 per cent to 30.2 per cent during the same period. The role of commercial banks started to increase post 1981 as their share drastically rose to 28.9 per cent in 1981 and 35.2 per cent in 1991. The non-institutional credit, all the segments have decline in share being recorded for agricultural money lenders whose share fell from 23.0 per cent in 1971 to 9.9 per cent in 2002. Share of landlords declined from 8.1 per cent to 0.9 per cent, while that of relatives and friends also fell from 13.1 to 6.2 per cent between 1971 and 2002 respectively. In fact share of most of the non-institutional credit sources have observed an uptick during the post reform period, given that the share of commercial banks role has started to come down.

NABARD conducted the research studies during the early eighties, showed that despite having an extremely wide network of rural bank branches, a very large number of the poorest of the poor continued to remain outside the fold of the formal banking system. These studies gave signals that the existing banking policies, systems, procedures, deposit and loan products were perhaps not most suited to meet the immediate needs of the very poor. Consumption requirements were met by the informal sources at exploitative interest rates, as the poor borrowers were unable to offer to the banks any security for the small consumption loans. NABARD felt a need for an alternative to the present system of lending inspired by the achievements of Bangladesh Grameena Bank, and started the programme of Micro Finance.

Prakasam District is selected purposefully to study the repayment performance of agricultural farmers. The district divided in to three Revenue Divisions which are; Ongole, Kandukur and Markapur. The irrigation sources of these three revenue divisions are predominantly Canal, Tank and Bore well (Rain) respectively.

According to the 2011 census, the district had a population of 3,397,448 of which male and female were 1,714,764 and 1,682,684 respectively. The population density is around 193 persons per square kilometer, while the sex ratio stands at 981. The literacy rate of the district is 63.08, with male and female literacy at 72.92 and 53.11 per cent respectively. The Prakasam district is predominantly rural with more than 84 per cent of the population inhabiting the rural areas.

Prakasam District is one of the largest districts of Andhra Pradesh; majority of the economy of the district is agrarian based, with both food and commercial crops being cultivated. However, only the eastern part of the district is irrigated, while the western part is largely dry with hardly any irrigation facilities. The district is also frequently affected by the natural calamities, like floods, families, lack of rains and cyclones. Given the limitations of irrigation availability and the upsurge in commercial crops there is a need for improvement in credit facilities in the district in order to improve the agricultural production and also the livelihoods of the rural population. Presently there are a number of institutions, which are supplying short-term and long-term credit to the farmers in the district. However, even though institutional credit is increasing in some areas, the informal agencies continue to dominate. The outreach of institutional credit is also limited to some areas, even as the access is even more restricted. Given that the informal credit is locally available, and easy to get credit without restrictions from the informal agencies, it has been catering to the majority of the needs in the district. However the spread of informal agencies has its own limitations given its exploitative and non-productive nature.

The credit requirements of the district are in 1995-96, the targeted amount in agriculture and allied activities were Rs.17, 044 lakhs, achievement was only Rs.13, 148 lakhs It found that the credit requirements from 1990-91 onwards increased rapidly. Because, the farmers showed more interest on commercial crops, which required more credit for production, like to buy new seeds, fertilizers, and cultivating tools.

The study villages are selected such that they are from three different revenue divisions and also with different irrigation sources. The villages are, Chinakotta Palli, which is irrigated under Canal, Machavaram, which is irrigated under Tank and Marrivemula, which is irrigated under Bore wells.

All three villages have credit access from the banks, though the distance of access differed across the villages. The villages, Chinnakota Palli and Machavaram villages are located 10 km away from the bank, while Marrivemula Village access to bank is at Markapur, which is 50 km away from the village.

The total households in the three villages are 1162, 1632 and 708 in Chinakothapalle, Machavaram and Marrivemula respectively. The distribution of population is around 50.0% for male and female in all the three villages.

The total number of large farmers is significantly lower than the marginal farmers in all the three villages, however the total land under their cultivation is very high than the other two segments. In Machavaram village however, the largest segment of farmers are under small farmer category and incidentally also hold the largest area under cultivation. The distribution of farm household and area under cultivation is highly skewed in Chinakottapalli village than the other two study villages.

Conclusion

Wet land irrigated farmers have more knowledge about political or government policies, particularly in Andhra Pradesh. In this study Chinakotta Palli and Machavaram Villages, which irrigating under Canal and Tank have more knowledge on government policies when compare with Marrivemula Village

In Chinakotta Palli village, 1999 to 2008, 63 farmers did not repay their loans, among them 37 farmers borrowed in 2007and 2008. It shows that, farmers who expected loan waiver scheme are more in this village, When we compared with other two villages Machavaram and Marrivemula

In Machavaram village also have same tendency, but the repayment percent is more when we compare with other two villages, 1999 to 2008, 55 farmers not paid their loans, among them, 19 farmers borrowed in 2007 and 2008

In Marrivemula Village, only 14 farmers repaid their loans, 86 farmers not paid, interestingly, in 2007 and 2008, borrowed only 18 farmers, remaining 82 farmers borrowed before 2007

It shows that in Marrivemula Village, the repayment performance is very low and also they did not have proper knowledge about government policies.

The repayment performance is more in wet land irrigated farmers, however because of political promises; farmers are not repaying their loans. The repayment source of marginal and small farmers is majorly from their own money or borrowing from friends/relative, the large farmers repaid majorly from the source of earned money from crop.

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SYNOPSIS

Research Title

‘Rural Credit and Repayment Performance: A Case of Prakasam District in Andhra Pradesh

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Introduction

Credit is a device for facilitating temporary transfer of purchasing power from one individual or institution to another. It provides the basis for increased production efficiency through specialization of this function. Credit plays an important role to accelerate the process of agricultural development in the developing countries like India. Credit in right quantity and of the right kind immensely contributes to agricultural development. The role of credit consists in laying the foundation stone of the farm revolution and maintaining the structure built upon it.

India is an agrarian economy. Agriculture in India forms its economic base and has been treated as primary sector of the economy. Even though the relative importance of agriculture in the Indian economy declined, its significance has not diminished. The total population of India is 121.0 crores as per 2011 census, of which people from the rural constitute 68.84 per cent. The majority of these rural people depends on agriculture and allied activities as cultivators and agricultural labourers.

Indian agriculture mostly depends on rains and governed by seasons. Frequent crops failures due to the natural causes are quite common. The advent of green revolution in Indian agriculture needed a variety of costly inputs like high yielding variety seeds, chemical fertilizers, pesticides and other agricultural inputs. These inputs could be made available in required quantities to farmers by only by provision of sufficient farm credit to a major section of farmers who come under small and marginal category. Therefore, credit is required for the purpose of relief and rehabilitation because in agriculture, majority of the farmers are poor and are not in a position to invest from own sources in any operations.

The era of globalization has brought another institutional approach for rural credit i.e., Self-Help Groups (SHGs). Both Government and Non-Governmental Organizations took keen interest in organizing and registering the SHGs among small group of members. It has been stated that the SHGs have reduced the transaction cost, serving as a link between the borrowers and banks and ensured proper recovery.

Institutional Credit Sources

The existence of a strong and efficient credit institution is more than half the battle won, especially for the developing countries. The success of credit-oriented development project is significantly dependent upon the soundness of the credit structure i.e., of the credit institution and the credit system. Credit should be easily accessible, cheap, and safe as well as productive one. Credit becomes a bottleneck to production if it is not available at the right time, in quantity needed and in the required institutional forms.

Institutional sources comprises: a) Co-operative Banks, b) Scheduled Commercial banks, c) Regional Rural Banks (RRBs) and d) National Bank for Agriculture and Rural Development (NABARD). The Primary Agricultural Societies (PACSs) provide mainly short and medium-term loans and LDBs provide long-term loans to agricultural farmers. The Commercial banks, RRBs, provide both short and medium-term loans for agriculture and allied activities. The National Bank for Agricultural and Rural Development (NABARD) is the Apex institution at the national level for agricultural credit and provides refinance assistance to other agencies. The Reserve Bank of India, gives overall direction to rural credit and financial support to NABARD for its operations.

Non-Institutional Sources

The non-institutional agencies come under the broad category of informal sector. Informal sector is that segment of labour market in the developing countries that has absorbed significant number of job seekers, mostly in a pattern of self-employment. Their activities depend to a large extent on the local and regional demand. The term informal sector covers the activities of a great number of intermediaries such as professional and non-professional moneylenders, pawn shops, merchants and petty traders, landlords, shop keepers, indigenous bankers and finance corporations. The professional and non-professional moneylenders were traditionally called as the non-institutional agencies.

The non-institutional agencies are also termed as unregulated or unorganized market or informal finance or indigenous financial market. The non-institutional agencies, however, is quite efficient because it: 1) provides at any time, doorstep service, 2) accepts deposits of any amount, 3) extends credit of any amount for any purpose, and 4) does not demand complex formalities. They have large capital and greater risk absorbing capacity with them. The non-institutional agencies operates in a localized market, and has the full information about its clients. The All-India Debt and Investment Survey (AIDIS) 1951-52 to 2001-02 discussed 6 – lender types of players in this market viz., 1. Agricultural moneylenders, 2. Professional moneylenders, 3. Landlords, 4. Traders, 5. Friends and Relatives and 6. Others.

Statement of the Problem

The structural readjustment programme and WTO regime affected agriculture at several points. A great deal of attention has been paid to studying the nature and functioning of Rural Credit Markets, for they have become so complex during this period. In the pre-economic reform period, the government wanted to provide rural credit at concessional rate through the cooperative banks and commercial banks. The NABARD was established with the sole objective of integrating the efforts of the various agencies in this context. The post-economic reform period has created adverse climate for rural credit by scaling down the institutional credit available for the priority sector. This prioritization of rural credit has created panic in the minds of the rural borrowers, dragged them to the doorsteps of the moneylenders, and ultimately increased their indebtedness. Contrary to this, some of the studies showed that access to formal credit has increased the indebtedness of the borrowers.

On the other hand, the informal agencies i.e., Non-institutional Agencies, have been dominating the rural credit market with no rules and regulations. The problems like inadequate availability, unequal distribution of formal credit, lack of access to formal credit to rural borrowers and absence of supervision over the end use of loans etc., in institutional agencies widened the gap between the institutional agencies and borrowers. Further, the viability of rural credit business for the institutional agencies has been a debatable issue due to increasing overdue, high transaction cost, time consuming procedures, delay in payment and absence of involvement of borrowers in the planning process. This has gradually strengthened the role of the non-institutional agencies in the rural credit market.

Each of the above aspects has drawn considerable research attention during the past, but no broad generalization could be formed regarding the actual nature and functioning of the rural credit market. This has raised many questions, such as:

How is the nature of participation of various categories of rural households in rural credit market? What determines the rural households' access to formal loan? Did the institutional credit have reduced the indebtedness of the borrowers? Is there any significant relationship between the access and repayment of institutional credit? What are the factors responsible for non-repayment of loan?

By addressing all these questions the present research seeks to build a knowledge base about the structure and actual nature of operation of rural credit in Andhra Pradesh.

Objectives

1. To analyse the Institutional Credit Growth and indebtedness in India from an agrarian perspective
2. To study the different types of borrowers; with different irrigation sources, access to credit, and their usage of the institutional credit in the agricultural sector
3. To analyse the determining factors affecting the borrowers to repay/not repay the loans, in selected villages.

Methodology

Prakasam District is selected to study the repayment performance of agricultural farmers. The district divided in to three Revenue Divisions which are 1. Ongole, 2. Kandukur and 3. Markapur. The irrigation sources of these three revenue divisions irrigation sours are predominantly Canal, Tank and Bore well (Rain) respectively. The study villages are selected such that they are from three different revenue divisions and also with different irrigation sources. The following villages are selected for the study, 1. Chinakotta Palli, which is irrigated under Canal, 2. Machavaram, which is irrigated under Tank and 3. Marrivemula, which is irrigated under Bore wells. All three villages have credit access from the banks, though the distance of access differed across the villages. The villages, Chinnakota palli and Machavaram villages are located 10 km away from the bank, while Marrivemula Village access to bank is at Markapur, which is 50 km away from the village.

Source of Data

To understand the existing agricultural credit structure and recovery performance of the rural banks in the country, the study uses secondary sources of data, which include the RBI Publications, NABARD Annual reports, All India Rural Credit Surveys, All India Debt and Investment Survey, Statistical Statements Relating to the Co-operative movement in India (RBI and NABARD) and some Research studies. In addition, another source of data is through reference to the library and the review of different articles, papers and relevant previous studies. The primary data of this study has been collected from the sample villages in Prakasam District.

Hypothesis:

1. Production utilization of credit leads to proper repayment
2. Institutional credit is not able to solve the problem of indebtedness of the rural borrowers
3. Repayment practice is much better in wet areas than in dry areas.

Review of Literature

Jayasheela and Birdar attempted to examine the problems of over dues and the reasons for non-repayment of loans disbursed under different schemes from the RRBs in Karnataka. The study revealed that, about 65 per cent of the beneficiaries had deliberately postponed the repayment of loans with the expectation that the Government would waive their loans in future. The study observed that borrowers did not get credit in time and this led to misuse of credit. Owing to cumbersome procedures followed by the RRBs in sanctioning loans, needy borrowers were forced to go to the private moneylenders than to the bank. The study showed that, there was lot of restrictions to get loans from Government institutions, especially during the seasonal time. So, people normally look for the moneylenders or private agencies for alternative sources of credit.

Subrata Ghatak (1975) attempted to study on the Rural Money Market System, which was important segment of the Indian economy. The major objectives of the study are, a) *to investigate the nature, composition and working of the organized and unorganized money markets, b) to examine the factors affecting the demand side of agricultural credit, interest rates, c) to discuss the working of the major organized agencies.* The analysis depended upon data from various source, like All India Rural Credit Survey 1951 – 52, Rural Credit Follow up Survey 1956 – 57, All India Debt and Investment Survey 1961 – 62. The study found that, the Indian rural money markets have distinctly dual character, as it was divided between the organized and unorganized sectors. The unorganized financial agencies, particularly the moneylenders were strong in the supply side. At that time of the study it is found that they supplied 70% of total rural credit. The existing belief about the unproductive use of loans by Indian cultivators, particularly for family consumption has not been substantiated in the study. It appears that capital rather than family expenditure was the most significant explanatory variable affecting both borrowing and debt in most periods. The study concluded that, there has been considerable expansion of lending by the institutional lending agencies to agriculture, particularly in the high yielding variety (HYV) areas. The demand for credit in some areas was still low because of resistance to new technology. The solution may lie in credit supervision, spread of information and land reform. In some districts the co-operative credit plays a significant role in the adoption of those crops, where the degree of risk was fairly high. However, the study findings are confined to changes only at the macro-level and not at the micro level.

The research report by Tapas Kumar Sarangi (2011), examined debt situation of the rural people and their indebtedness towards different sources of credit available in the rural market in the light of micro finance institutions. The study has been done using household sample survey in the state of Andhra Pradesh, covering 24 villages in three predominantly tribal districts; Khammam, Mahabubnagar and Warangal. The study focuses on studying the financial position of rural households and their access to credit and in that light observe the utilization and repayment of credit and collection practices followed by the credit providers.

The study found a high rate of indebtedness (80 per cent) across all occupational segments of rural households. The rate of indebtedness is even higher among landless and marginal farmers (90 per cent), who incidentally had a lower share of the institutional loans than the other larger farmers. The study found that unhealthy competition among the micro finance institutions led to a competition for clients, which has in turn contributed to over-indebtedness as people started to borrow from multiple sources. The study found that an average of four loans has been borrowed per household at overall level in Andhra Pradesh. In order to reduce the indebtedness the study suggested increasing the income of rural households in the long run by generating employment and increasing productivity in the state. The study also recommends that there should be continuously monitor the functioning of non-institutional sources of finance, while at the same time strengthen the functioning and lending procedure of the commercial banks and cooperatives should be strengthened. Insurance should always be attached with all kind of borrowings.

Conclusion

Wet land irrigated farmers have more knowledge about political or government policies, particularly in Andhra Pradesh. In this study, Chinakotta Palli and Machavaram Villages, which irrigating under Canal and Tank have more knowledge on government policies when compare with Marrivemula Village

In Chinakotta Palli village, 1999 to 2008, 63 farmers did not repay their loans, among them 37 farmers borrowed in 2007and 2008. It shows that, farmers who expected loan waiver scheme are more in this village, When we compared with other two villages Machavaram and Marrivemula

In Machavaram village also have same tendency, but the repayment percent is more when we compare with other two villages, 1999 to 2008, 55 farmers not paid their loans, among them, 19 farmers borrowed in 2007 and 2008

In Marrivemula Village, only 14 farmers repaid their loans, 86 farmers not paid, interestingly, in 2007 and 2008, borrowed only 18 farmers, remaining 82 farmers borrowed before 2007

It shows that in Marrivemula Village, the repayment performance is very low and also they did not have proper knowledge about government policies.

The repayment performance is more in wet land irrigated farmers, However because of political promises, farmers are not repaying their loans. The repayment source of marginal and small farmers is majorly from their own money or borrowing from friends/relative, the large farmers repaid majorly from the source of earned money from crop.

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