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Agricultural Credit in Punjab: Have Policy Initiatives Made a Dent in Informal Credit Market?

by

Anita Gill

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Centre for Development Economics and Innovation Studies (CDEIS)
PUNJABI UNIVERSITY

AGRICULTURAL CREDIT IN PUNJAB: HAVE POLICY INITIATIVES MADE A DENT IN INFORMAL CREDIT MARKET?

Anita Gill*

Abstract

Agrarian credit markets have been at the centre of policy intervention in India since the beginning of the last century, when the co-operative movement was launched in an attempt to provide an institutional alternative to the exploitative moneylenders. Yet, providing adequate and timely institutional finance to farmers continues to be one of the most intractable problems. The focus of this paper is on the agrarian credit markets in the state of Punjab, once labelled as India's most successful experiment in agricultural development. However, the state has now been caught up in a severe agrarian crisis, with indebtedness of farmers and their ensuing suicides occupying centre stage. This is symptomatic of the alarming dominance of informal lenders engaged in exploitative practices through interlinking the credit market with output, input and labour markets, and the failure of the institutional credit set up to thwart such practices. The study thus traces in general the growth trajectory of the agrarian credit structure in Punjab, while also reflecting on the presence of interlinked credit transactions. The features and impact of such transactions has been documented using empirical data from a revisit micro study carried over a twenty year period in a single district of Punjab.

Keywords: Informal lenders, indebtedness, institutional credit, inter-linkage, agriculture, Punjab

* Professor of Economics, Department of Distance Education, Punjabi University, Patiala.

Introduction

Most developing countries have the common characteristic of having a predominantly agrarian economy. It is, therefore, imperative that any development strategy in such economies should devote substantial effort at agricultural development. A major constraint in agricultural development being non-availability of finance, the need for affordable, sufficient and timely supply of institutional credit to agriculture cannot be overlooked.

In India, agriculture has always been the most important economic sector, currently accounting for above 17 per cent of GDP but a dependence of 51 per cent population on it (World Bank 2012). It was recognized long back that the plight of majority of the population could be improved only by increasing agricultural productivity. A very important input to achieve this is credit – in fact, an assessment by the Reserve Bank of India had pointed out that every 1 per cent increase in real agricultural credit results in an increase in real agricultural GDP by 0.22 per cent with a one year lag (Subbarao 2012). Public policy in India has thus always been directed towards ensuring adequate credit with focus on institutionalization of rural credit. However, despite adoption of a multi-agency system, and the tremendous expansion of branch network in rural areas, credit situation in agricultural sector has seen limited success, which is amply evident from the persistence of the informal lenders with all their exploitative practices even after several decades of administered allocation of credit to agriculture. In fact, rising costs of cultivation and declining productivity increased credit needs but eroded the incomes and hence repaying capacity of farmers, which, combined with inadequate, untimely institutional finance led to a situation of high levels of indebtedness from informal lenders and ultimately triggered farmers to take the extreme step of committing suicides. This was especially so in the immediate post-economic reform era, when both the state and the banks backtracked on their commitments of investment and lending of agriculture. Recently, efforts towards better flow of institutional credit to agriculture in the form of lower interest rates, doubling the credit flow, and schemes like Kisan Credit Cards, have been initiated, which is expected to bring some respite to the crisis ridden agricultural sector.

Like the rest of the country, Punjab's agrarian economy too has been reeling under a severe crisis characterized by stagnating productivity, falling incomes and increasing costs of production. This despite the fact that Punjab had played a pioneering role in ushering in Green Revolution that saw India's transition from a food-importing country to a food surplus economy. Institutional credit had complemented the agricultural sector in Punjab to achieve a landmark progress (Singh, 1990). But since late 1980s, waning of the initial prosperity of farmers due to increasing farm costs and input prices has put heavy pressure on the farmers to borrow more from the informal lenders in the absence of access to adequate formal finance. Informal loans entail exorbitant rates of interest and interlinked credit transactions (sale of crop/labour to the lender) but their persistence and magnitude in the agrarian credit market raises concerns regarding the adequacy and efficacy of credit policy for agriculture.

The present paper is an attempt at relooking the agrarian credit structure and situation in Punjab especially since the beginning of the present century, so as to assess the recent policy initiatives for strengthening the quality as well as quantity of the agrarian credit delivery system. The paper is divided into six sections. The introductory section is followed by a section on the methodology adopted for sample size for the two surveys carried out with a twenty year gap. The structural changes in Punjab economy are examined in Section III. The agricultural credit market structure and situation in Punjab will be taken up in Section IV. Apart from making use of secondary sources of data, particularly for the formal credit situation, and results of independent primary surveys, observations from a primary survey and a revisit study of the survey area carried out after a twenty year time period for assessing the changing situation in informal credit market, will also be made use of in this section. Section V will dwell on the public policy initiatives in improving the credit delivery mechanism and also suggest some further possible remedial measures. Concluding remarks are presented in Section VI.

II

The present paper draws its results and conclusion on the basis of a re-visit study that was carried out after a twenty year gap, in six villages of Patiala district of Punjab. In an attempt to capture the persistence of informal lenders and the characteristics of informal lending, a primary survey had been carried out in the immediate post-reform period, i.e. in 1993-94 in Patiala district (Gill, 2000). The district at that time was divided into nine development blocks (now eight, with the exclusion of Dera Bassi), which were officially classified into three agro-climatic zones. One block from each zone was selected. Thus, from the undulated plain region Ghanour block, from the upland plain region Patiala block, and from the flood plain region Samana block were selected. Two villages from each block were selected. The study region thus consisted of six villages – Ramgarh and Roorgarh from the Patiala block; Chappar and Sogalpur from the Ghanour block; and Dodra and Retgarh from the Samana block. Around forty households from each village were sought to be contacted for the collection of required information, but non-response from certain households limited the actual sample to be 181 households. The field investigation was carried out with the help of a detailed questionnaire through the method of personal interview. Data were collected for two crop seasons.

The survey was followed up again after a twenty year gap, in 2012-13. Attempt was made to re-examine the same households regarding their borrowing situation. However, since the time gap was immense, a few households could not be contacted as they had either shifted out of the village, or left cultivation. Hence, new households were added in the same land size group wherever possible. Despite this, the total sample size turned out to be 173 for the re-visit study. However, this sample was sufficient to study the credit situation regarding interlinked transactions and make comparisons with the previous survey.

III

Punjab state has an area of 50362 sq. km comprising of 48256 kq. km (95.84%) of rural area. Its total population according to 2011 census was 277.04 lakhs, of which 62.50% was rural population. Its per capita income stood at Rs. 78594 at current prices (Rs. 46422 at 2004-05 prices) in 2011-12, with the states of Gujarat, Maharashtra, Kerala, Sikkim, Tamil Nadu, Haryana, Uttrakhand and Himachal Pradesh[1] ahead of it (Statistical Abstract of Punjab, 2012). The average annual growth rate of net state domestic product (NSDP) of the Punjab economy was 3.66 per cent during 2000-01 to 2005-06 which increased to 7.25 per cent during 2006-07 to 2011-12 (Table 1). In sharp contrast to this, agricultural NSDP, which grew at a high rate of 5.15 per cent per annum during 1980-81 to 1990-91, slipped to a low of 0.9 per cent per annum from 2000-01 to 2005-06, and recovered marginally to 1.50 per cent per annum during 2006-07 to 2011-12. These low growth rates are indicative of a grave crisis like situation.

The gravity of situation is further highlighted if the share of agriculture sector in NSDP is observed (Table 2). This share was 54.27 per cent in 1970-71, which declined sharply to 27.32 per cent in 2012-13, a decline of nearly 27 percentage points. The share of manufacturing sector doubled from around 8 per cent to nearly 17 per cent, i.e. an increase of 9 percentage points. Services sector improved its share. The deceleration of the growth rate has reduced the relative income share of the agricultural sector.

Table 1: Average Annual Growth Rates of NSDP and Agricultural NSDP of Punjab

(per cent per annum)

Year	Agricultural NSDP	NSDP of Punjab
1980-81 to 1990-91	5.15	2.39
1991-92 to 1998-99	2.16	2.55
2000-01	0.69	3.40
2001-02	-0.18	1.32
2002-03	-5.79	2.57
2003-04	7.79	4.94
2004-05	1.78	5.24
2005-06	1.11	4.52
2000-01 to 2005-06	0.90	3.66
2006-07	2.70	10.78
2007-08	3.7	8.67
2008-09	1.82	5.54
2009-10	-1.30	6.4
2010-11 (P)	1.14	6.5
2011-12 (Q)	0.96	5.6
2006-07 to 2011-12	1.50	7.25
2012-13 (A)	0.22	5.20

Source: Estimated from NSDP at Factor Cost by Sectors in Punjab; Economic and Statistical Organization, Govt. of Punjab: Statistical Abstract of Punjab (various issues)

Note: (i) Figures till 1998-99 are at 1980-81 prices; till 2005-06 at 1999-2000 prices, and 2006-07 onwards at 2004-05 prices.
(ii) P implies Provisional; Q implies Quick Estimates; A implies Advance

This structural shift, however, is in contrast to the high degree of dependence of population on agriculture in Punjab. In 1971, workforce engaged in agriculture (cultivators and agricultural workers) was 62.67 per cent, which dramatically fell to 35.6 per cent in 2011 (Table 3). However, it is still high compared to the sectoral share of agriculture in NSDP. Simultaneously, the cultivator population declined by more than half, although that of, agricultural workers did not decline as much. The share of industrial workers too declined slightly, while the gain of workforce in the services sector was dramatic – from 26 per cent to 54 per cent over the period 1971-2011. This is indicative of the curious phenomenon of Punjab economy having bypassed the usual path of structural transformation and becoming service oriented prematurely. Agriculture income has been squeezed much more than the lift of workforce from this sector. A substantial portion of the workforce still dependent on agriculture for livelihood is facing the problem of being gainfully employed elsewhere.

Another difficult situation confronting the cultivators relates to the tardy growth of minimum support prices (MSP) for wheat and paddy which are the two major crops of Punjab. Table 4 clearly brings out that the real rise of MSP was negative during the period 1980-81 to 2005-06, while there was a marginal increase from 2005-06 to 2011-12. This is in the face of greater increase in the total operational costs of paddy and wheat as compared to increase in yield, which substantially lowers the margins of cultivators (Singh, K. 2009). Besides, there is expenditure to be made on machinery and its maintenance/replacement, apart from the mandatory consumption expenditures.

Table 2: Sectoral Distribution of NSDP at Factor Cost in Punjab

(percentage)

Year→ Sector↓	1970-71	1980-81	1990-91	2000-01	2010-11 (P)	2011-12 (Q)	2012-13 (A)
Agriculture and Livestock	54.27	48.46	47.63	37.79	29.43	28.28	27.32
(a) Agriculture	38.51	32.22	30.69	26.45	19.98	19.06	18.40
(b) Livestock	15.76	16.24	18.94	11.34	09.45	09.22	8.92
Manufacturing	08.04	11.00	16.27	12.93	16.62	16.60	16.79
Electricity, gas and water supply	00.84	01.31	02.45	02.24	01.30	01.17	1.13
Construction	09.21	06.15	03.74	05.16	07.79	07.73	6.79
Trade, Hotel and Restaurants	10.96	14.58	11.33	15.53	12.47	12.29	12.40
Transport, Storage and Communication	01.73	02.05	02.32	04.19	04.91	04.88	4.56
Banking and Insurance	01.80	02.55	04.67	04.56	05.58	05.74	6.07
Real Estate and Business Services	04.79	04.26	03.20	03.69	04.41	04.48	4.58
Public Administration	01.79	02.81	03.28	04.27	04.50	04.54	4.55
Others	06.57	06.81	05.11	9.14	10.68	11.66	12.86

Source: Economic and Statistical Organization, Statistical Abstract of Punjab (various issues), Govt. of Punjab.

Note: P implies Provisional; Q implies Quick Estimates; A implies Advance

Table 3: Structure of Workforce in Punjab

(Percentage)

Year→ Sector↓	1971	1981	1991	2001	2011
Agriculture	62.67	58.02	56.07	38.95	35.60
(a) Cultivators	42.56	35.86	31.44	22.62	19.55
(b) Agricultural Workers	20.11	22.16	24.63	16.32	16.05
Industrial Workers	11.30	13.50	12.28	08.43	10.24
Other Workers	26.03	28.47	31.65	52.63	54.16
Total	100.00	100.00	100.00	100.00	100.00

Source: Calculated from Economic and Statistical Organization, Statistical Abstract of Punjab (various issues), Govt. of Punjab.

Table 4: Minimum Support Prices for Wheat and Paddy

(in Rs.)

Year	MSP of Wheat at Current Prices	MSP of Wheat at Constant Prices	MSP of Paddy at Current Prices	MSP of Paddy at Constant Prices
1980-81	130	399.63	105	322.78
1985-86	162	336.06	142	294.54
1990-91	225	307.04	205	279.75
1995-96	380	317.86	360	301.13
2000-01	610	393.17	510	328.71
2005-06	640	598.13	570	532.71
2011-12	1285	709.94	1080	596.68
Average Annual Growth Rate (1980-81 to 2005-06 (1993-94 prices)	-0.69		-0.33	
2005-06 to 2011-12 (2004-05 prices)	2.67		1.72	

Source: (i) Rangi and Singh (2007) quoted in Gill (2010).
(ii) Govt. of India, Economic Survey 2012-13.

The above factors have proved to be an ever increasing financial burden on the farmers, leading them more and more towards indebtedness for fulfilling production as well as consumption needs. Their repayment capacity too has been severely jeopardised. Institutional credit had seemingly not been enough to keep farmers away from the informal lenders, resulting in their exploitation and distress driven suicides.

IV

Rural credit market in India has always been characterized by the coexistence of both formal and informal sources of finance. Before the beginning of the First Plan in 1951, almost the entire credit needs of the rural sector were provided by the money lenders (Pradhan 2013). The evolution of institutional credit to agriculture can be broadly classified into four distinct phases (Golait 2007):

(i) 1904-1969 (dominance of cooperatives, setting up of Reserve Bank of India (RBI));
(ii) 1969-1975 (nationalization of commercial banks and setting up of Regional Rural Banks (RRBs)); Priority sector norms (1972);
(iii) 1975-1990 (setting up of NABARD)
(iv) 1991 onwards (financial sector reforms, microfinance and SHG-Bank Linkage).

The enactment of the Cooperative Societies Act in 1904 laid the ground for the institutional involvement in agricultural credit. The decade of 1970s marked the entry of commercial banks into the arena of agricultural credit. The setting up of RRBs in 1975 and the formation of National Bank for Agriculture and Rural Development (NABARD) in 1982 were commendable efforts by RBI to institutionalize the credit channel for rural sector.

These efforts have culminated into a multi-agency approach for purveying credit to agriculture, comprising of cooperative banks, scheduled commercial banks and RRBs. The spread of this institutional machinery led to a considerable increase in the share of institutional credit for agriculture, from around 7 per cent in 1951 to more than 60 per cent in 2002. The share of non-institutional sources accordingly declined from 93 per cent to 39 per cent during the same period (All India Debt and Investment Survey and NSSO, quoted in Subbarao, 2012). Institutional share wise, the share of commercial banks in 2011-12 was the maximum (72.4 per cent), followed by cooperative banks (16.9 per cent) and RRBs (10.6 per cent). The break-up of this share in 1991-92 was 43 per cent, 52 per cent and 5 per cent respectively (NABARD Annual Reports).

Table 5: Institutional Credit Flow to Agriculture in Punjab

(Rs. in Lakhs)

Year	Commercial Banks	Co-operative Banks	RRBs	Total
1970-71	1799.39 (17.62)	8410.45 (82.38)	-	10209.84 (100.00)
1980-81	14458.14 (37.54)	24058.45 (62.46)	-	38516.59 (100.00)
1995-96	76380 (38.99)	115612 (59.02)	3908 (1.99)	195900 (100.00)
2000-01	260990 (50.67)	240795 (46.75)	13286 (2.58)	515071 (100.00)
2004-05	769593 (60.15)	468125 (36.59)	41698 (3.26)	1279416 (100.00)
2010-11	3031032 (80.83)	553062 (14.75)	165666 (4.42)	3749760 (100.00)
2011-12	2759569 (78.62)	547840 (15.61)	202755 (5.78)	3510164 (100.00)
2012-13	3052976 (78.11)	618748 (15.83)	237073 (6.06)	3908797 (100.00)

Source: (i) EPW Research Foundation 2007-08: Agricultural Credit in India: Changing Profile and Regional Imbalances – Special Tabulations provided by NABARD.
(ii) Controlling Heads of Banks, Chandigarh.
(iii) P. Satish (2006).

Note: (i) Figures are for direct agricultural advances.
(ii) Figures in parentheses are percentages to total.

The agriculture credit market structure in Punjab too comprises of both the institutional and the non-institutional sources. The institutional sources, like the rest of India, are multi agency, comprising of scheduled commercial banks (29), RRBs (3) and Cooperative Banks. The cooperative credit structure has two constituents – short term agricultural credit institutions and long term agricultural credit institutions. The former are a three-tiered structure with the Punjab State Cooperative Bank at the apex level, the Central Cooperative Banks (CCBs) at the district/tehsil level, and the Primary Agricultural Credit Societies (PACS) which disburse loans to the ultimate borrowers. At present, there are 20 CCBs with 827 branches, and 3968 PACS (Statistical Abstract of Punjab, 2012). The long-term agricultural needs are met by the Agricultural Development Banks, with the Punjab State Cooperative Agriculture Development Banks (SCADS) at the apex and the Primary Cooperative Agricultural Development Banks (PCADB) at the grassroot level. At present there are 89 branches/offices of the PCADBs. There are three RRBs in the State – Sutlej Gramin Bank, Malwa Gramin Bank, and Punjab Gramin Bank, sponsored by Punjab and Sind Bank, State Bank of Patiala, and Punjab National Bank, respectively.

Table 5 gives the institutional credit flow to agriculture in Punjab. It can be observed that while in the immediate post-reform era, the share of cooperative banks in institutional credit was the maximum; their share has been declining over the years, especially till 2010-11, after which the share of cooperatives picked up only slightly. The share of commercial banks, on the other hand, increased tremendously.

Table 6: Bank Branches, Deposits and Credit in Rural Areas in Punjab

Year (As on March)	Branches (Number)	Deposits (Rs. in lakhs)	Credit (Rs. in Lakhs)	Credit-Deposit (C-D) Ratio
2000	1699 (51.66)	1111047	564272	0.51
2001	1706 (51.40)	1225428	666586	0.54
2002	1713 (51.16)	1524893	885446	0.58
2003	1754 (51.12)	1662521	922893	0.55
2004	1748 (50.19)	1799049	954890	0.53
2005	1751 (48.31)	1905518	1088003	0.57
2006	1723 (48.48)	2027228	1235520	0.61
2007	1732 (46.82)	2338668	1542670	0.66
2008	1770 (45.94)	2631617	1649177	0.63
2009	1817 (45.23)	3158440	1898232	0.60
2010	1882 (4443)	3521932	2125737	0.60
2011	2008 (43.36)	4007040	2539315	0.63
2012	2140 (43.25)	4466595	2906282	0.65
2013	2389 (43.96)	5221820	3576069	0.68

Source: Controlling Heads of Banks, Chandigarh.

Note: (i) Figures are total of scheduled commercial banks, RRBs and Co-operative Banks.
(ii) Figures in parentheses are percentages to total bank branches in Punjab

Table 6 gives an indication of banks' reach out to rural areas and the use of rural deposits for rural credit (credit-deposit i.e. C-D ratio) in Punjab. While the rural branches increased in absolute numbers, their share in total bank branches decreased from 2000 till 2012, with only a non-descript improvement in 2013. The rural C-D ratio, on the other hand, increased over the same period, although till 2005, the bank branches had not even maintained the RBI stipulated mandatory C-D ratio of at least 60 per cent. At present, it is around 68 per cent. Also, while deposits had increased nearly 4.5 times during this 13 year period, credit had increased by nearly 6.5 times. However, if we consider rural C-D ratio for scheduled commercial banks only, it was 57 per cent in 2012, as compared to 72.73 per cent for rural India for the same year. (RBI, Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks).

Against this backdrop of institutional finance, a disturbing feature of the post reform period in Punjab, as in the rest of the country is the persistence of the informal lenders. In 1962, non-institutional credit agencies accounted for 89 per cent of outstanding cash debt, which decreased to 22 per cent in 1992. But in 2002, informal sources again increased their share to around 44 per cent (Table 7). The challenge of lowering Non Performing Assets and meeting other prudential norms in the wake of financial sector reforms translated into less favours for agriculture. This, combined with backtracking of public expenditure on health, education and rural development forced greater borrowings from informal sources. Independent surveys carried out after this period also highlight the hold of informal lenders who mainly operate in the garb of commission agents (Table 8). These are the lenders, who finance cultivators to obtain exclusive rights to purchase their crop, and/or force them to purchase inputs only from the lenders. This, apart from the exorbitant rates of interest charged on the loan amount. Such dual transactions, technically called interlinked credit transactions are an important aspect of the informal indebtedness.

Table 7: Share of Institutional and Non-Institutional Agencies in Outstanding Cash Debt in Rural Areas in Punjab

(Percent)

Year (As on June)	Government	Cooperatives	Commercial Banks	Informal
1962	3.6	7.1	-	89.3
1972	5.2	24	3.1	67.7
1982	8.9	21.4	43.8	25.5
1992	2.5	20.1	55.3	22.1
2002	1.2	19.0	28.6	43.7

Source: Compiled from All India Debt and Investment Surveys: quoted in Pradhan 2013.

Table 8: Estimates of Agency-wise Share in Credit Flow to Agriculture in Punjab

(Per cent)

Credit Agency	1997 (Shergill)	2002 (P. Satish)	2003 (NSSO)	2005-06 (Sukhpal, et. al)	2008 (Shergill)
Commercial Banks	19.42	24.43	28.40	44.65	31.78
Co-operatives	27.14	30.12	17.60	17.28	18.91
Commission Agents	46.32	45.45*	44.50	31.98	43.36

Source: Field Surveys of Authors, NSSO 59th Round, 2005.

Note: * credit from all informal sources.

In an attempt to capture the persistence (or otherwise) of informal lenders changing (if any) and characteristics of informal lending, a survey that had been carried out in the immediate post reform period i.e. 1993-94 in six villages of Patiala district of Punjab (Gill 2000), was followed up again after a twenty year gap i.e. in 2012-13. The change in source-wise borrowings of these households over the two points of time is presented in Table 9. The table gives some startling results in the sense that although borrowings from co-operatives registered some change, commercial banks found immense favour, save for the landless and extra large cultivators (whose preference for commercial banks was the same). At the same time, percentage of households borrowing from informal lenders had gone down for all size groups of holdings, except the extra large farmers. The reasons, as reported by the respondents, were policy initiatives undertaken since the last few years, like lowering interest rates (under the interest subvention scheme) of institutional loans, increasing the limit of collateral free loans, Kisan Credit Card (KCC), scheme, the debt waiver, debt relief and one time settlement (OTS) schemes, and debt swap schemes to bring farmers into the institutional fold. The landless, who had to compulsorily borrow from landlords by providing their labour as collateral, had found relief in schemes like MGNREGA. Overall, the percentage of households of all size groups' borrowings from commercial banks was 44.5 per cent, 54.33 per cent from cooperatives, and 42.2 per cent from informal sources, as compared to 24.3 per cent, 62.4 per cent and a staggering 86.2 per cent respectively in 1993-94. Interestingly, an intensive survey of three of the most distressed districts of Punjab – Sangrur, Mansa and Bathinda – also pointed out a somewhat similar decline in the percentage of households borrowing from non-institutional sources (Singh, Bhangoo and Sharma 2013). Another study revealed that for rural labour households in Punjab, the debt by source of borrowing registered the percentage shares of formal and informal debt as 19 and 81 respectively in 2004-05, which changed to 35 and 65 per cent respectively in 2009-10, a clear shift towards institutional finance (Chandrasekhar 2014).

Table 9: Number of Household Borrowing from Different Sources: Changing Trend from 1993-94 to 2012-13

Size Group of Holding (Acres) ↓	Commercial Banks		Co-operatives		Informal Lenders		Non-Borrower from any source		Total	
	1993-94	2012-13	1993-94	2012-13	1993-94	2012-13	1993-94	2012-13	1993-94	2012-13
Landless	5 (13.89)	6 (13.64)	4 (11.11)	9 (20.45)	21 (58.33)	14 (31.82)	6 (16.67)	15 (34.10)	36 (100)	44 (100)
Upto 2.5	2 (4.65)	14 (24.14)	17 (39.53)	24 (41.38)	23 (53.49)	16 (27.58)	1 (2.33)	4 (6.90)	43 (100)	58 (100)
2.51-5.00	8 (11.11)	27 (33.75)	30 (41.67)	31 (38.75)	31 (43.05)	18 (22.50)	3 (4.17)	4 (5.00)	72 (100)	80 (100)
5.01-10.00	10 (12.66)	19 (30.65)	29 (36.71)	19 (30.65)	37 (46.83)	16 (25.81)	3 (3.80)	8 (12.90)	79 (100)	62 (100)
10.01-25.00	14 (18.18)	10 (35.71)	27 (35.07)	10 (35.17)	36 (46.75)	7 (25.00)	- (0.00)	1 (3.57)	77 (100)	28 (100)
Above 25.00	5 (26.32)	1 (25.00)	6 (31.58)	1 (25.00)	8 (42.10)	2 (50.00)	- (0.00)	- (0.00)	19 (100)	4 (100)

Source: Field Survey.

Note: (i) Figures in parentheses are percentages.
(ii) – implies Nil
(iii) Households borrowing from multiple sources have been counted in each group.

It is also pertinent to note that percentage of non-borrowers had decreased. This was mainly in households where alternative sources of income had been generated because some member of the family, a child in 1993-94, had grown up and found work as a driver, mechanic, watchman, army etc or in schemes like MGNREGA. The minimum numbers of non-borrower households were from the category of large and extra large farmers. It was just the extra large cultivator size group that continued to rely heavily, rather more, on the informal lenders.

Despite the decline, it cannot be denied that borrowings from informal sources persist for all size class of households. Tables 10A and 10B present and compare the main types of informal lenders, and the way in which credit transactions are interlinked with other transactions as a form of collateral. In 1993-94 it was the commission agent ('arhtiya' in local parlance) who was the dominant informal lender, and whose thrust was on crop as collateral. 75 per cent credit transactions were interlinked with output i.e. sale of crop only through the lender arhtiya. In some cases (9.55 per cent) credit was linked with both input and output, i.e. the lender doubled up as arhtiya as well as input supplier. For the landless, labour acted as collateral to obtain credit from landlords, i.e. the borrower or/and his family member(s) work for the landlord till repayment of loan. Only a small percentage could borrow without (or personal) surety.

Table 10A: Number of Households Involved in Various Types of Interlinked Credit Transactions in the Informal Credit Market 1993-94

Size Group of Holding (Acres)	No. of HHs in the Group	Source of Borrowing	Types of Linkage with					Not Borrowed from Informal Source
			Land	Labour	Output	Both Input and Output	None/Personal Surety	
Landless	29	Landlord C.A. cloth merchant	-	17	2	1	1	8
Upto 2.5	25	C.A., Landlord	-	1	16	5	1	2
2.51-5.00	39	C.A., Landlord	-	-	25	5	2	7
5.01-10.00	41	C.A., Landlord	1	-	32	3	1	4
10.01-25.00	38	C.A.	1	-	35	1	-	2
Above 25	9	C.A.	-	-	8	-	-	1
Total	181	-	2 (1.27)	18 (11.46)	118 (78.16)	15 (9.55)	5 (3.18)	24

Source: Field Survey, Gill (2000)

Note: (i) Figures in parentheses are percentages to total borrowers from informal sources i.e. 181-24=157 borrowers.
(ii) C.A. implies Commission Agent
(iii) - implies Nil

Table 10B, presenting the results of the survey in 2012-13, revealed that although the arhtiya was still the dominant source, the linkage with output had declined (to around 59 per cent), and so had the linkage with labour. Apparently, land found greater favour with the lenders due to its high price, as a form of collateral (12.33 per cent) – more so in case of marginal farmers. But it was the commission agent who was demanding land as collateral either because he was also a landlord wanting to grab land or simply because land seemed better as collateral as crop (which could fail and give him nothing for sale). Interestingly, the percentage of households borrowing without interlinked contracts went up (around 25 per cent) in the later survey. The main households in this group belonged to the landless class or the marginal farmers, as they had borrowed from shopkeepers and relatives also and hence could escape providing collateral in those cases. Nearly 58 per cent households had not borrowed from informal sources, mainly because they were borrowing from both commercial banks and cooperatives.

A purpose wise analysis of the loans revealed that around 67 per cent (i.e. 115) of households had used the loan taken from either source for productive expenditures, while 54 per cent (94 in numbers) households had utilized their borrowings for unproductive purposes. However, a larger number of households (87) used their formal loans on productive purposes, while informal loans were used for unproductive by a bigger number (47) of households. The unproductive purposes were mainly house construction/repair and marriages, a result which is in consonance with not only our earlier survey (Gill, 2000), but also of surveys carried out by other economists (Shergill, 2010; Sukhpal Singh et al 2007). Healthcare expenses did not figure very prominently in the present survey, save for a few instances. Again, it can be argued that house construction/repair expenditure cannot justifiably be called unproductive, while strong demonstration effect is responsible in a big way for expenditure on marriages.

Table 10B: Number of Household Involved in various Types of Interlinked Credit Transactions in the Informal Credit Market 2012-13

Size Group of Holding (Acres)	No. of HHs in the Group	Source of Borrowing	Types of Linkage with					Not Borrowed from Informal Source
			Land	Labour	Output	Both Input and Output	None/Personal Surety	
Landless	35	C.A. Shopkeeper Landlord	1	3	1	-	9	21
Upto 2.5	40	C.A., Relative	5	-	5	-	6	24
2.51-5.00	47	C.A.	2	-	13	-	3	29
5.01-10.00	35	C.A.	-	-	16	-	-	19
10.01-25.00	14	C.A.	1	-	6	-	-	7
Above 25	2	C.A.	-	-	2	-	-	-
Total	173	-	9 (12.33)	3 (4.11)	43 (58.90)	-	18 (24.66)	100

Source: Field Survey.

Note: (i) Figures in parentheses are percentages to total borrowers from informal sources i.e. 173-100=73 borrowers.

(ii) C.A. implies Commission Agent

(iii) - implies Nil

A noticeable difference that came to light was that the rate of interest charged by the informal lender had declined in 2012-13, as compared to 1993-94. While during the earlier survey it was between 24 to 36 per cent, it varied between 18 to 24 per cent in the revisit study. The lowering of formal rates of interest ostensibly had played a role in this decline. Despite this, informal rates of interest continued to be much higher than the formal interest rates which vary between 4 per cent and 10-12 per cent, which is why 98 of the 173 households registered a clear preference for formal borrowings, while only 37 households favoured informal lenders on account of easy access and availability.

To sum up, the informal lenders in the agricultural credit market of Punjab who had returned with a vengeance in the post reform period are still persisting, although they seem to be losing ground, albeit at a slow pace. A number of factors seem to be working against their once all powerful existence. The 'wake-up call' policies of the government adopted in the light of distressingly high numbers of suicides could be an important factor behind this trend. It is in the fitness of things to examine the recent policy initiatives in this regard.

V

In response to the glaring agrarian crisis in the post reform era, and recognizing short falls in institutional credit flow to agriculture as one of the culprits, the government of India and the RBI announced a plethora of measures to improve access to finance from formal institutions in the rural India. A number of committees and task forces were set up to examine the issue and make recommendations. The outcomes of these efforts were a number of schemes related to indebtedness, and to improve flow of institutional credit.

It is pertinent to mention here that the policy makers in India have always emphasized the role of rural financial institutions not only for making investments in agriculture, but also for freeing the farmers from the clutches of moneylenders. Some of the efforts in this direction have been mentioned din the beginning of Section III. There is no denying that even prior to 1990, banks suffered from a number of maladies ranging from large non-performing assets to organizational weaknesses. However, post-1990, the banking sector faced formidable challenges in a reform-zest environment imposed through regulatory and prudential norms. Non-farm activities became the favoured ones on account of these being more profitable, and in the process banks faltered on their social commitments including the all important one of providing credit for agriculture. The already inadequate agricultural credit situation became worse, and it was ultimately realized that tardy credit was a major player in worsening the plight of farmers. Many committees (see references) examined the various aspects of institutional agricultural finance and came up with a number of schemes. Some of these have been taken up in this section.

In 1998-99, Kisan Credit Card (KCC) scheme was introduced to provide flexible and cost effective credit support to farmers from the banking system. The scheme is being implemented by commercial banks, cooperative banks, and RRBs. The scope of the scheme was enhanced in 2004-05 to include investment credit, and some consumption requirement. An interest subvention of 2 per cent (later enhanced to 3 per cent) was added as an incentive for prompt repayment of production loans so that farmers who promptly repaid their crop loans receive loans at an effective rate of 4 per cent per annum. The limit of collateral free farm loans was also increased to Rs. one lakh. Punjab has recorded the highest coverage of KCCs (ratio of number of cards to operational holdings) – 77.53 per cent (Samantara 2010). Upto March 2013, commercial banks had disbursed 1930697 cards with an amount of Rs. 4003660 lakhs, while cooperatives had disbursed 958097 cards with a total amount of Rs. 735033 lakhs. Total disbursement was of 2888825 cards (Controlling Heads of Banks). The scheme has proved to be a mechanism of cutting down transaction costs for farmers. There is no processing fee up to a limit of Rs. 3 lakhs. However, despite this impressive performance, it is being feared that farmers in small villages of border areas are still deprived of this facility (Haque, 2014).

In 2004, the Government of India had announced a package for doubling the credit flow to agriculture, from Rs. 80,000 crore in 2003-04, in three years. This target was achieved in two years (Satyasai, 2008) and is looked upon as a measure to increasing adequacy so as to bring a greater number of farmers into the institutional fold.

The government had implemented an Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS) in 2008 which aimed at bringing defaulter farmers back into the institutional fold. The scheme covered all direct agricultural loans disbursed to farmers between March 31, 1997 and March 31, 2007, and overdue as on December 31, 2007 remaining unpaid till February 29, 2008. Under this, the entire eligible amount was to be waived in case of small and marginal farmers (up to 2 hectares). For other farmers, there was to be a one-time settlement (OTS) scheme under which farmers were to be given a rebate of 25 per cent of eligible amount provided they paid the balance of 75 per cent (Govt. of India, 2008). Since this scheme was for formal loans only and hence came under heavy criticism, a scheme was designed especially to free farmers from the clutches of informal lenders - the Debt Swap Scheme - which facilitates farmers in swapping the loan taken from informal sources, for redemption of debt from such sources and hence make them 'moneylender free'.

However, this scheme has reported limited success, especially in Punjab. The fault lay partly with the banks, several of these having not extended any loan under this scheme, although the stipulation is that 3 per cent of total disbursements for agriculture are to be earmarked for extending loans under this scheme. Till March 2013, Rs. 23724 lakhs had been extended under this scheme in Punjab, which was just 16 per cent of the target (Controlling Heads of Banks). Also, the reluctance shown by farmers to disclose the names of their moneylenders or their financial liabilities with them, or even having repaid their informal loan out of their KCC limit, has slowed down the progress of this scheme.

These policy initiatives have obviously not gone unnoticed and did have a positive impact however small, especially in reducing reliance on informal sources. Since most of these measures were announced less than a decade back, it is yet to be seen how far these will be successful. However, it must be admitted that there is also a need to look beyond numbers, and focus on some practices that are deterrent in freeing farmers from informal lenders. One such practice, widely prevalent (especially in Punjab) is the practice of interlinking informal loans with sale of produce through the lender-arhtiya, and indirect payment to farmers through him (Gill, 2000, 2010; Satyasai, 2008). If farmers can sell their produce directly to the procurement agencies, or even just receive direct payment for sale of produce, it would considerably mitigate farmers' exploitation. Unfortunately, the response of both the State and the farmers on this issue has been bleak due to vested political interests and lack of enthusiastic response to the direct payment scheme, on the part of farmers (Singh, 2014). Registration and licensing of money lenders is another step has to be aggressively implemented to keep an eye on their lending policies. The cooperative credit system needs to be strengthened further to increase their share in institutional loans, given the commercial banks' tendency to avail the opportunities thrown up by para-banking activities.

VI

Beginning from Pandit Nehru's exhortation soon after independence that everything else can wait, but not agriculture, agricultural growth has all along been at the centre of policy interventions. Though public policy has always recognized the role of finance in achieving this and has always attempted at ensuring adequate and cheap credit vide its institutionalisation, to agriculture, there is room for improvement. The economy of Punjab, which once enjoyed the status of being the grain bowl of the country and the most prosperous state, fell on bad days characterized by agrarian distress and distress driven suicides. Indebtedness, especially from informal lenders had a contributory role in this grim situation. The zeal of reforms post 1991 had to be subsequently toned down to introduce schemes and measures which did bring some improvement, in thwarting informal lenders and bringing farmers into the institutional fold. This achievement has been noticed in Punjab. But it is also true that what has been reaped is what can be called the just lowest hanging fruits, and there is need to look beyond. The role of the State government is vital, not merely because agriculture (and hence its problems) is a state subject, but also because it is important that the corrective measures be translated into more effective contributions through proper implementation.

Notes:

1. States not mentioned rank-wise. Union Territories have been excluded in this comparison.

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