



## **AGRICULTURAL CREDIT IN PUNJAB: ISSUES, CONCERNS & MEASURES**

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### **ABSTRACT**

*This paper examines the issues and concerns in agricultural credit in India and Punjab keeping in view the importance of rural credit to agriculture. The analysis states that the credit delivery to the agriculture sector continues to be insufficient. It appears that the banking system is still hesitant on various grounds to purvey credit to small and marginal farmers. It also examined various constraints that hamper the credit delivery. This paper has also discussed some of the measures taken to revitalise the system from time to time and to improve the situation. The SHG- bank linkage has its high transaction costs make it a costly alternative to supplement rural credit delivery. A thorough overhauling of the rural credit system and its restructuring is the need of the hour. However, it cannot be effective if done alone in isolation without revitalising the Indian agriculture itself.*

*Keywords: Self Help Groups, Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development, Commercial Banks, Regional Rural Banks, Primary Agricultural Credit Societies, State Cooperative Banks, State Cooperative Agriculture and Rural Development Banks.*

### **1. INTRODUCTION**

Agriculture sector is vital for India in view of the food and nutritional security of the nation as well as the fact that this sector remains the principal source of livelihood for more than 58 per cent of the population. Its contribution to the national Gross Domestic Product (GDP) has declined over the past years and has reached 14.2 per cent in 2010-11 due to higher growth



experienced in industries and services sectors (GoI, 2011). Indian agriculture is dominated by small and marginal farmers as their holdings (below 2 hectare) taken together constituted 83.29 percent of the total number of holdings in 2005-06 against 81.80 in 2000-01 (GoI, 2011). Increased use of agricultural inputs, technological change and technical efficiency are the three main factors that contribute to agricultural growth. With savings being negligible among the small farmers, agricultural credit appears to be an essential input along with modern technology for higher productivity. When agriculture sector transforms from traditional towards commercialized, the demand for capital increases for variable and fixed expenses. The agriculture was largely the traditional and subsistence before 1965, and the savings of the farmers were not sufficient to meet even their small production requirements. The farming community of the country was badly caught in the clutches of moneylenders. Major proportion of the credit demand of farmers was provided by non-institutional sources of finance and rest was being met by the cooperative credit institutions. The participation of the commercial banks in the agricultural credit was negligible due to low rates of return. Whatever the small surpluses were generated by even medium and large farmers, were usurped by the moneylenders in the shape of interest payments. Under these circumstances, the possibility of adoption of new production technology was very less. So, in agricultural finance, many formal institutional arrangements were initiated to reduce uncertainty, to prevent the transactions from being too costly and thus to allow realization of the productivity gains to large scale (Gill 2002). In agricultural credit policy of the country, the emphasis has remained on adequate availability of credit at lower rates of interest and at a time when it is required.

An important aspect that has emerged in last three decades is that the credit is not only obtained by the small and marginal farmers for survival but also by the large farmers for enhancing their income. Availability of credit is a critical input for agricultural operations as the farmers have to purchase inputs like fertilizers, pesticides and make payments for irrigation, labour and hiring machinery, etc., for agricultural operations.

## **2. REVIEW OF LITERATURE**

Relevant literature has been exhaustively surveyed and analyzed so as to identify the current state of affairs in the fields of agriculture credit.



Gajrani (1986) studied the agricultural scenario in pre-independence times. He highlighted that the Punjab Banking Enquiry Committee estimated the total agriculture debt at Rs. 1350 millions in 1929. Ninety per cent of land owners were reported to be in debt.

Gadgil (1988) examined the empirical relationship between credit and agricultural development in India with emphasis on Punjab and Bihar. He found that these states were not found to be lagging behind the growth in demand for credit.

Sarap (1990) analysed the determinants of access to formal credit in rural India. He revealed that mere existence of credit institutions in an area does not guarantee that it will benefit to farmers of the region especially the small farmers.

Kumar and Simon (2001) studied on strengthening of rural credit delivery system through kisan credit cards. The small farmers with low income were getting benefited through the scheme, however, repayment was slow and misutilization of credit was emerging as a major problem.

Shandilya and Prasad (2003) have analyzed the performance of NABARD in agriculture credit. Inadequate availability of subsidized funds, borrowing at market determined interest rates, lending at subsidized rate, sagging demand for refinance etc. are serious problems of survival.

Mohan Rakesh (2004) reviewed the performance of agricultural credit in India. He indicated that though the overall flow of institutional credit has increased over the years, there are several gaps in the system like inadequate provision of credit to small and marginal farmers, paucity of medium and long-term lending, etc.

Mohan (2006) examined the overall growth of agriculture and the role of institutional credit. He observed that the overall supply of credit to agriculture as a percentage of total disbursal of credit is going down.

Golait (2007) attempted to analyse the issues in agricultural credit in India. The analysis revealed that the credit delivery to the agriculture sector continues to be inadequate. It appeared that the banking system is still hesitant on various grounds to purvey credit to small and marginal farmers

Kumar et al (2007) have analyzed the performance of rural credit in India. The access and distribution of rural credit was found to be skewed in favour of better endowed regions.

### **3. GROWTH OF AGRICULTURE CREDIT IN INDIA**

India has systematically pursued a supply leading approach to increase agricultural credit. The objectives have been to replace moneylenders, relieve farmers from indebtedness and to



achieve higher levels of agricultural credit, investment and agricultural output. The agricultural credit system of India consists of informal and formal sources of credit supply. The informal sources include friends, relatives, commission agents, traders, private moneylenders, etc.

Recognizing the importance of credit in the development of agricultural sector in India's economy, the Government of India, the Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) have played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector by way of multi-agency network consisting of Commercial Banks (CBs), Regional Rural Banks (RRBs) and Cooperatives. There are approximately 121225 million village level Primary Agricultural Credit Societies (PACS), 371 District Central Cooperative Banks (DCCBs) with 13327 branches and 31 State Cooperative Banks (SCBs) with 1028 branches providing primarily short-term and medium term agricultural credit in the country. The long term cooperative structure consists of 19 State Cooperative Agriculture and Rural Development Banks (SCARDBs) and 755 Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) with 1219 branches and 689 branches respectively, which are catering to the requirement of investment credit. Besides, there are 45957 rural and semi-urban branches of Commercial Banks, 14462 branches of RRBs and more than 7 million micro finance institutions.

Though the outreach and the amount of agricultural credit have increased over the years, several weaknesses have crept which have affected the viability and sustainability of these institutions.

Table 1.1 Total institutional loans outstanding in agricultural and allied activities in India at current prices 2000-01 to 2011-12

Year	Cooperatives	SCBs	RRBs	Total
2000-01 (Rs. Crore)	46135.0	38270.4	7249.0	91654.0
2001-02	52110.0	45105.5	8286.0	105502.0
2002-03	59064.0	53803.8	10260.6	123129.0
2003-04	71403.0	68103.3	11721.2	151228.0
2004-05	78822.0	95518.8	16709.3	191050.0
2005-06	82327.0	135603.0	21510.0	239439.0
2006-07	89443	169018	27452	285913
2007-08	65666	202796	33216	301678
2008-09	64045	256119	37367	357531
2009-10	76480	315436	46282	-
2010-11	-	357584	55067	-
2011-12	-	443298	63823	-

Source: 1. Hand book of statistic on Indian Economy, Reserve Bank of India.

2. Agricultural statistics at a glance.



The institution-wise position of loans outstanding was also analyzed to know the structure of credit disbursed and share of various institutions was studied. It was revealed by the Table 1.1 that at all Cooperatives was 46135 crore in 2000-01 and increased to 76480 in 2009-10. The second largest contributor of agricultural loans issued was SCBs. Per cent contribution of SCBs was Rs 38270.4 crore in 2000-01 rises to 443298 crore in 2011- 12. Another institution which issued agricultural loans is RRBs. The contribution of these banks remained limited till recently, thereafter, it had maintained an increasing trend and was Rs. 21251 crore in 2005-06 and rises to 63823 in 2011-12.

Table 1.2 Long term institutional agricultural loans issued and outstanding in India at current prices 2000-01 to 2011-12

Year	Loans issued				Loans outstanding			
	Cooperatives	SCBs	RRBs	Total	Cooperatives	SCBs	RRB	Total
2000-01	8	5735.6	871.0	15346.0	27967.0	22828.4	3	54352.0
2001-02	8	5976.6	736.0	15612.0	30570.0	26223.5	3	60268.0
2002-03	1	8430.7	1045.3	19887.0	34546.0	30592.8	3	68905.0
2003-04	1	12069.0	1042.1	23834.0	40595.0	36121.1	4	80774.0
2004-05	1	18389.4	2043.4	33555.0	46341.0	52720.8	5	104791.0
2005-06	1	34955.0	2483.6	49938.0	48187.0	75632.0	7	131451.0
2006-07	1	50021	3198	66442	51679	93012	8	153436
2007-08	1	45229	3461	58943	21970	106644	1	139082
2008-09	1	52924	3648	67337	18359	129834	1	158908
2009-10	1	63607	4111	80705	21510	147813	1	181942
2010-11	7	76729	5405	89369	30558	164322	1	209284
2011-12	7	94980	6048	108528	31446	174268	1	225958

Source: 1. Hand book of statistic on Indian Economy, Reserve Bank of India.  
2. Agricultural statistics at a glance

In Table 1.2 firstly the loans issued for investment purposes were analyzed at current prices. Afterwards it has shown a persistent rise to be Rs. 49938 crore in 2005-06. The loans issued for long term by SCBs were at Rs. 5735.6 crore in 2000-01, which kept an ever increasing trend and were Rs. 94980 crore in 2011-12. The share of RRBs in loans issued for long term improved to Rs. 871 crore in 2000-01 to 6048 in 2011-12.



#### **4. GROWTH OF AGRICULTURE CREDIT IN PUNJAB**

Punjab has entered the new millennium with problems in the agriculture sector. During the mid 1960s, the green revolution transformed the state's agriculture and contributed significantly in making the country self-reliant in food. The increase in production and productivity of wheat and rice in the state is legendary in the history of agriculture in India. These achievements presented a better picture of agriculture in Punjab until recently, as the achievements of the state in agriculture have run out of steam. Growth rates in agricultural production and productivity are stagnating and profitability in farming progressively getting reduced. Today, Punjab is at the crossroads, as the existing production pattern and marketing systems are out of tune with the immediate and long-term supply and demand situation in both national and international markets. A package of dynamic, pro-active and responsive policies and action programmes are required to revive Punjab agriculture, so as to meet the upcoming pressures of free trade, liberalization and globalization. The seed of commercialization in Punjab agriculture was sown by the introduction of high yielding varieties of wheat and rice followed by the use of chemical fertilizers, investments in irrigation especially on tubewells, use of agrochemicals to control weeds, diseases and insect pests, and tractorisation to ensure timeliness and precision in farm operations.

The historic All India Rural Credit Survey (AIRCS) carried out in 1954 confirmed that formal credit institutions provided less than 9 per cent of rural credit needs in India. Moneylenders, traders and rich landlords accounted for more than 75 per cent of rural credit. Cooperative credit societies had already been in existence for 50 years but their share in rural credit was still less than 5 percent. The 1945 Cooperative Planning Committee had discerned early signs of sickness in India's cooperative movement, finding that a large number of cooperatives were "saddled with the problem of frozen assets, because of heavy overdue in repayment" (GoI, 2005, p.8). Even so, in the 1950s and 1960s, the way forward was seen to lie in cooperative credit societies. These cooperatives were to take the lead in the Integrated Scheme of Rural Credit suggested by the AIRCS. The share of cooperatives in rural credit did rise to cross 20 per cent in 1971. Today, India's cooperative credit structure (CCS), with over 13 crore members (including 6 crore borrowers), constitutes one of the largest rural financial systems in the world. Over 1 lakh Primary Agriculture Credit Societies (PACS) can, be regarded as the veritable bedrock of India's rural economy. The CCS has 50 percent more clients than commercial banks and Regional Rural Banks (RRBs) put together. Directly or indirectly, it covers nearly half of India's total population (GoI, 2005, p.15).



Table 1.3 Total Agricultural Credit availability in Punjab (2000-01 to 2005-06) (Rs. crore)

Year	Commercial	Per cent	Cooperatives	Per cent	RRBs	Per cent	Total
2000-01	1204.83	32.4	2346.45	63.1	167.35	4.5	3718.63
2001-02	2498.00	44.7	2912.70	52.1	181.05	3.2	5591.75
2002-03	3242.25	48.3	3233.51	48.2	231.09	3.4	6706.85
2003-04	3952.46	48.4	3918.59	48.0	292.66	3.6	8163.71
2004-05	6158.85	54.4	4746.11	41.9	418.43	3.7	11323.39
2005-06	9154.89	58.7	5894.60	37.8	559.34	3.6	15608.83

Source: 1. Hand book of statistic on Indian Economy, Reserve Bank of India.

2. Agricultural statistics at a glance

Table 1.3 presents the loans disbursed each year by cooperative credit institutions, scheduled commercial banks and regional rural banks in Punjab from 2000-01 to 2005-06 at current prices. The most significant jump in the quantum of credit availability was experienced from 2000-01 to 2005-06. The credit disbursements increased from Rs. 3718.63 crore to Rs. 15608.83 crore in 2005-06 showing a significant increase of 31.13 per cent per annum. This significant rise in the credit availability can be attributed to the policies of monetary authorities of Government of India which have directed to financial institutions to double the flow of credit by 2006-07. The overall growth rate for the total availability of credit shows that there were mainly institutional factors behind a significant increase in credit disbursements in Punjab. On the basis of above findings, it can, therefore, be concluded that cooperative credit institutions, which were the major sources of finance to the agriculture sector due to their very strong ground level infrastructure till 2000-01, have lost their dominant position to commercial banks under the directed lending programmes of the government. These banks were hesitant to provide credit to the agriculture sector due to high risk, small size of loans, high transaction costs etc. have become the major players in the field since 2000-01. The role of RRBs so far has been limited because they are to operate under very adverse conditions, their domain being confined to weaker sections of the rural areas, where rate of loan default is very high. Their role in future would depend upon how successfully they counter this menace and build themselves as independent economically viable institution. These (RRBs) will have to break the myth in the minds of borrowers that



the loans advanced to the weaker sections of society are not to be repaid back. They will have to convince them that in case of default their future sources of funds for productive investments would dry up and they will ultimately end up losing income enhancing opportunities.

Table 1.4 Total amounts outstanding in agricultural credit availability in Punjab (2000-01 to 2005-06)

Year	SCB	Per cent share	PACSS	Per cent share	PADB	Per cent share	Total amount outstanding	Total amount outstanding at constant
2000-01	3120.27	50.3	1530.29	24.7	1556.07	25.1	6206.63	2701.12
2001-02	3475.55	50.5	1740.09	25.3	1662.68	24.2	6878.32	2900.65
2002-03	4424.90	54.0	2083.89	25.4	1679.48	20.5	8188.27	3252.67
2003-04	5566.90	57.7	2319.49	24.0	1769.30	18.3	9655.69	3735.57
2004-05	6644.24	58.7	2664.75	23.5	2012.22	17.8	11321.21	4069.45
2005-06	8148.85	61.3	3035.15	22.8	2112.96	15.9	13296.96	4670.35

Source: 1. Hand book of statistic on Indian Economy, Reserve Bank of India.  
2. Agricultural statistics at a glance

The institutional agricultural credit scenario in Punjab was also examined in terms of amount outstandings in Table 1.4 The loans outstanding is a better measure to gauge the injection of institutional finance into any sector as it shows the financing efforts over the past instead of just one year as shown by loans advanced during the year. Total amount standing in agricultural sector at current prices was Rs. 4069.45 crore in 2004-05. Total amount outstanding per hectare of net sown area (NSA) was also worked out to check the real financial push. The upward trend continued and amount outstanding per hectare was Rs. 31887 in 2005-06. The position was also examined in terms of gross cropped area (GCA) in view of increasing cropping intensity in the state. At current prices, the total amount outstanding per hectare of GCA was Rs. 16900 in 2005-06. The structure of loans outstandings overtime was also analysed in terms of different institutions. The scheduled commercial banks (SCBs) were found to be dominant institution in total amount outstanding. The amount outstandings of SCBs was Rs. 8148.85 crore in 2005-06.



Table 1.5 Size-wise flow of Institutional agricultural credit in Punjab 1980-81 to 2005-06 (Rs. Crore)

Year	<5.0 Acres	>5.0 Acres
<b>1980-81*</b>		
SCBs	13.60	119.91
Coops	21.78	49.05
Total	35.38	168.96
Per ha of NSA (Rs)	846.2	4041.2
<b>1990-91*</b>		
SCBs	204.70	738.00
Coops	245.75	498.58
Total	450.45	1236.58
Per ha of NSA (Rs)	10679.2	29316.7
<b>2001-02**</b>		
SCBs	681.34	4180.24
Coops	981.41	730.32
Total	1662.75	4910.56
Per ha of NSA (Rs)	39086.7	115433.9
<b>2005-06**</b>		
SCBs	2860.06	8733.76
Coops	1687.19	1409.60
Total	4547.25	10143.36
Per ha of NSA (Rs)	109046.8	243246

Source: \*Reserve Bank of India, Report of Currency and Finance, \*\* ACP, Lead Bank Officer, Ludhiana

The size-wise flow of institutional agricultural credit in Punjab has been presented in Table 1.5. In 1980-81, the credit flow to small and marginal farmers was Rs. 35.38 crore, out of which cooperatives were providing major part at Rs. 21.78 crore and SCBs Rs. 13.60 crore. The supply of credit per hectare of NSA was Rs. 846.2 for this category whereas for large



farmers i.e. having more than 5.0 acres, the total supply was Rs. 168.96 crore. Here, the SCBs were dominant players providing Rs. 119.91 crore and cooperatives Rs. 49.05 crore. Per hectare availability in this category came to be Rs. 4041.2. In 1990-91, the flow of credit for small and marginal farmers in Punjab was estimated at Rs. 450.45 crore. The SCBs were at Rs. 204.70 crore and cooperatives were providing Rs. 245.75 crore to this size-class. Per hectare of credit flow came to be Rs. 10679 for the small and marginal farmers. However, the large farmers were getting supply of credit to the tune of Rs. 1236.58 crore. The SCBs had been providing Rs. 738 crore and cooperatives Rs. 498.58 crore to this class. The per hectare credit supply was calculated at Rs. 29317 for the large farmers category. Under the targeted government programmes the flow of credit to agriculture sector maintain an increasing trend. It was clear from the figures of 2001-02. In Punjab, the advances to small and marginal farmers were Rs. 1662.75 crore, with SCBs contributing Rs. 681.34 crore and cooperatives Rs. 981.41 crore. The per hectare supply of credit for this farm size category was Rs. 39087. On the other hand, for large farmers the credit flow was Rs. 4910.56 crore. The SCBs were providing Rs. 4180.24 crore and cooperatives Rs. 730.32 crore. Per hectare credit advanced was found to be Rs. 115434 for large sized farmers in 2001-02. In the year 2005-06, the credit flow further increased to Rs. 4547.25 crore for small and marginal farmers. At the time, the SCBs were providing Rs. 2860.06 crore and the cooperatives Rs. 1687.19 crore. Per hectare amount advanced increased to Rs. 109047 for small and marginal farm size category. Whereas for large sized category the total amount outstanding was Rs. 10143.36 crore, of SCBs Rs. 8733.76 crore and that of cooperatives at Rs. 1409.60 crore. Per hectare outstanding amount for this category came to be Rs. 243246 for large sized category of farmers.

## **5. ISSUES AND CONCERNS IN AGRICULTURAL CREDIT**

The flow of financial resources to agriculture continues to be inadequate despite of achieving spread, network and outreach of rural financial institutions. One of the major impediments constraining the adoption of new technological practices, land improvements and building up of irrigation and marketing infrastructure has been the inadequacy of farm investment capital. Farmers seem to borrow more short-term credit in order to meet input needs to maintain continuity in agricultural operations without much worrying about long-term capital formation in the face of agricultural bountiness. It might be the case from supply side that short-term credit bears low credit risk, lower supervision and monitoring costs, and a better asset liability management. The flow of investment credit to agriculture is constrained due to various factors



such as high transaction costs, structural deficiencies in the rural credit delivery system, issues relating to credit worthiness, lack of collaterals in view of low asset base of farmers, low volume of loans with associated higher risks, high man power requirements, etc. The large proportion of population having major share in land holdings in the lower strata, receives much less credit than its requirements. The growing disparities between marginal, small and large farmers continue to be a cause for concern. This observed phenomenon may be attributed, inter alia, to the “risk aversion” tendency of the bankers towards small and marginal farmers as against the large farmers, who are better placed in offering collaterals. Notwithstanding the rapid spread of micro-finance programme, the distribution of SHGs is skewed across the States. More than 50 per cent of the total SHG credit linkages in the country are concentrated in the Southern States. In the States, which have a larger share of the poor, the coverage is comparatively low. The tragic incidents of farmers’ suicides in some of the States have been a matter of serious concern. Farmers commit suicides due to various causes such as crop losses, consecutive failure of monsoon, recurrent droughts, mounting debts, mono-cropping, and land tenancy etc. There are several measures to tackle the situation such as improvement irrigation coverage; crop diversification; promotion of animal husbandry as an alternate source of income; better accessibility to institutional credit and overall improvement of the marketing infrastructure.

## **6. PROBLEMS OF AGRICULTURE SECTOR**

### **6.1 Federal Regulations**

The Indian government has indicated that it would like to improve the agricultural sector but over the last twenty years, it has hindered growth with a number of restrictive regulations. These have stymied the growth of the industry and left it in a weak position. The government has introduced regulations on the transporting, storing, and marketing of agricultural commodities, as well as imposing restrictions on the size of agribusiness companies. This has left the sector unable to encourage investment from domestic or international companies. In addition to these regulations, the government has further punished the sector by introducing high taxes on processed products, making the cost of credit too high for agricultural businesses, as well as passing complex food laws that introduce layers of bureaucracy.

### *6.2 Lack of Investment*



One major problem for the Indian agricultural sector is the lack of domestic and foreign investment in the industry. Farming business tends to be small scale and cannot grow due to the lack of investment and the opportunities that are offered to other sectors such as manufacturing. This has led to farmers being unable to increase yields, which would allow them to re-invest in their business. As agriculture is associated with rural areas, the Indian government has seen rural wages fall compared with other areas of the country that has benefitted.

### *6.3 Logistical Issues*

The Indian government has improved roads and transportation in major cities to overcome congestion, but in rural areas roads are poor and it is very difficult for farmers to get their produce to the market. In many areas the lack of quality roads has meant that a larger percentage of the produce is wasted as it spoils before reaching the consumer. The electric grid is very fragile which affects the manufacturing sector as well as agriculture. However, with frequent power outages, it is difficult for refrigeration plants to keep produce from spoiling before it is transported to the consumer. If there is no increase in the yield of basic foodstuffs, the Indian government will have to rely on the importation of produce, which would be unnecessary if it invested in its own agricultural sector. These problems will continue to arise until the government has a comprehensive plan to improve the agriculture sector.

## **7. RECENT POLICY MEASURES AND RELIEFS**

Union budget 1995-96 proposed the creation of Rural Infrastructure Development Fund (RIDF) in NABARD with a corpus of Rs. 2000 crores. Micro finance and Kisan Credit Card Scheme (KCCS) have been introduced in August 1998. The Government of India announced special measures in June 2004 to double the flow of agricultural credit during the period 2004-05 to 2006-07 by all the financial institutions. The Reserve Bank has undertaken several measures in view of the objective set in the Union Budget 2004-05 to achieve a doubling of flow of credit to agriculture and suicide by farmers in the country. These are:

- a) To raise the agricultural credit flow at the rate of 30 per cent per year.
- b) To grant a one-time settlement (OTS) including partial waiver of interest or loan to the small and marginal farmers who have been declared as defaulters and have become ineligible for fresh credit.



- c) To restructure the outstanding debt of the farmers under the guidelines issued by RBI or NABARD:
- d) The Public Sector banks were directed to decrease their lending rate for agriculture to a single digit rate of not more than 9 per cent per annum on crop loans up to a ceiling of Rs.50,000.
- e) The centre has already implemented a scheme where farmers face keen distress because of the heavy burden of debt from non-institutional lenders. Banks were directed to advance loans to such farmers give them relief from indebtedness.

## **8. EFFORTS TO IMPROVE CREDIT DELIVERY**

### *8.1 Kisan Credit Card (KCC) Scheme*

The Kisan Credit Card (KCC) scheme, introduced in August 1998, has facilitated flexible, easy and timely credit delivery to farmers. KCC can be used to avail crop loans, term loans and consumption loans. Of the total 714.68 lakh cards issued as on 31 March 2008, co-operative banks accounted for 49 per cent of the share, followed by commercial banks (37%) and RRBs (14%). Kisan Credit Card improved the farmers' accessibility to bank credit, simplified credit delivery procedures and provided more flexibility in use of credit.

### *8.2 Revitalisation of Cooperative System*

Several initiatives were taken from time to time based on the recommendations of many committees to suggest ways to revitalise the cooperatives with limited success. Recently, Government of India has announced revival package based on the recommendations of the Task Force on Short-Term Rural Co-operative Credit Structure (STCCS) (Chairman: Dr A. Vaidyanathan), with an outlay of Rs 13,596 crore. The Government of India has also announced similar package for Long-Term Co-operative Credit Structure (LTCCS), based on the report of the Task Force under the Chairmanship of Prof. A. Vaidyanathan in the Union Budget 2008-09.



*8.3 Self-Help Group (SHG) - Bank Linkage and Micro-Finance Institutes (MFIs)*

As we have seen earlier, some sections of the population remained without access to formal banking channels. A micro finance programme was started in the country to supplement the efforts of formal banking system and provide access to banking services to large masses. The SHG - Bank Linkage Programme in India started as a pilot project of linking 500 self-help groups across the country during 1992-1995 (Pilot testing period), followed by mainstreaming during 1996-1998 and expansion since 1998 onwards. Beginning with a modest number of 255 SHGs being linked during 1992-93, 25,84,729 SHGs were linked with banks by February 2007. Micro-finance Institutions (MFIs), institutions other than banks that are engaged in provision of financial services to the poor, emerged to fill the gap due to poor network of banks. The cost of delivery was, however, very high in channels with involvement of NGOs alone.

*8.4 Farm Credit Package*

In 2004, Government of India announced a package for doubling the credit flow to agriculture, from Rs 80,000 crore in 2003-04, in three years. On account of concerted efforts, the target was achieved in just two years by adopting various measures like revision of scales of finance, unit's costs, coverage of new farmers, issue of comprehensive credit cards, etc. While the quantum jump was impressive overtime, there was sub-sectoral bias towards farm mechanisation and refocus on irrigation, land development, horticulture, agro-processing is necessary (BCCI, 2008).

## **9. CONCLUSION**

The green revolution provided a breakthrough in agricultural production in India in general and the state of Punjab in particular. Provision for institutional credit to agriculture assumed growing significance in the agricultural growth model of the state. Agriculture has become highly capital-intensive in the state both in terms of long-term capital investment, such as in machinery (tractors) and irrigation in particular, and the current inputs, particularly fertilizers, chemicals and for machinery (fuel and lubricants for those who own and the hiring in costs for those who hire in machinery). These have enhanced the demand for agricultural credit manifold in the state. To meet the increased credit demand, a systematic expansion of the



rural credit system has taken place in the state. Fourteen major commercial banks after nationalization in 1969, were directed to advance loans to the agricultural and rural sector in a significant manner; another six commercial banks were added to this category in 1980. In spite of taking various measures to rejuvenate farm credit, the flow of credit to the agriculture sector remained inadequate quantitatively and qualitatively. The institutional source meets only 51 per cent of the credit requirement of the farm sector (Rao, 2003). Therefore, the non-institutional sources are largely approached by the farmers due to lack of their security assets, frequent needs, inadequate supply of institutional credit, undue delay, sophisticated procedure and malpractices adopted by the institutional lending agencies (Singh, 1971; Singh, H., 1971; Singh, 1973; Sharma, 1978; Nahatkar, 2002).

The analysis brings out that the trends of institutional credit to the agriculture sector during the post-reform period were high than the pre-reform period, and the composition also changed significantly over this period. The trends of direct short and long-term credit to the agriculture sector were increased during the post-reform period. Thus, the indirect credit to the agriculture sector was increased tremendously during the post-reform period. The co-operative credit structure needs revamping to improve the efficiency of the credit delivery system in rural areas. Merging and revamping of RRBs that are predominantly located in backward regions is seen as a potentially significant institutional arrangement for financing the hitherto unreached population. The SHG Bank- Linkage programme also needs to introspect whether it is sufficient for SHGs to only meet the financial needs of their members, or whether there is a further obligation on their part to meet the nonfinancial requirements necessary for setting up business and enterprises. Since, the access of small and marginal farmers to credit has been constrained by their inability to offer the collaterals, micro finance, which works on social collaterals, can go a long way in catering to their requirements. In the long run, an assessment of agriculture credit situation brings out the fact that the credit delivery to the agriculture sector continues to be inadequate. It appears that the banking system is still hesitant on various grounds to purvey credit to small and marginal farmers. Due to declining in public capital formation in the rural and agriculture sector and the persistent lukewarm attitude of rural bankers towards formal financing, the planners and policymakers may believe on microfinance to suitably supplement formal banking in rural India.



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