Chapter 8
Agricultural Credit in Punjab: Have Policy Initiatives Made a Dent in Informal Credit Markets?

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8.1 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 % of GDP but a dependence of 51 % 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 % increase in real agricultural credit results in an increase in real agricultural GDP by 0.22 % 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

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so in the immediate post-economic reform era, when both the state and the banks backtracked on their commitments of investment and lending in agriculture. Recently, efforts towards better flow of institutional credit to agriculture in the form of lower interest rates, doubling the credit flow, and schemes such as 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 the 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 raise concerns regarding the adequacy and efficacy of credit policy for agriculture.

The present paper is an attempt at reexamining 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 Sect. 8.3. The agricultural credit market structure and situation in Punjab will be taken up in Sect. 8.4. 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 8.5 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 Sect. 8.6.

8.2 Methodology

The present paper draws its results and conclusion on the basis of a revisit 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 1993–1994 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 Roargarh 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 2012–2013. 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 revisit study. However, this sample was sufficient to study the credit situation regarding interlinked transactions and make comparisons with the previous survey.

8.3 Punjab Economy-Structural Changes

Punjab state has an area of 50,362 km^2 comprising 48,256 km^2 (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. 78,594 at current prices (Rs. 46,422 at 2004–2005 prices) in 2011–2012, 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 % during 2000–2001 and 2005–2006 which increased to 7.25 % during 2006–2007 and 2011–2012 (Table 8.1). In sharp contrast to this, agricultural NSDP, which grew at a high rate of 5.15 % per annum during 1980–1981 and 1990–1991, slipped to a low of 0.9 % per annum from 2000–2001 to 2005–2006 and recovered marginally to 1.50 % per annum during 2006–2007 and 2011–2012. 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 8.2). This share was 54.27 % in 1970–1971, which declined sharply to 27.32 % in 2012–2013, a decline of nearly 27 % points. The share of manufacturing sector doubled from around 8 % to nearly 17 %, i.e. an

[1]States not mentioned rank wise. Union territories have been excluded in this comparison

Table 8.1 Average annual growth rates of NSDP and agricultural NSDP of Punjab (% per annum)

Year	Agricultural NSDP	NSDP of Punjab
1980–1981 to 1990–1991	5.15	2.39
1991–1992 to 1998–1999	2.16	2.55
2000–2001	0.69	3.40
2001–2002	−0.18	1.32
2002–2003	−5.79	2.57
2003–2004	7.79	4.94
2004–2005	1.78	5.24
2005–2006	1.11	4.52
2000–2001 to 2005–2006	0.90	3.66
2006–2007	2.70	10.78
2007–2008	3.7	8.67
2008–2009	1.82	5.54
2009-2010	−1.30	6.4
2010–2011 (P)	1.14	6.5
2011–2012 (Q)	0.96	5.6
2006–2007 to 2011–2012	1.50	7.25
2012–2013 (A)	0.22	5.20

Source Estimated from NSDP at factor cost by sectors in Punjab; Economic and Statistical Organisation, Government of Punjab: Statistical abstract of Punjab (1980, 1995, 2012)
Note (i) Figures till 1998–1999 are at 1980–1981 prices, till 2005–2006 at 1999–2000 prices and 2006–2007 onwards at 2004–2005 prices
(ii) *P* implies provisional; *Q* implies quick estimates; *A* implies advance

increase of 9 % points. Services sector improved its share. The deceleration of the growth rate has reduced the relative income share of the agricultural sector.

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 %, which dramatically fell to 35.6 % in 2011 (Table 8.3). 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 to 54 % 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 (MSPs) for wheat and paddy which are the two major crops of Punjab. Table 8.4 clearly brings out that the real rise of MSP was negative

Table 8.2 Sectoral distribution of NSDP at factor cost in Punjab (%)

Sector	Year						
	1970–1971	1980–1981	1990–1991	2000–2001	2010–2011 (P)	2011–2012 (Q)	2012–2013 (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 (1960, 1995 and 2012), Government of Punjab
Note: *P* implies provisional; *Q* implies quick estimates; *A* implies advance

Table 8.3 Structure of workforce in Punjab (%)

Sector	Year				
	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 (1980, 1995 and 2012), Government of Punjab

during the period 1980–1981 and 2005–2006, while there was a marginal increase from 2005–2006 to 2011–2012. 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 2009). Besides, there is expenditure to be made on machinery and its maintenance/replacement, apart from the mandatory consumption expenditures.

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

Table 8.4 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
1980–1981	130	399.63	105	322.78
1985–1986	162	336.06	142	294.54
1990–1991	225	307.04	205	279.75
1995–1996	380	317.86	360	301.13
2000–2001	610	393.17	510	328.71
2005–2006	640	598.13	570	532.71
2011–2012	1285	709.94	1080	596.68
Average annual growth rate (1980–1981 to 2005–2006 (1993–1994 prices)	−0.69		−0.33	
2005–2006 to 2011–2012 (2004–2005 prices)	2.67		1.72	

Source (i) Rangi and Singh (2007) quoted in Gill (2010)
(ii) Government of India, Economic Survey 2012–2013

jeopardized. Institutional credit had seemingly not been enough to keep farmers away from the informal lenders, resulting in their exploitation and distress-driven suicides.

8.4 Credit Market Situation in Agriculture

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 % in 1951 to more than 60 % in 2002. The share of non-institutional sources accordingly declined from 93 to 39 % 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 2011–2012 was the maximum (72.4 %), followed by cooperative banks (16.9 %) and RRBs (10.6 %). The break-up of this share in 1991–1992 was 43, 52 and 5 %, respectively (NABARD Annual Reports).

The agriculture credit market structure in Punjab too comprises of both the institutional and the non-institutional sources. The institutional sources, such as 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 8.5 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 2010–2011, after which the share of cooperatives picked up only slightly. The share of commercial banks, on the other hand, increased tremendously.

Table 8.6 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 %. At present, it is around 68 %. 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 % in 2012, as compared to 72.73 % for rural India for the same year. (RBI, Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks).

Table 8.5 Institutional credit flow to agriculture in Punjab (Rs. in lakhs)

Year	Commercial banks	Cooperative banks	RRBs	Total
1970–1971	1799.39 (17.62)	8410.45 (82.38)	–	10,209.84 (100.00)
1980–1981	14,458.14 (37.54)	24,058.45 (62.46)	–	38,516.59 (100.00)
1995–1996	76,380 (38.99)	115,612 (59.02)	3908 (1.99)	195,900 (100.00)
2000–2001	260,990 (50.67)	240,795 (46.75)	13,286 (2.58)	515,071 (100.00)
2004–2005	769,593 (60.15)	468,125 (36.59)	41,698 (3.26)	1,279,416 (100.00)
2010–2011	3,031,032 (80.83)	553,062 (14.75)	165,666 (4.42)	3,749,760 (100.00)
2011–2012	2,759,569 (78.62)	547,840 (15.61)	202,755 (5.78)	3,510,164 (100.00)
2012–2013	3,052,976 (78.11)	618,748 (15.83)	237,073 (6.06)	3,908,797 (100.00)

Source (i) EPW Research Foundation 2007–2008: agricultural credit in India: changing profile and regional imbalances—special tabulations provided by NABARD
(ii) Controlling Heads of Banks, Chandigarh
(iii) Satish (2006)
Note (i) Figures are for direct agricultural advances
(ii) Figures in parentheses are percentages to total

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 % of outstanding cash debt, which decreased to 22 % in 1992. But in 2002, informal sources again increased their share to around 44 % (Table 8.7). The challenge of lowering non-performing assets and meeting other prudential norms in the wake of financial sector reforms translated into fewer 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 8.8). 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.

In an attempt to capture the persistence (or otherwise) of informal lenders and changing (if any) characteristics of informal lending, a survey that had been carried out in the immediate post-reform period, i.e. 1993–1994 in six villages of Patiala district of Punjab (Gill 2000), was followed up again after a twenty-year gap, i.e. in 2012–2013. The change in source-wise borrowings of these households over the two points of time is presented in Table 8.9. The table gives some startling results in

Table 8.6 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)	1,111,047	564,272	0.51
2001	1706 (51.40)	1,225,428	666,586	0.54
2002	1713 (51.16)	1,524,893	885,446	0.58
2003	1754 (51.12)	1,662,521	922,893	0.55
2004	1748 (50.19)	1,799,049	954,890	0.53
2005	1751 (48.31)	1,905,518	1,088,003	0.57
2006	1723 (48.48)	2,027,228	1,235,520	0.61
2007	1732 (46.82)	2,338,668	1,542,670	0.66
2008	1770 (45.94)	2,631,617	1,649,177	0.63
2009	1817 (45.23)	3,158,440	1,898,232	0.60
2010	1882 (4443)	3,521,932	2,125,737	0.60
2011	2008 (43.36)	4,007,040	2,539,315	0.63
2012	2140 (43.25)	4,466,595	2,906,282	0.65
2013	2389 (43.96)	5,221,820	3,576,069	0.68

Source Controlling Heads of Banks, Chandigarh
Note (i) Figures are total of scheduled commercial banks, RRBs and cooperative banks
(ii) Figures in parentheses are percentages to total bank branches in Punjab

Table 8.7 Share of institutional and non-institutional agencies in outstanding cash debt in rural areas in Punjab (%)

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 Survey: quoted in Pradhan 2013

Table 8.8 Estimates of agency-wise share in credit flow to agriculture in Punjab (%)

Credit Agency	1997 (Shergill)	2002 (P. Satish)	2003 (NSSO)	2005–2006 (Sukhpal et al.)	2008 (Shergill)
Commercial banks	19.42	24.43	28.40	44.65	31.78
Cooperatives	27.14	30.12	17.60	17.28	18.91
Commission agents	46.32	45.45[a]	44.50	31.98	43.36

Source Field Surveys of Authors, NSSO 59th Round, 2005
[a]Credit from all informal sources

the sense that although borrowings from cooperatives 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, such as 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 such as MGNREGA. Overall, the percentage of households of all size groups' borrowings from commercial banks was 44.5, 54.33 % from cooperatives and 42.2 % from informal sources, as compared to 24.3, 62.4 % and a staggering 86.2 %, respectively, in 1993–1994. 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 et al. 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 2004–2005, which changed to 35 and 65 %, respectively, in 2009–2010, a clear shift towards institutional finance (Chandrasekhar 2014).

It is also pertinent to note that the 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 1993–1994, had grown up and found work as a driver, mechanic, watchman, army, etc., or in schemes such as 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 8.10 and 8.11 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 1993–1994, it was the commission agent ('arhtiya' in local parlance) who was the dominant informal lender, and whose

Table 8.9 Number of household borrowing from different sources: changing trend from 1993–1994 to 2012–2013

Size group of holding (Acres)	Commercial banks		Cooperatives		Informal lenders		Non-borrower from any source		Total	
	1993–1994	2012–2013	1993–1994	2012–2013	1993–1994	2012–2013	1993–1994	2012–2013	1993–1994	2012–2013
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)
Up to 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

Table 8.10 Number of households involved in various types of interlinked credit transactions in the informal credit market 1993–1994

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
Up to 2.5	25	C.A., Landlord	–	1	16	5	1	2
2.51–.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

thrust was on crop as collateral. 75 % credit transactions were interlinked with output, i.e. sale of crop only through the lender–arhtiya. In some cases (9.55 %), 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 and/or his family member(s) work for the landlord till repayment of loan. Only a small percentage could borrow without (or personal) surety.

Table 8.11, presenting the results of the survey in 2012–2013, revealed that although the arhtiya was still the dominant source, the linkage with output had declined (to around 59 %) 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 %)—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 than the collateral than the crop (which could fail and give him nothing for sale). Interestingly, the percentage of households borrowing without interlinked contracts went up (around 25 %) 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 % households had

Table 8.11 Number of household involved in various types of interlinked credit transactions in the informal credit market 2012–2013

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
Up to 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

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 % (i.e. 115) of households had used the loan taken from either source for productive expenditures, while 54 % (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 purposes 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; 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.

A noticeable difference that came to light was that the rate of interest charged by the informal lender had declined in 2012–2013, as compared to 1993–1994. While during the earlier survey it was between 24 and 36 %, it varied between 18 and 24 % 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 and 10–12 %, 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.

8.5 Policy Initiatives

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 in the beginning of Sect. 8.3. 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 (Government of India 2005, 2007, 2010, 2013; Reserve Bank of India 2004) 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 1998–1999, 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 2004–2005 to include investment credit and some consumption requirement. An interest subvention of 2 % (later enhanced to 3 %) 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 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 % (Samantara 2010). Up to March 2013, commercial banks had disbursed 1,930,697 cards with an amount of Rs. 4,003,660 lakhs, while cooperatives had disbursed 958,097 cards with a total amount of Rs. 735,033 lakhs. Total disbursement was of 2,888,825 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 2003–2004, 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 31 March 1997 and 31 March 2007, and overdue as on 31 December 2007 remaining unpaid till 29 February 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 % of eligible amount provided they paid the balance of 75 % (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 % of total disbursements for agriculture are to be earmarked for extending loans under this scheme. Till March 2013, Rs. 23,724 lakhs had been extended under this scheme in Punjab, which was just 16 % 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.

8.6 Concluding Remarks

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 institutionalization, 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 just the 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.

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