



INSTITUTIONAL CREDIT TO SMALL AND MARGINAL FARMERS: A CASE STUDY OF VISAKHAPATNAM DISTRICT IN ANDHRA PRADESH

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Abstract: *This paper is intended to study the institutional credit flow to agriculture at national and state level i.e. Andhra Pradesh and focused at primary data collected at Visakhapatnam district to address the coverage of farmers and distribution of credit amount between different sizes of farmers such as large, medium, small and marginal farmers. There are three major institutional sources Commercial banks, Co-operative banks and Regional rural banks to supply credit to agriculture. All the institutional sources have increased the significant amount but the data reveals credit delivery to agriculture is inadequate particularly for small and marginal farmers. The credit disbursement of Visakhapatnam district shows that the proportionate loan amount issued to small and marginal farmers is not sufficient for their credit needs to cultivate land. Findings of this paper revealed that marginal and small farmers were not covered by formal agricultural credit system proportionate to their share in total number of farmers and that they did not get credit in tune with the area they operated. Hence present study is a focus on this aspect that why banks are reluctant in disbursing credit required by the small and marginal farmers.*

Keywords: *Institutional credit, farmers, Visakhapatnam district*

INTRODUCTION

Agriculture plays a crucial role in the development of the Indian economy is still true. It accounts for 12.3 per cent of GDP in 2009-10 and about two-thirds of the population is dependent on the sector. Despite a steady decline of its share in the GDP, is still the largest economic sector and plays a significant role in the overall socio-economic development of India (Rakesh Mohan, 2006). Agricultural sector supplies food for the survival of the entire population of India. It also supplies various raw materials necessary for the major industries like textiles, silk, sugar, leather, tobacco, jute, tea, coffee, rubber etc. This is the reason agricultural development in India to be considered as the basis of the industrial development and in turn country's overall development.



Agriculture in India has always been heavily dependent on the monsoons and has hence been an inherently risky activity. Various crops produced under diverse climatic conditions under different cropping systems have some financial concerns. With intermittent failures of the monsoons and other unexpected changes of farming, rural indebtedness has been a serious and continuous characteristic of Indian agriculture. Because of the high risk inherent in traditional farming activity, the prevalence of high interest rates often resulted in exploitation. Credit is one of the critical inputs for agriculture production and lack of adequate and cheap source of finance has been a major factor for the depressed condition of Indian agriculture till now.

There are two sources of credit to agriculture institutional and non-institutional. Non-institutional sources include money lenders, friends, relatives, traders, shopkeepers etc. this source of finance is highly expensive and highly exploitative. Farmers opt for these sources because they issue loans without any collateral but they issue loans not only for agricultural purpose but also for other social expenditure like marriages etc. Institutional sources consist of commercial banks, co-operatives and regional rural banks. The share of institutional sources to agriculture increased rapidly over last five decades. For instance, the share of institutional sources was 18.7 in 1961 increased to 68.8 in 2010 (All India Debt and Investment Survey) of total credit requirement. Even though the share of institutional credit to agriculture has increased substantially, the non-institutional are still providing the significant share of credit to agriculture at higher rates of interest, which is a serious concern. After fifty years of efforts by institutional sources, where they went wrong? What are major problems in the disbursement of credit to agriculture by the institutional sources. In what way they can disburse credit to marginal and small farmers effectively. The present study is an attempt to identify the factors attributing for the above problems and to suggest policy prescriptions for effective credit disbursement.

INSTITUTIONAL CREDIT DELIVERY IN INDIA

There are three major institutional sources commercial banks, co-operatives and regional rural banks at all India level to supply the credit to agriculture. The credit disbursement to agriculture has increased by all the three institutions in India during last few decades. Commercial banks took lead in the credit flow from last two decades. The share of



Commercial banks to total agricultural credit provided by institutional sources agriculture has increased from 49% in 1996-97 to 76% in 2008-09 at a compound annual growth rate of 27.18 percent (Table-1). Commercial Banks introduced the development programmes like village adoption scheme, Gram Vikas Kendras and Rural service centers etc. from time to time. Commercial Banks also prepared special agricultural credit plans since 1994-95 under the guidance of RBI.

Co-operative Banks have played an important role in delivery of credit to agriculture more than 100 years especially in remote and inaccessible areas and have more number of farmers from small and marginal categories as compared to commercial banks and regional rural banks. The share of credit to agriculture has decreased from 45% in 1996-97 to 15% in 2008-09. Co-operatives are facing various problems in the delivery of credit. Some of the problems are low recovery percentages, poor infrastructure, lack of quality management, excessive bureaucratic control, political intervention, lack of strong human resources policy, neglecting professionalism etc.

Regional rural banks came in to existence on the recommendations of the Narasimham committee in 1975. Regional rural banks credit share raised from 6% in 1996-97 to 9% in 2008-09. Commercial banks and Regional rural banks credit share to the total agricultural credit has increased where as Co-operative banks share was decreased.

INSTITUTIONAL SOURCES IN ANDHRA PRADESH

There are 48 Commercial Banks (CBs) to provide agriculture credit in the state. Commercial Banks have played an important role in the credit disbursed over a decade by disbursing more than half the credit supplied by all the institutions in Andhra Pradesh. The share of agriculture in the total credit of Commercial Banks has increased from 49% in 1996-97 to 64% in 2008-09 with compound annual growth rate at 18.49 in the state.

The state has an integrated cooperative structure with long term and short-term credit available through one window. The cooperative credit structure functions with Andhra Pradesh State Cooperative Bank (APCOB) at state level, 22 District Central Cooperative Banks (DCCBs) at district level and 2428 PACS (after restructuring) at village level. The share of Co-operatives decreased from 41% in 1996-97 to 19% during the year 2008-09 with the compound annual growth rate of 8.84 percent only.



There are 16 Regional Rural Banks with 1168 branches in A.P to cater the credit needs of agriculture. The share of RRBs credit disbursement out of total institutional credit has significantly increased from 10% during 1996-97 to 17% during 2008-09 with the compound annual growth rate of 20.87 percent.

The Commercial Banks share of credit disbursement to total institutional credit flow to agriculture was high at all India level (76 percent) as well as Andhra Pradesh i.e. it was 64 percent during the year 2008-09. The share was more or less the same for Co-operatives at all India level and in the state during reference period. The Regional Rural Banks share of credit disbursement to total institutional credit was only 9 percent at national level and it was more (17 percent) in the state compared to all India level. Commercial Banks and Regional Rural Banks share of credit to agriculture increased whereas share of Co-operatives was decreased during the reference period.

**Table 1 Institutional Credit to Agriculture (Short Term and Long Term) at All India Level
(Rs. Crores)**

Agency	Commercial Banks		Co-operatives		Regional Rural Banks		Grand Total
	Loans issued	Percent to total Credit	Loans issued	Percent to total Credit	Loans issued	Percent to total Credit	
1996-97	12783	49	11944	45	1684	6	26411
1997-98	15831	50	14085	44	2040	6	31956
1998-99	18433	50	15957	43	2460	7	36860
1999-2000	24733	53	18260	40	3172	7	46165
2000-01	27807	53	20801	39	4219	8	52827
2001-02	33587	54	23604	38	4854	8	62045
2002-03	39774	57	23716	34	6070	9	69560
2003-04	52441	60	26959	31	7581	9	86981
2004-05	81481	65	31424	25	12404	10	125309
2005-06	125477	70	39786	22	15223	8	180486
2006-07	166485	73	42480	18	20435	9	229400
2007-08	181087	73	43684	17	24814	10	249585
2008-09	228951	76	46192	15	26765	9	301908
CAGR(1996-97/2008-09)	27.18		11.93		25.92		22.5

Sources: agricoop.nic.in, credit division, Ministry of Agriculture, New Delhi.



Table 2 Total Institutional Credit Flow to Agriculture in Andhra Pradesh (Rs. Crores)

Agency	Commercial Banks		Co-operatives		Regional Rural Banks		
Year	Loans issued	Percent to total credit	Loans issued	Percent to total credit	Loans issued	Percent to total credit	Total credit flow
1996-97	1610	49%	1337	41%	339	10%	3286
1997-98	1940	52%	1400	37%	421	11%	3761
1998-99	2262	52%	1599	37%	467	11%	4328
1999-00	2733	53%	1847	36%	578	11%	5158
2000-01	2732	56%	1462	30%	676	14%	4870
2001-02	3918	54%	2268	31%	1099	15%	7285
2002-03	5448	50%	3959	36%	1518	14%	10925
2003-04	5041	56%	2810	31%	1168	13%	9019
2004-05	8857	65%	2077	15%	2687	20%	13621
2005-06	10037	63%	3126	19%	2817	18%	15980
2006-07	11925	62%	4096	21%	3323	17%	19344
2007-08	14394	63%	4459	20%	3797	17%	22650
2008-09	12342	64%	3698	19%	3298	17%	19338
CAGR(1996-97/ 2008-09)	18.49		8.84		20.87		15.91

Source: Socio Economic Survey 2008-09, Planning Department, Govt. of Andhra Pradesh, A.P. Secretariat, Andhra Pradesh State Focus Papers, NABARD

AGRICULTURE CREDIT FLOW IN VISAKHAPATNAM DISTRICT

Institutional credit flow to agriculture in Visakhapatnam district experienced significant increase in recent past. Commercial Banks share of credit to agriculture in the total agricultural credit during the year 1998-99 was 43% where as Co-operatives and Regional Rural Banks shares were 46% and 11% respectively. Co-operatives played an important role till 2001-02, later Commercial Banks have played an important role in the disbursement of agriculture credit in the district. Data reveals that Commercial Banks have expanded their branches in rural areas and they provided more credit to agricultural sector in the district after 2002. The share of Commercial Banks has shown a high record of 89% of the total credit during the year 2008-09, which is a remarkable improvement during last seven years. The Co-operatives share is only 9% of the total credit and share of Regional Rural Banks is 2% only (Table 3). Even the Co-operatives disbursed credit to agriculture to a great extent in the starting period but their role in catering agricultural credit requirements has declined gradually. The compound annual growth rate of the Commercial Banks, Co-operatives and Regional Rural Banks are 37.35, 9.23 and 6.44 respectively during the reference period.



Table 3 Total Institutional Credit Flow to Agriculture in Visakhapatnam District (Rs. Crores)

Agency	Commercial Banks		Co-operatives		Regional Rural Banks		Total credit
	Loans issued	Percent to total credit	Loans issued	Percent to total credit	Loans issued	Percent to total credit	
1998-99	45.9	43%	49.4	46%	11.3	11%	106.6
1999-00	38	34%	62.3	55%	12.6	11%	112.9
2000-01	51.2	37%	71.5	51%	16.1	12%	138.8
2001-02	75.9	43%	79.3	45%	20.8	12%	176
2002-03	111.8	45%	105	42%	31.8	13%	248.6
2003-04	193.7	55%	128.9	37%	27.1	8%	349.7
2004-05	284.9	63%	121.1	27%	44.4	10%	450.4
2005-06	532.6	74%	149.1	21%	37.1	5%	718.8
2006-07	359.5	59%	168.9	27%	84.7	14%	613.1
2007-08	619	75%	113.4	14%	88.7	11%	821.1
2008-09	1097.7	89%	119.4	9%	21.1	2%	1238.2
+CAGR(1998-99/2008-09)	37.35		9.23		6.44		27.79

Source: Annual credit plans, State Bank of India (Lead Bank of Visakhapatnam District)

A Special Focus on Credit Delivery for Small and Marginal Farmers (Crop Loans) in Visakhapatnam District

An attempt is made to analyze credit delivery for small and marginal farmers by institutional sources in Visakhapatnam district. The secondary data reveal that Commercial Banks credit supply to agriculture is much higher than Co-operatives and RRBs in the district. But it is noticed that there are some variations in the disbursement of crop loans and term loans in CBs. During the year 1998-99 Commercial Banks crop loans credit disbursement was Rs. 37.9 crores and their term loans credit disbursement was Rs. 8.0 crores only. Crop loans credit disbursement increased from Rs. 37.9 crores to Rs. 327.5 crores whereas term loans amount increased from Rs. 8.0 crores to Rs. 770.2 crores during 1998-99 to 2008-09. Term loan credit flow is much higher compared to the crop loan credit flow in the Commercial Banks which may indicate that Commercial Banks started providing long term loans for the purchase of tractors, farm machinery, digging bore wells, land development and investing on minor irrigation facilities like drip irrigations sprinklers etc. during the reference period.

From the table 4 it is clear that share of crop loans to the total credit disbursed by Commercial Banks decreased to a large extent from 83% to 30% during the reference period. Though share was decreased volume of credit has increased considerably from 37.9



crores to 327.5 crores. Decrease in the share of crop loan is attributed to high share of term loans. The Co-operatives share of the crop loans to their total credit has raised from 78% in 1998-99 to 97% in 2008-09 (Table 5). Whereas Regional Rural Banks share of crop loans to the total credit flow was 90% during the year 1998-99 and increased to 96% during the year 2008-09 (Table 6). The amount of loan issued by Co-operatives and Regional Rural Banks is relatively far less compared to Commercial Banks loan disbursement.

Commercial Banks played a major role in providing crop loans in the district, though the share of crop loan credit disbursement has come down drastically from 83% (1998-99) to 30% (2008-09) to total credit supply in the district (chart 1), the amount of loans issued is much higher compared to Co-operatives and RRBs. CBs have issued more term loans than crop loans in the district. Co-operatives volume is not enough to fulfill needs of small and marginal farmers. Regional rural banks have several problems in functioning. Each RRB is sponsored by Commercial bank. The central government and state government also contribute to its capital. Thus there is a multiagency control, which resulted in lack of conformity of its functions, lack of proper monitoring by sponsor bank, specific area of operation, as well as absence of proper system and procedures within banks, and lack of adequate staff. Organizational problems compounded by unplanned and unwieldy growth of banks and branches opened under pressure from Government.

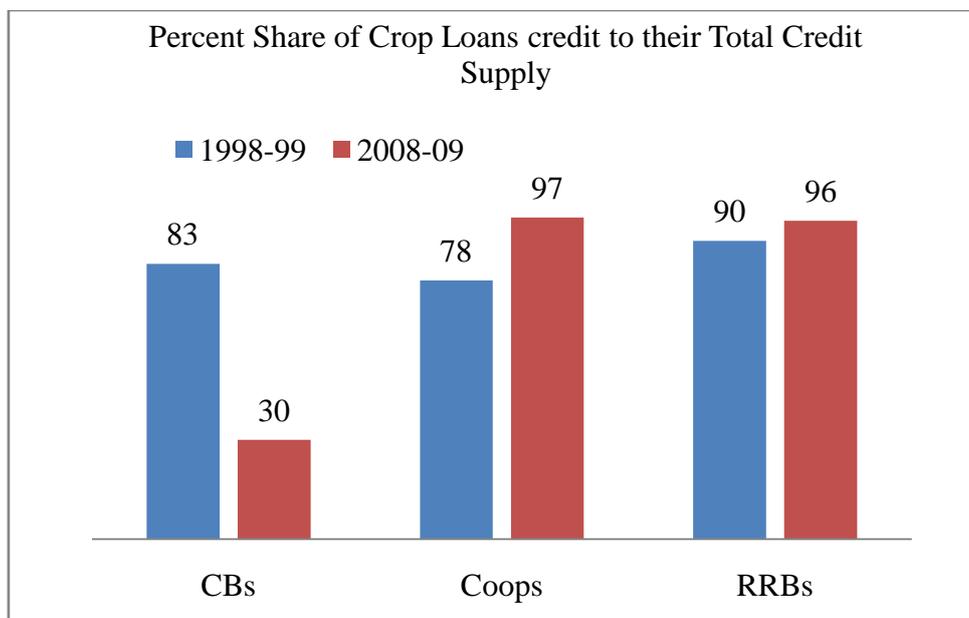


Chart 1



**Table 4 Crop Loans Percent Share to the Total Credit of Commercial Banks (CBs) in
Visakhapatnam District (Rs. Crores)**

Year	Crop Loan Credit Flow of CBs	Total Credit Flow of CBs	Percent of Crop Loan Credit to the Total Credit of CBs
1998-99	37.9	45.9	83%
1999-2000	32.8	38	86%
2000-01	37.4	51.2	73%
2001-02	59.8	75.9	79%
2002-03	87.4	111.8	78%
2003-04	155.2	193.7	80%
2004-05	208.3	284.9	73%
2005-06	272.6	532.6	51%
2006-07	210.6	359.5	59%
2007-08	289.6	619.0	47%
2008-09	327.5	1097.7	30%

Source: Annual credit plans, State Bank of India (Lead Bank of Visakhapatnam District)

**Table 5 Crop Loans Percent Share to the Total Credit of Co-Operatives (Coops) in
Visakhapatnam District (Rs. Crores)**

Source: Annual credit plans, State Bank of India (Lead Bank of Visakhapatnam District)

Year	Crop Loan Credit Flow of Coops	Total Credit Flow of Coops	Percent of Crop Loan Credit to the Total Credit of Coops
1998-99	38.7	49.4	78%
1999-2000	57.1	62.3	92%
2000-01	68.9	71.5	96%
2001-02	78.3	79.3	98%
2002-03	102.7	105.0	98%
2003-04	124.2	128.9	96%
2004-05	104.7	121.1	87%
2005-06	141.9	149.1	95%
2006-07	163.5	168.9	97%
2007-08	108.5	113.4	96%
2008-09	116.2	119.4	97%



**Table 6 Crop Loans Percent Share to the Total Credit of Regional Rural Banks (RRBs) in
Visakhapatnam District (Rs. Crores)**

Year	Crop Loan Credit Flow of RRBs	Total Credit Flow of RRBs	Percent of Crop Loan Credit to the Total Credit of RRBs
1998-99	10.2	11.3	90%
1999-2000	12.2	12.6	97%
2000-01	15.0	16.1	93%
2001-02	19.6	20.8	94%
2002-03	26.6	31.8	84%
2003-04	24.1	27.1	89%
2004-05	39.8	44.4	90%
2005-06	30.5	37.1	82%
2006-07	77.4	84.7	91%
2007-08	84.3	88.7	95%
2008-09	20.2	21.1	96%

Source: Annual credit plans, State Bank of India (Lead Bank of Visakhapatnam District)

SUMMARY AND CONCLUSIONS

At all India level, Commercial banks and Regional rural banks credit share to the total agricultural credit has increased where as Co-operative banks share was decreased. As a comparative analysis with the state Andhra Pradesh, the Commercial Banks share of credit disbursement to total institutional credit flow to agriculture was high at all India level (76 percent) as well as Andhra Pradesh i.e. it was 64 percent during the year 2008-09. The share was more or less the same for Co-operatives at all India level and in the state during reference period. The Regional Rural Banks share of credit disbursement to total institutional credit was only 9 percent at national level and it was more (17 percent) in the state compared to all India level. Commercial Banks and Regional Rural Banks share of credit to agriculture increased whereas share of Co-operative banks was decreased during the reference period.

All the institutional sources have increased the significant amount but the data reveals credit delivery to agriculture is inadequate particularly for small and marginal farmers in Visakhapatnam district. The share of Commercial banks showed a high record of 89% of the total credit during the year 2008-09, which is a remarkable improvement during last seven years. The Co-operatives share is only 9% and share of Regional Rural Banks is 2% only of the total credit. Commercial banks credit supply to agriculture is much higher than Co-operatives and RRBs in the district. But there are some variations in the disbursement of



crop loans and term loans in CBs. Term loan credit flow is much higher compared to the crop loan credit flow in the Commercial Banks which may indicate that Commercial Banks started providing long term loans for the purchase of tractors, farm machinery, digging bore wells, land development and investing on minor irrigation facilities like drip irrigations sprinklers etc. during the reference period. The share of marginal and small farmers in the total credit has been shrinking.

The large proportions of farmers are small and marginal and they have major share in the land holdings but receive much less credit than their requirements. Hence an emphasis should be given to marginal and small farmers in providing institutional credit with uncomplicated loan issue procedures and every year the number of marginal and small farmers would be covered in sufficient quantity. Another important factor for the issue of less quantity of credit to small and marginal farmers is their inability to offer the collaterals. Some guidelines are to be followed to provide minimum quantity of loan to the farmers without any collateral. Commercial banks and Regional rural banks should be worked in the areas where the Co-operative banks not available. Banks should give loans for bore wells electrical motors especially for marginal and small farmers in the villages who do not have irrigation facilities in the district.

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