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An overview on Agricultural credit in India: Status, issues and future agenda

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Abstract

Status, issues and future agenda of Agricultural Credit in India is reviewed based on published literature as worked out by various researchers. Agricultural credit has a vital role in supporting agricultural production in India. The Green Revolution was marked by increased use of inputs such as fertilizers, seeds and other raw materials, which in turn increased the need for loans from agricultural financial institutions. Though the scope and scale of agricultural credit has expanded over the years, several weaknesses have emerged that affect the viability and sustainability of these schemes. Moreover, outdated legal frameworks and outdated tenancy laws have hindered the flow of credit and the development of strong and efficient agricultural credit institutions. What has happened in this short history of agricultural credit? First, after nearly 70 years of sustained efforts, institutional credit has indeed reached a significant proportion of farmers. As the share of agricultural GDP in total GDP declines, the share of agricultural credit in total credit is expected to decline as well. However, we must ensure that this share of agriculture in GDP does not decline and actually increases. Banks need to better analyze where the risks lie in granting agricultural credit and find market-oriented solutions to mitigate these risks. There is an urgent need to introduce the best modern techniques for risk management in agriculture, including a clearer separation between high-risk and low-risk borrowers. Banks need to take a more specialised approach across different agricultural sectors and regions to disaggregate and better understand agricultural credit needs and risks. That is, which sectors and regions are credit-worthy and which are not? Which agricultural activities and regions are being assessed more and why? A "business as usual" blanket approach is no longer sufficient. Sixth, the need for secondary activities and longer-term credit is on the rise, changing traditional views of what constitutes agriculture and how it should be promoted. A review of agricultural credit performance in India reveals that while the overall flow of institutional credit has

increased over the years, there are several gaps in the system such as: B. Inadequate credit supply to small and marginal farmers, shortage of medium to long term credit, limited deposit mobilisation and high dependency of large agricultural finance institutions on borrowed funds. These have a significant impact on agricultural development and the wellbeing of the farming community. Hence, efforts are needed to address and resolve these issues.

Key words : Agricultural credit, India, GDP, NABARD.

Developed agriculture in India has a long history, with the fertile plains of northern India being irrigated by the Indus, the Ganga-Jamuna river system, and the Brahmaputra in the east. South India has its own river systems, characterized by a highly developed and impressive history, perhaps among the most developed water management systems in history. Ironically, as a result of this natural fertility and abundant water supply, India's population density grew early, and with it, poverty.

Indian agriculture has always been dependent on the monsoons. It has also imposed burdensome local tax systems at different times under various empires, most recently under the British. Seasonal demand and fluctuations necessitated the development of a domestic credit system to balance the consumption patterns of farmers throughout the year. Intermittent monsoons and other normal agricultural fluctuations made rural indebtedness a serious and persistent feature of Indian agriculture. Due to the high risks inherent in traditional agriculture, high interest rates were the rule rather than the exception and were often accompanied by exploitation and misery. Thus, the development of a rural credit system proved to be very challenging and was a constant concern for officials for over a century, as we will see later[29].

The Royal Commission on Agriculture further investigated rural credit programmes in 1926-1927. Sir Malcolm Darling (1935) has submitted details on cooperative credit to the Government of India, just before the establishment of the Reserve Bank of India, and its continuing concerns reflect the problems inherent in expansion even today. At that time, it was reported that in many states, loans against these credit societies' debts constituted 60-70% of the outstanding principle[29].

Among the Reserve Bank's first activities in the field of agricultural credit were two studies in 1936 and 1937. They found that almost all the credit required by farmers was provided by moneylenders and the role of cooperative societies and other associations was negligible. During the period 1935-1950, the Reserve Bank was very active and continued to attempt to revitalize the cooperative credit movement through various initiatives. In addition to providing financial support to the cooperative movement, the RBI played a central role in establishing the cooperative credit structure. This structure gradually evolved into two separate divisions, one for short-term

loans and the other for long-term loans, which still exist today. Intensive efforts at rural credit continued after the war, with more than six committees being set up between 1945 and 1950. Despite all these efforts, cooperative credit remained poor in 1951. Only 3.3 % of farmers had access to credit from cooperatives and 0.9 % from commercial banks. Moreover, the funds provided by moneylenders were subject to high interest rates and other usurious practices, leading to the enactment of the Money lending Act to curb such abuses.

The Steering Committee which conducted this survey found that agricultural credit was often not in the right amount, of the right kind, for the right purpose, or given to the right people. The Committee also noted that the performance of cooperatives in the field of agricultural credit was deficient in more than one respect, but at the same time cooperatives played an important role in providing credit to farmers and therefore concluded that: to this end, recommended the establishment of a State Bank of India and through it the extension of commercial banking services to rural and semi-urban areas. Concern over inadequate agricultural credit thus played an important role in the establishment of the Reserve Bank of India and in the transformation of the Imperial Bank of India into the State Bank of India.

Thus, the All India Rural Credit Review Committee (Chairman: Shri B. Venkatappaih) was constituted in July 1966 with the following objectives inter alia: To examine the need for credit to rural areas under the Fourth Five Year Plan in general and for the intensive agricultural production programme in various parts of the country in particular and to make recommendations for improving agricultural credit. After a comprehensive review, the committee recommended that commercial banks should play a complementary role alongside cooperatives in providing credit to rural areas. The social control of large commercial banks in 1969 (and 1980) and the subsequent nationalism had the same effect of facilitating a financial crisis. The efforts to utilize the commercial banking system to provide agricultural credit. The scope of banks expanded considerably in a relatively short period of time. The concept of priority sector was introduced in 1969 to highlight the need to provide funds to certain neglected sectors such as agriculture. Lending to priority sectors should be achieved by requiring a certain %age of total net bank credit to be deployed to these sectors by a certain target date. Furthermore, a decentralized credit scheme was introduced through the Lead Bank Scheme, whereby each district was assigned one of the commercial banks (the so-called District Lead Bank) to take the lead in lending, especially agricultural loans. To highlight the developmental role assigned to the ARC in addition to refinancing, the company was renamed the Agricultural Credit Development Corporation (ARDC) through a legal amendment in 1975.

Then came the Green Revolution in the late 1960s and 1970s, which required adequate credit to enable the purchase of inputs such as fertilizers, high-yielding seed varieties, and irrigation pump sets. Despite all these efforts, lending to the agriculture sector has not seen any noticeable improvement. This is mainly due to the inability of commercial banks to cater to the needs and requirements of small and marginal farmers, while cooperatives lacked the resources to meet the expected demand. The solution found was to create an

independent banking structure combining the local feel and familiarity with rural problems specific to cooperatives with the professionalism and abundant resources of commercial banks. Regional Rural Banks (RRBs) were set up by Narasimhan Working Group (1975). Thus, by the end of 1977, three separate institutions emerged providing credit to rural areas, often referred to as the "multi-agency approach.

National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 to provide credit to, among other things, promote agriculture. NABARD has played a pivotal role in providing financial assistance, promoting institutional development and facilitating rural credit outreach activities since its inception. NABARD also manages rural infrastructure development and facilitates the grant aid infrastructure development fund (RIDF) established in 1995-96. The RIDF corpus is provided as part of the objectives by scheduled commercial banks. NABARD has played a catalytic role in microcredit through Self Help Groups (SHGs).

Data collection :

Secondary data is collected related to the status, issues and future agenda of Agricultural credit in India by referring books, journals, monographs and conference/scientific papers. The data is compiled in the form of a review paper.

Assessment of progress in agricultural credit:

After nationalization of banks, agricultural credit clearly started growing (Exhibit 2) and has continued to grow ever since. Despite concerns and scepticism, the difficult and ongoing changes in institutional lending are indeed bearing fruit. Over the years, rural farmers have had increasing access to institutional credit but at the same time the role of informal institutions, including moneylenders, as lenders has declined. According to the All India Debt Investment Survey of 1991-92, the relative share of institutional institutions in the total debt of rural farmers increased from 31.7 %in 1971 to 63.2 %in 1981 and further to 66.3 %in 1991.

Nevertheless, new concerns over the declining share of agricultural credit in total credit have become prominent in recent years. This is certainly true, but is this the right criterion for assessing agricultural credit development? It would be more appropriate to assess agricultural credit as a share of agricultural GDP, or short-term credit as a share of the value of the means of production, or long-term credit as a share of private investment. As expected, agricultural value added as a share of total GDP has fallen. Therefore, as long as the share of purchases in value added remains relatively stable, agricultural credit as a share of total credit is likely to fall as well. What is interesting is that agricultural credit as a share of agricultural GDP has been increasing continuously since the 1950s, and as a share of total GDP even into the 1980s. In fact, it fell in the mid-1990s, but is now increasing again (Table-1). However, agricultural credit as a share of total credit has actually fallen.

The existing agricultural credit system is adapted to the needs of grain production. It is all the more gratifying that agricultural credit as a share of agriculture in GDP has not

declined continuously from 36 % in 2018, as the share of grain production in total agricultural production has declined. It increased from 29 % in 1981 to 1991 and to 22 % in 2001. The share of agricultural credit in total credit is also expected to decline unless this trend is corrected by promoting the commercialization of agriculture.

A long-standing problem with agricultural credit is the excessive reliance of borrowers on moneylenders and other informal sources of finance, with their high interest rates and exploitation. It is noteworthy how long it took for informal lending channels to be truly replaced by institutional credit, and how painful the process of change was. The major change took more than 50 years, from the first serious efforts in the 1930s to the 1980s (Table-2). Only the nationalization of banks in 1969 and the subsequent expansion of bank branches in rural areas ultimately contributed significantly to reducing the share of money lenders in agricultural lending.

At the time of nationalisation in June 1969, the total number of rural branches of scheduled commercial banks (SCBs) was 1,833. By March 2003, this number had increased substantially to 32,406. The share of rural branches of scheduled commercial banks (including RRBs) in the total rose sharply from 22% in June 1969 to 47% in March 2003. The most important driver of rural credit expansion in the 1980s and 1990s was the rise of commercial banks; whereas, the share of cooperatives declined accordingly (Table-3). This is reflected in the growing concern in recent years over the performance, governance and financial soundness of rural cooperative banks. Nearly half of rural loans are still financed by rural sectors and hence, it is essential to rehabilitate the rural sector and put it on a sound business footing. In the 1990s, concerns were expressed about the expansion of agricultural credit. Indeed, the number of commercial bank accounts continues to grow across all size categories. The recent introduction of the Kissan Credit Card (KCC) has probably also aided this process. However, it is also true that the share of small farmers in total credit appears to have declined to some extent (Table-4).

This trend needs careful analysis and is a good topic for further research. Are large farmers more productive and commercial, as they require more credit to buy more inputs? Or are small farms becoming less profitable and therefore harder for banks to lend to Or are small banks becoming more risk averse and therefore more reluctant to lend? There is some evidence to the contrary. Available data suggest that agricultural credit has increased in recent years as a share of both the value of inputs and the value of products (Table 4).Moreover, the share of long-term credit in private investment also increased during the 1990s (Table-5).

Regional Distribution :

One of the most striking features of the agricultural credit situation in India is the wide regional variation in provision of agricultural credit by state-run commercial banks (not including RRBs). Agricultural credit performance is best assessed by looking at the ratio of agricultural credit to agricultural value added in a state; however, this data is difficult to obtain. A second-best solution is to look at agricultural credit as a %age of Net National

Domestic Product (NSDP). Southern states are characterised by a significantly higher share of agricultural credit (Tables 6 and 7), followed by the northern and central regions, with the southern region's share increasing in the late 1990s. The Northern, Central and Northeastern regions remain unchanged. It is also noteworthy that the cooperative movement is more active in the Southern states (not included in the data reported here). Hence, the share of agricultural credit in the Southern states could be even higher. The lower share in the Western region is surprising but could be due to the very active role of cooperatives in this region. The shares in the Eastern and Northeastern regions are clearly very low.Per capita of agricultural credit in the Eastern and North Eastern regions is low (Table-8).

While these data is for commercial banks, the question arises as to why there is such a large difference across regions. Considering that Punjab, Haryana and western Uttar Pradesh are the heartland of the Green Revolution, one would expect higher agricultural credit in the northern regions. And why would a nationalized bank with similar management and staff behave so differently across regions? If banks can lend directly to agriculture in the southern states, why can't they do so in other regions? And why are the differences so large? Incidentally, it is noteworthy that rural distress has been concentrated in the southern regions in recent years due to repeated droughts.

Non-performing Assets :

Let us first look at the core issue of risk in agriculture and how it is a key factor in all the problems that arise in lending to agriculture. Let us take a brief look at the Non-Performing Assets (NPA) stocks in agriculture of commercial banks. Is it really the experience of much higher NPA levels that has made banks hesitant to lend to agriculture? In fact, the proportion of NPAs in agriculture has been found to be higher than non-priority sectors. However, it is not as high as small scale industries (SSIs) and other priority sectors. In fact, agriculture NPAs for private banks account for only 5% of their total agriculture loans, lower than the non-priority sector (Table-9). If public sector companies are excluded from the non-priority sector data, the performance of agriculture NPAs may not be much better than non-priority sector loans, and thus the private sector as a whole. These data suggest that agriculture loans may be riskier than non-priority sector loans, but the difference is probably not large enough to justify excessive caution when lending to agriculture.

The 1980s and 1990s were characterised by an overall acceleration in the country's economic growth (Table-10). For around three decades until 1980, annual per capita income growth had been only around 1.2 %, but growth accelerated in the 1980s and 1990s. Given the marked decline in population growth in the 1990s, a comparable overall GDP growth rate would have meant a higher growth in per capita income. As a result, India's annual per capita income is now around $500, pushing the country into the group of middle-income countries.

Even if the annual per capita income growth rate is in the range of 1.2 %, it is unlikely to accumulate over a decade. However, as per capita income growth rises to about 3.5 % per year, it becomes noticeable on a cumulative basis, leading to a notable change

in demand patterns. Although there are disagreements about how poverty is measured, official poverty estimates and those of most academic analysts suggest that absolute poverty declined substantially between the 1970s and the late 1990s . Measured poverty fell from about 50 % in the late 1970s to about 26 %, and food demand patterns changed accordingly.

An important observation is that the share of cereals in total household food expenditures has fallen sharply over the past three decades. In rural areas, it has fallen from almost 60 % in the late 1960s to less than 40 % in the late 1990s. In urban areas, it has increased from more than 35 % in the late 1960s to 25 % in the late 1990s (Table-11).

Moreover, there has been a similar change in the share of household expenditure on food in total expenditure in both rural and urban areas. In rural areas, non-food expenditure increased from 26 % of total expenditure in 1969-70 to 41 % in 1999-2000. In urban areas, this share increased from about 34 % to 52 % during the same period (Table-12).

Hence, the share of household expenditure on food grains in total expenditure has been declining for the past 30-35 years and this trend is expected to continue for the next few years. It is evident that with the gradual and continuing increase in income and poverty reduction, India's diet is gradually diversifying. The product mix of food products will also need to reflect this over time. With higher economic growth, this shift is likely to happen faster.

From a policy perspective, a key lesson to be drawn from this shift in demand patterns is that India's agricultural policy needs to shift its focus from almost exclusively producing food grains to promoting all other food commodities. Thus, the pursuit of higher agricultural growth and significantly accelerated economic growth in rural areas requires a shift in policy attention to a more diversified approach that includes increasing production of products such as meat, fish, poultry, vegetables and fruits.

Changes in the pattern of Food :

India is ranked among the top five producers in bananas, mangoes, papayas and pineapples among the fruits; and brinjal, cabbage, cauliflower, peas, onions and potatoes among vegetables. (Table-13).

As incomes increase and diet diversification takes place, the demand tor fruits and vegetables will grow correspondingly and hence, we can expect huge changes to take place in the supply response to such emerging demand. The production growth in these items is likely to accelerate significantly if appropriate conditions are created for such expansion. Although India is indeed a very large producer of fruits and vegetables, our productivity levels continue to be very low: Indian yields are significantly below the world average in vegetables (Table-14).

One successful example of policy attention in the non-food grains area is that of milk. Ever since the creation of the National Dairy Development Board (NDDB), the production of milk has increased tremendously, as has its distribution over most parts of the country. The production of milk increased from

around 56 million tonnes in 1991-92 to about 80 million tonnes by 2000-01. This development took place only as a result of focussed attention to development, technology extension, provision of input supply, procurement, distribution and marketing, along with corresponding appropriate institutional success development. The achieved in both the acceleration of growth in the early foodgrains production since 1970s, and milk production later, owed much to specific policy analysis and subsequent policy action with institutional development.

Just as research and development activities, and marketing were very important in the production and adaptation of high yielding seed varieties tor wheat and rice, expanding milk production, productivity increases in other areas such as horticulture will also need similar intensity of investment in appropriate R&D, and special marketing efforts increasingly involving public/private partnership.

Elements of a new approach :

Demand patterns for food will change, requiring a shift in priorities in organizing an appropriate supply response. In addition to promoting diversification, there is also a need to increase the value of agricultural production to increase employment and income in rural areas. Interestingly, a very significant change is taking place in the agricultural sector in this regard. There are early signs of closer links between primary producers, trade intermediaries, food processors and the subsequent marketing of value-added products. As the share of unprocessed foods decreases, the real growth areas in the agricultural sector will be in value-added foods such as meat, poultry, fish, vegetables and fruits. Consumers are increasingly leaning towards processed staples such as atta, packaged milk, fresh chicken, soft drinks, and processed meat and poultry.

Supportive policy changes and investments are needed to promote diversification and value creation in agriculture. The task of policymakers to design appropriate policy packages becomes even more challenging given that, unlike wheat, rice, and milk, new agricultural growth sectors are characterized by a high degree of heterogeneity. Many varieties can be produced in each of these product groups; production is often regionally concentrated; production and marketing conditions vary widely; and operational resource needs are equally diverse. Policies and programs designed to support higher productivity and production in these sectors therefore need to be more regionally disaggregated and knowledge intensive. New growth areas in agriculture are seeing an increased importance of post-harvest activities such as storage, transportation, processing and sale of non-cereal products, linking agricultural diversification with rural industrialization. However, the success of this strategy depends heavily on the development of appropriate infrastructure and other support systems.

The monopoly of government-regulated wholesale markets has hindered the development of a competitive marketing system in the country, and has not provided direct marketing, organized retailing, the development of a smooth system of supplying raw materials to the agro-processing industry, or support to agricultural producers. Innovative marketing systems and technologies. An efficient agricultural marketing system is crucial for the

development of the agricultural sector as it provides sales opportunities and incentives for increased production, contributing significantly to the commercialization of subsistence farmers. Governments around the world have recognized the importance of liberalized agricultural markets. The existing framework of the State Agricultural Produce Marketing Committee (APMC) Act needs to be amended if agricultural markets in the private and cooperative sectors are to be developed and provide a competitive environment as compared to regulated markets. In this context, the Model Agricultural Produce Marketing (Development and Regulation) Act, 2003, enacted in September 2003, is of key relevance. Ten states have taken legislative or administrative measures regarding direct marketing and "contract farming" arrangements in accordance with the Model Act. Other states should follow this example[29].

Mere policy reforms in these areas will not be enough, proper investment in rural infrastructure is needed to achieve closer linkages between farmers and markets. The government has already launched an ambitious rural roads programme called Prime Minister's Gram Sadak Yojana. Village connectivity is actually achieved through the construction of rural roads, which in turn makes it possible to make other investments required to transport agricultural produce from farm to market. The experience of states such as Tamil Nadu, Punjab, Haryana, Kerala and Goa, where rural connectivity through roads was achieved much earlier, suggests that such programs will be more successful if implemented in a decentralized framework.

Setting up cold chains such as refrigeration and transportation facilities across the country will require significant investments. The type of storage and transportation facilities required will vary from product to product and region to region. This will be best achieved in a decentralized private sector framework with appropriate policies and supportive financing options. The Indian banking system is currently focused on lending to traditional crops such as cereals. But it needs to reorient to meet the changing demand that comes with the commercialisation of agriculture. Centralised procurement of inputs and uneven production cycles in new agricultural regions are likely to increase the need for credit. This will also require the development of innovative systems and products that take into account the different nature of the agro-industry and the supply chains of various products. Besides upskilling and changes in attitudes and mindsets, it may also require the introduction of new forms of credit scoring and risk management systems. Rural credit systems have been overtaken by the information technology revolution. Banking systems may also need to address the problem of "financial dualism," characterized by faster modernization of urban financial markets compared to rural ones, and the "digital divide" that separates those who use modern computer and communication technologies from those who do not. As a result of financial dualism, large-scale farmers, agribusinesses, and rural industries may receive financial services from modern urban financial institutions, while small farmers and landless workers may rely on microfinance and personal savings. Information technology should be used to facilitate the transformation of various rural credit processes. In this connection, it is suggested that each bank should form a specialized task force to study

the full scope of credit in the context of agricultural transformation. The best results are likely to be achieved if these working groups are staffed with enthusiastic young bankers with innovative tendencies.

Several Southeast and East Asian countries that pursued agricultural diversification and rural industrialization as rural development strategies saw a shift from grain to non-grain production. The triggers were structural changes following a long-term contraction of agriculture in the economy, the fall in real grain prices following the success of the Green Revolution, and changes in consumer behavior due to rising incomes and urbanization. Agricultural diversification was seen as a desirable response to these changes in demand and supply and was explicitly incorporated into the agricultural policies and rural development strategies of many countries[16]. For example, fundamental changes in the diet of the population in developing countries in Asia have been a key factor in the development of grain demand and supply, and in agricultural diversification (Rosegrant and Hazell, 2001). It was recognized that agricultural industries provide quality products and incomes for rural residents as well as employment for a large non-farming rural population that could not be absorbed by the rapidly growing industrial and service sectors. This strategy was adopted in several countries, including Taiwan and Malaysia in the 1960s and Thailand, the Philippines, and Indonesia in the 1970s and 1980s.

The rapid changes observed in these parts of Southeast Asian countries over the past two decades suggest what will happen in the coming years. A major area of change is the modernization of retail structures. Most cultures in transition place emphasis on personalized purchases for everyday needs. Small corner stores dot the streets. A similar situation existed in East Asia until the 1980s. But over the past 15 years, the structure of food retail in these countries has changed significantly. For example, in the mid-1980s in Taiwan, only about 2 % of food was sold in modern retail outlets such as supermarkets; today, this %age has increased to more than 65 %. Thailand experienced a similar shift from zero to 50 % over the same period. Even in Indonesia today, about 25 % of food is purchased in modern supermarkets. Modern retail businesses are much more efficient than traditional businesses. They can reduce costs by up to 20% compared to traditional businesses. Contrary to popular belief, they actually create more jobs. Economies of scale lead to a greater diversity of product inventory, drawing demand from consumers to producers and reducing the gap between retail and producer prices. Overall, they help accelerate growth throughout the food chain, leading to higher growth in agriculture and, more importantly, increased employment throughout the food chain, from farm to food processing, logistics to retail.

In summary, the above income and consumption changes have led to a new demand structure for rural products that have received little attention until now. The traditional agricultural approach, which focuses on grain production, will only lead to agricultural stagnation and rural employment problems. What is needed today is to promote agricultural diversification, promote the production of other foods, actively invest in rural infrastructure, and improve the value added of food

processing and agricultural production to create new employment and income opportunities in rural areas.

Rural credit delivery in India: Structural constraints and corrective measures :

During the post economic reforms period, Indian agriculture has been subjected to various internal and external influences, forcing farmers to change their product mix and farm organisation. In many areas, the rural economy has suffered and farmers have even committed suicide in extreme reactions. The major changes that have directly affected the agriculture sector are financial sector reforms, liberalisation of fertiliser prices, liberalisation of agricultural imports etc. Of these, financial sector reforms are crucial as they impact lending to rural areas. Rural credit plays a very important role in agriculture and rural economy. And any disruption in their delivery mechanisms can trigger cascading effects. The demand for credit arises from the demand for inputs and services required for various agricultural operations. These account for a large part of farmers' liquidity and give the capital-poor farmers the necessary purchasing power.

The country's public policy has always aimed to ensure adequate and cheap credit and has set the institutionalization of credit as its main focus. There has been great progress in the institutionalization of credit to rural areas and, although there have been some performance gaps, credit provision to agriculture through public institutions has increased year-on-year. Today, despite many measures being taken and several committees and working groups being established, the rural credit situation seems bleak. Especially since 1991, it has been a constant target of policy interventions, which have been focused on three main areas, namely weakening of the institutional structure of rural credit, restraining credit to agriculture through mechanical application of Basel standards, and credit restrictions on agricultural credit funds available for credit transactions[32].

In this context, the paper has presented recent developments in the development of the rural credit system and highlighted some structural limitations. The paper first discussed some structural problems in the rural credit system that are impeding lending and then described measures to improve it.

Rural credit system - Existing structure :

India has adopted a multi-agency approach to rural lending. Right from the early days of the government providing Takkavi loan, cooperatives emerged as the first organized entities to provide credit to farmers. Though the Cooperative Societies Act was enacted in 1904, the penetration of cooperatives was limited till the 1950s. This led to nationalization of commercial banks in 1969 and again in 1980 to increase the supply of credit to the rural population. Later, Regional Rural Banks (RRBs) came into existence in the mid-1970s. Thus, the credit structure essentially consisted of cooperatives, commercial banks and local rural banks. As far as the share of agencies in rural lending is concerned, the progress of institutionalization has been remarkable. The share of institutional agencies in farm household lending increased from only 7.3 % in 1951 to 66.3 % in 1991. The share of non-institutional agencies increased in the 1990s, reaching 38.9 % in 2002. This could be due, among others, to the growing role of

dealers of various inputs in lending to farmers, declining interest of commercial banks in lending to rural areas after the 1991 financial sector reforms, and deteriorating health of the cooperative system. Ironically, the commercialization of the state had a high share of non-institutional sources[34].

Structural constraints to credit delivery ineffective Multi-Agency approach :

But in really, the rural customers hardly enjoyed the benefits of the approach as the system, suffered from deficiencies in design and architecture. Though multiple agencies existed in the market, they offered different products and to different target groups. Cooperatives have two separate channels for purveying short-term and long-term loans and never showed any coordination between the two channels, Putting their members at a disadvantage.Due to security norms and other Procedural rigidities, hardly any scope was there for farmers to choose any agency once they entered into contract with any one of the agencies. Besides, deterioration of health of the constituents, waning of their interest in rural lending and short-sighted policies led to dys functioning of the system. In what follows, we highlight a few key problems in the constituent agencies in the rural credit system that reduced the effectiveness of the system.

Cooperative system in muddle :

A serious drag on the multi-agency approach is the ineffective cooperative system. Table 16 gives the health of the cooperative system . It can be easily seen from the table that cooperative system is incapacitated due to heavy losses which invariably increased over the past few years. Cooperatives are ailing in most of the districts and lost their eligibility for NABARD's refinance. This impaired their ability to lend fresh loans and hence, their borrowers lose their freedom to choose the agency or product.

Cooperative organization not change with time. It grew bigger in size over time. But, it did not adopt the technology and professionalism needed to manage the structure. Nor it resorted to the restructuring needed. Integration of short-term and long-term structures of cooperatives was mooted by Hazari Committee way back in 1976 as a measure to impart cost economies besides offering all the services through a single window. Except Andhra Pradesh, where integration was done in mid-1980s. no other state pursued this seriously, in spite the positive feedback from Andhra Pradesh experience[27]. Another measure recommended for restructuring of the cooperative system is delayering which means removing one tier in the system. As we know, cooperatives have two or three tiers in different states[33].

Backtracked RRBs :

RRBs were designed to combine local feel and low cost of the cooperatives and professionalism of commercial banks. Somewhere the hybridization process went wrong and what emerged finally was the high cost structure and culture of commercial banks. Due to the restrictions on their client base and the cap on the rate of interest they can charge on their loans, many of them incurred heavy losses. RRBs can lend to anyone without any restriction and are almost on par with any other

commercial bank in business scope.

The performance of RRBs had not been very impressive all along. One reason often quoted is their faulty design, as they were to lend at lower rates than their cost of funds. The net profit of RRBs at the aggregate level increased from Rs 617.13 crore during 2005-06 to Rs 625.15 crore during 2006-07. The RRBs increased to Rs 4,526.48 crore during 2006-07, an increase of 13 % over the previous year. The performance of RRBs varied While all RRBs were in profit in the southern region, 29 (out of 31) in central, 14 (out of 16) in northern, 9 (out of 10) in western, 9 (out of 10) in eastern and 5 (out of 8) in north-eastern regions were in profit[24].

Decline in Commercial Banks' Involvement:

Public sector commercial banks played a major role in rural transformation since their first phase of nationalization in 1969. Rural branches increased in number and banking network spread across the country. Commercial banks' share in total institutional credit also kept on increasing[23] over time to reach over 60 %by 2003-04. However, after the Financial Sector Reforms, 1991, the commercial banks were asked to show profitability and viability and follow prudential norms of income recognition and asset classification. Added to this, a host of new private sector banks were permitted and foreign banks were allowed to operate, thereby mounting heavy competitive pressure on the public sector commercial banks. The public sector commercial hanks entered into a race with the private and foreign banks for the urban segment rather than concentrating on semi-urban and rural segments where they have heavy presence and initial advantage. The proportion of rural branches declined from 57 %in 1990-91 to 44.5 %in 2005-06 (Table-17). On an average, number of rural branches came down by 260 every year.

As a result of reduction in number of branches and general relaxation in the emphasis on priority sector lending, commercial banks' involvement in rural credit declined. The major brunt appears to have been borne by the weaker sections. Inequitable distribution of branch network and credit flow across regions is already well documented. Imagine the plight of weaker sections in a region with weak banking spread. The Situation Assessment Survey (SAS) of Farmers (59th Round NSSO) conducted in the year 2003, has estimated that over 50 %of farm households were financially excluded with a relatively higher proportion of exclusion among small and marginal farmers and tribals[25] As per Chavan[9], commercial banks were the most important source of credit for the *dalit* households in 1992 and the share of debt from commercial banks to *dalits* sharply declined between 1992 and 2002. The vacuum, thus created, was filled primarily by professional moneylenders. While professional moneylenders did emerge in 2002 as an important source of credit for other rural households as well, their hold was much stronger over *dalit* households than other households? Commercial banks also indicated a growing failure on the part of domestic banks after 1991. This finding has serious implications as, going by the history, high cost credit was used to rob the poor of their assets like land. Less dangerous, though ubiquitous, are the linked credit transactions where farmers may lose substantially and have been widely

Table-1. Institutional Credit to Agriculture (Rs. Crores)

Year	Institutions							
	Cooperative banks	Share (%)	RRB	Share (%)	Commer-cial Banks	Share (%)	Total	% Increase
1991-92	5800	52	596	5	4806	43	11202	27
1992-93	9378	62	831	5	4960	33	15169	35
1993-94	10117	61	997	6	5400	33	16494	9
1994-95	9406	50	1083	6	8255	44	18744	14
1995-96	10479	48	1381	6	10172	46	22032	18
1996-97	11944	45	1684	6	12783	48	26411	20
1997-98	14085	44	2040	6	15831	50	31956	21
1998-99	15916	43	2538	7	18441	50	36897	15
1999-00	18363	40	3172	7	24733	53	46268	25
2000-01	20801	39	4219	8	27807	53	52827	14
2001-02	23604	38	4854	8	33587	54	62045	17
2002-03	23716	34	6070	9	39774	57	69560	12
2003-04	26959	31	7581	9	52441	60	86981	25
2004-05	31424	25	12404	10	81481	65	125309	44
2005-06	39404	22	15223	8	125859	70	180486	44
2006-07	33987	24	15170	10	100999	67	150156	49
2007-08	35875	20	17987	10	128876	70	182738	51
2008-09	36165	19	19325	10	132761	71	188251	53
2009-10	32871	18	23984	13	121879	69	178737	-

Note: Commercial banks and RRBs were clubbed together upto 1990-91
Source : Economic survey and NABARD various issues.

Table-2. Ratio of direct Agricultural Credit (Disbursement) to Agricultural Gross Domestic Product (GDP), Total GDP and Total Credit (Per cent)

	Agricultural Credit/ Agricultural	Agricultural total GDP	Agricultural Credit/ CS
1950-51	0.5	0.3	n.a.
1960-61	3.3	1.3	-
1970s	5.4	2.1	10.8
1980s	8.3	2.6	8.5
1990s	7.4	2.0	6.4
2001-02	8.7	2.0	5.5

n.a. not available Note: 1. Agricultural Credit: Direct credit for agricultural and allied Activities extended by Co-operatives, Commercial Banks and Regional Banks

Table-3. Relative share of Borrowing of Cultivator Households from Different Sources.

Sources	1951	1961	1971	1981	1991	2002	2010
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Non-Instructional of which	92.7	91.3	68.3	36.8	30.6	38.9	29.7
Money Lenders	69.7	49.2	36.1	16.1	17.5	26.8	21.9
Institutional of which	7.3	18.7	31.7	63.2	66.3	61.3	68.8
Co-operative societies/ banks	3.3	2.6	22.0	29.8	23.6	30.2	24.9
Commercial banks	0.9	0.6	2.4	28.8	35.2	26.3	25.1
Unspecified	-	-	-	-	3.1	-	1.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source : All India Debt and Investment Survey and NSSO.

Table-3a. Decadal Average Share of Institutions in Direct Agricultural Credit (Disbursements) (Per cent)

	Co-operatives	RBs	Commercial Banks
1970s	79.5	2.3	21.0
1980s	55.9	5.3	38.9
1990s	51.5	6.2	42.3
2001-02	44.0	11.0	45.0

Note: Direct Agricultural Credit (disbursements) from 1975-76 for RRBs and 1971-72 for commercial banks Source: Handbook of Statistics on Indian Economy: 2002-03.

Table-4. Gross Value of Outputs, value of Inputs and Short-Term Credit

Year	Gross Value Outputs	Value of Inputs	Short-Term Credit	Short-Term Credit as %age to	
				Value of inputs	Value of outputs
1993-94	2,04,874	27,413	9,752	35.6	4.8
1996-97	2,32,833	30,735	13,330	43.4	5.7
1998-99	2,45,413	34,566	14,642	42.4	6.0

Table-5. Private Capital Formation and Share of Long-Term Credit

Year	Private Sector Capital Formation	Investment Credit	Proportion
1980-81	2,843	1,335	47.0
1990-91	8,402	4,208	50.1
1998-99	19,311	13,264	68.7

Source: Pant Joshi (2003).

Table-6. Region-wise Ratio Agricultural Credit to Net State Domestic Product (NSDP)

Regions	1991-95 (Average)	1996-2001 (Average)
Northern	0.7	1.0
Northern-Eastern	0.2	0.2
Eastern	0.5	0.5
Central	0.7	1.0
Western	0.7	0.7
Southern	1.6	2.0
All India	0.9	1.0

Table-7. Distribution of Flow of Institutional Agricultural Credit in Different State of India

Region / States	1990-91		2001-02		Annual Increase (%)	% of GCA (1998-99)	Re/ hectare GCA		Annual Increase (%)
Northern	1314	12.9	8236	19.9	43.9	20.25	377	2132	38.9
Punjab	642	6.3	4304	10.4	47.5	4.22	856	5352	43.8
Haryana	285	2.8	1821	4.4	44.5	3.22	482	2964	42.9
Rajasthan	326	3.2	1490	3.6	29.7	11.70	168	667	24.7
Himachal Pradesh	20	0.2	248	0.6	93.2	0.51	207	2555	94.5
Jammu & Kashmir	20	0.2	83	0.2	25.5	0.57	191	764	25.0
North-Eastern	41	0.4	207	0.5	34.0	2.90	96	374	31.4
Assam	20	0.2	124	0.3	42.4	2.09	54	311	39.9
Eastern	846	8.3	3062	7.4	21.8	14.71	463	1092	22.8
Orissa	306	3.0	414	1.0	3.0	4.53	319	479	4.2
West Bengal	285	2.8	1573	3.8	37.6	4.83	329	1708	34.9
Bihar (including Jharkhand)	245	2.4	1073	2.6	28.3	5.25	233	1075	30.1
Central	1722	16.9	5835	14.1	19.9	27.57	349	1110	18.2
Madhya Pradesh (including Chattisgarh)	746	7.5	1821	4.4	11.5	13.67	320	698	9.9
Uttar Pradesh (including Uttaranchal)	958	9.4	4056	9.8	27.0	13.90	376	1529	25.6
Western	1386	13.6	5959	14.4	27.5	7.06	430	1831	27.4
Gujarat	520	5.1	2980	7.2	19.5	5.56	501	2809	38.3
Maharashtra	846	8.3	2938	7.1	20.6	11.40	387	1353	20.8
Southern	4880	47.9	18127	43.8	22.6	17.51	1410	5426	23.8
Andhra Pradesh	1477	14.5	5587	13.5	23.2	6.63	1120	4604	25.9
Karnataka	642	6.3	4041	9.7	43.8	6.13	546	3432	44.1
Kerala	835	8.2	2276	5.5	14.4	1.56	2766	7666	14.8
Tamil Nadu	1895	18.6	6166	14.9	18.8	3.44	2857	9403	19.1
All-India	10188	100.0	41385	100.0	25.5	100.0	549	2169	24.6

Table-8. Region-wise Share of Agriculture and Allied Sector Credit (Short Term and Long Term) Disbursements (per cent)

Regions	1990-91	1995-96	2001-02
Northern	12.9	11.6	19.9
Northern-Eastern	0.4	0.4	0.5
Eastern	8.3	6.4	7.4
Central	16.9	16.4	14.1
Western	13.6	17.1	14.4
Southern	47.9	48	43.8
All India	100	100	100

Source: Reserve Bank of India

Note: Agricultural Credit relates to direct finance to agricultural and allied activities of all scheduled commercial banks (Disbursements – Short-term and Long-term)

Table-9. Region-wise Share of Agriculture and allied sector Credit Per Capita

Regions	1991-95	1996-2001
Northern	60	153
Northern-Eastern	9	17
Eastern	21	42
Central	36	86
Western	67	134
Southern	157	280
All India	67	128

Table-9a. Sector-wise Average Non-Performing ssets of Banks – (2001-2003) (in Crore)

	Agriculture	Small Scale	Others	Total Priority Sector	Non-Priority Sector
Public Sector Banks	7,635	10,362	6,748	24,745	28,764
Average NPAs					
Average NPAs as % average outstanding advances	12.0	20.6	12.2	14.2	9.4
Private Sector Banks					
Average NPAs	433	1,249	593	2,275	9,271
Average NPAs as a % of average Outstanding advances	5.1	15.9	5.3	8.1	10.2

Note: NPAs and outstanding advances as on March 31

Source: Report on Trend and Progress of Banking in India: Various Issues; Reserve Bank of India

Agriculture Changes in the demand for food

Table-10. Growth of Indian Economy (Annual Growth Rate) (%)

Year	GNP	Per Capita
1950-80	3.5	1.2
1980-90	5.7	3.4
1990-2000	5.8	3.6

Table-11. Share of cereals and Non-cereal Items in Total Monthly Per-Capita Expenditure on Food : Rural and Urban Areas (%)

	1969-70	1987-88	1993-94	1999-2000
Rural cereals	56.0	41.0	38.3	37.3
Non cereals	44.0	59.0	61.7	62.7
Urban cereals	36.6	26.5	25.7	25.7
Non-cereals	63.4	73.5	74.3	74.3

Source: Various NSS Rounds on Household Consumption Expenditure

Table-12. Share of Food and Non-Food Items in Total Monthly Per-Capita Expenditure on Food : Rural and Urban Areas (Per cent)

	1969-70	1987-88	1993-94	1999-2000
Rural Food	73.7	63.8	6.2	59.4
Non Food	26.3	36.2	36.8	40.6
Urban Food	65.7	55.9	54.7	48.1
Non Food	34.3	44.1	45.3	51.9

Source: Various NSS Rounds on Household Consumption Expenditure

Table-13. India's Position in World Production of Fruits and Vegetables (Source: Indian Horticulture Database- 2001)

Crop	Rank	Crop	Rank
1	2	3	4
Apple	10	Brinjal	2
Banana	1	Cabbage	2
Mango	1	Cauliflower	1
Papaya	2	Peas	1
Pine apple	4	Onion	2
Grapes	10	Potato	3
Total Fruits	2	Total Vegetables	2
Coconut	3	Cashew	

Table-14. Yields in Vegetables: India and the World (Quintals per hectare)

	1990	**1995**	**2000**	**2002**	**2003**
World	149	155	166	169	168
China	177	188	189	196	192
India	102	102	131	125	129

Note: Vegetables include melons. Source: FAO Stat 2004[3]

reported in the literature. A trader giving credit and indirectly forcing, with likelihood of exploitation, the farmer to sell through him in the product market is a common feature in the rural areas.

Yet another reason for the reduced commercial banking activity in rural areas is the staff restructuring. At one point in time, say, for about decade and a half after the bank nationalisation, public sector commercial banks recruited professional staff (agricultural graduates and other specialists). From 1990s onwards, in the wake of the much hyped VRS scheme, they had to manage their business operations through a handful of not-so-well-suited personnel in many branches. This naturally reduced the outreach as well as quality in lending. Rural lending in a country like India is manpower-intensive and the cost control through staff pruning would be self-defeating and counter-

Table-15. The quantum of credit flow to agriculture during the past five years, viz. Between 2003-04 to 2007-08

Agency	2003-04	2004-05	2005-06	2006-07	2007-08	Compound annual growth rate (%) 2003-08
Co-operative Banks	26,875	31,231	39,404	42,480	41,813	13
Regional Rural Banks	(30.9) 7,581	(24.9) 12,404	(21.8) 15,223	(18.5) 20,434	(21.7) 22,227	30
Commercial Banks	(8.7) 52,441	(9.9) 81,481	(8.4) 1,25,477	(8.9) 1,66,485	(115) 1,28,495	28
Other agencies	(60.3) 84	(65.0) 193	(69.5) 382	(72.6) -	(66.7) -	-
Total	**(0.1) 86,981 (100)**	**(0.2) 1,25,3.9 (100)**	**(0.2) 1,80,486 (100)**	**2,29,399 (100)**	**1,92,535 (100)**	**25**

. Total ground level credit increased 25%annually to peak at Rs 2,29,399 crore in 2006-07. The credit flow from cooperative system grew at l3 % per annum, the lowest among the agencies. As a result, the share of co-operatives in the total credit flow declined from about 31 % to below 22 % during the same period.

Table-16. Health status of cooperative system in India (as on 31 March 2007)

Institution	No. of units	No. of loss making units	Accumulated losses (in crore Rs.)
State Cooperative Banks (SCBs)	31*	4	385
District Central Cooperative Banks (DCCBs)	367*	95	5681
Primary Agricultural Cooperative Credit Societies (PACS)[Data as on 31 March 2005]	1,08,779	43,388	6,862
State Cooperative Agriculture and Rural Development Banks (SCARDBs)	20	8	912
Primary Cooperative Agriculture and Rural Development Banks (PCARDB)	727	324	2734

Notes: * Six SCBs and 136 DCCBs are not complying Section 11 of Banking Regulation Act, 1949 (as applies Source: Cooperative Credit Structure: An Overview-2004-05, NABARD

Table-17. Number and proportion of rural branches of commercial banks

Year	Number of rural branches	%age to total
1990-91	35,134	56.9
1996-97	32,909	50.5
2000-01	32,640	48.3
2005-06	30,750	44.5
Linear growth rate/ year	(-) 260	(-) 0.77

Table-18. State-wise loan size and transaction costs of lending per Rs. 100- Model wise (In Rs.) (Source: Puhazhendhi, 2007).

State	Model I: Banks taking financial and non-financial roles		Model II: NGOs playing non-financial role and banks, financial role		Model III: NGOs playing financial and non-financial roles	
	Average Loan	Transac-tion Costs	Average Loan	Transac-tion Costs	Average Loan	Transac-tion Costs
Rajasthan	14,804	2.32	17,572	2.96	7,462	4.15
Tamil Nadu	13,000	1.91	15,680	2.61	8,200	5.51
West Bengal	14,358	2.43	16,251	2.44	5,860	5.12
Average	14054	2.85	16501	3.53	7174	6.76
Cost- group promotion/ intermediaries		8.63		8.91		9.42
Total	Costs	11.48		12.44		16.18

productive. It appears that the number of agencies in a system, thus, may not matter as much as their commitment to the rural development and adaptability to the emerging demands.

Efforts to improve lending Revitalizing cooperative structures :

Several efforts have been made from time to time suggesting ways to revitalize cooperative societies based on the recommendations of a number of committees, but with limited success. Recently, the Government of India announced a revitalization package worth Rs. 13,596 crore based on the recommendations of the Task Force on Short Term Rural Cooperative Credit Structures (STCCS) (Chairman: Dr. A. Vaidyanathan). The assistance will help in cleaning up the balance sheet of STCCS as on March 31, 2004, injecting capital to ensure 7% CRAR, technical assistance in setting up a common accounting and internal control system, computerization

etc. NABARD was actively involved in managing the programme and in training the PACS staff, trustees and other elected representatives. Significantly, six states (Andhra Pradesh, Gujarat, Haryana, Madhya Pradesh, Orissa and Uttar Pradesh) passed legislation amending the Cooperative Societies Act (CSA) and Mahakula State passed an ordinance to this effect. As of March 31, 2008, total assistance to states was Rs 3,659.05 crore, including state governments' share of Rs 3,339.3 crore.

The Government of India announced a similar package for Long Term Cooperative Credit Structures (LTCCS) in the Union Budget 2008-09 based on the report of a Task Force chaired by Prof. A. Vaidyanathan. Financial assistance is estimated at Rs 4,584 million as well as legal and institutional reforms.

The big question is how quickly cooperatives can be revived to serve their members and how much trust and sense of belonging can be instilled in members through training. Financial revival may come soon. But true revival may take decades, if at all[11]. The main drawback of the cooperative system is that the credit cooperative system and the marketing cooperative system are separate and not functionally integrated. A truly multi-functional enterprise with credit and marketing services (non-financial) can improve the profitability of PACS and provide farmers with a complete solution to increase profitability.

In recent years, two important structural changes have taken place in the RRBs. First, in 2005-06, the RRBs were consolidated according to their sponsoring commercial banks. As a result, the number of RRBs reduced from 196 to 96 as on 31 March 2007. Second, the RRBs have been directed to cover districts not yet covered in the Union Budget 2007-08. This means that 49 districts which were not covered so far will be covered and 11 districts will be covered under the announcement as announced by the Government of India. Of the proposed 678 branches, 268 branches have been opened as at end-March 2008. The recapitalisation assistance announced by the Finance Minister in the Union Budget 2007-08 will be extended in a phased manner to RRBs with negative net worth. As at end-March 2008, 27 out of 96 RRBs (28%) had negative net worth and required recapitalisation assistance of Rs. 1,795.97 crore (Rs. 66.5 crore/ RRB). The Government of India, sponsoring banks and state governments will participate in the ratio of 50:35:15. So far, six state governments have contributed fully or partially to 12 RRBs.

Kisan Credit Card (KCC) Programme :

Launched in August 1998, the Kisan Credit Card (KCC) programme provides flexible, easy and timely credit to farmers. Crops, term and consumer loans are available under KCC. Of the total 714.68 million cards issued up to March 31, 2008, cooperative banks accounted for 49% followed by commercial banks (37%) and RRBs (14%). Kisan Credit Cards have improved farmers' access to bank credit, simplified loan procedures and increased flexibility in availing credit. However, some problem areas still need to be addressed e.g. lack of awareness among farmers regarding proper use of KCC, non-functioning accounts etc.[35].

Credit Packages for Agriculture :

In 2004, the Government of India

announced a plan to double agricultural credit from Rs 80,000 crore in 2003-04 within three years. With the introduction of various measures such as review of loan size and unit price, targeting new farmers, issuance of integrated credit cards etc., a concerted effort helped to achieve the target in just two years. While the quantum leap over time was impressive, in the sub-sector, agricultural mechanization was given priority and renewed attention was given to irrigation, land development, horticulture and agro-processing[7].

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

To complement the formal banking system and provide wider access to banking services, microfinance programs were launched in the country. India's SHG-Bank Linkage Programme started as a pilot project, linking 500 self-help groups across the country between 1992 and 1995 (pilot testing phase). It was integrated into the mainstream between 1996 and 1998, and expanded from 1998. Initially, only 255 SHGs were networked between 1992 and 1993, but by February 2007, already 25,84,729 SHGs were networked with banks. Microfinance Institutions (MFIs), non-banking institutions that provide financial services to the poor, emerged to fill the gap created by the weak banking network. However, the delivery costs were prohibitive when only NGOs were involved. Puhazhendhi[26] estimated the cost of providing a loan of Rs 100 using different models based on studies in Rajasthan, Tamil Nadu and West Bengal. Comparative estimates are given in Table-18.

The cost of deployment by SHGi has two components: the cost of promoting and maintaining the group and the cost of deployment. Transaction costs are highest in Model III, where the MFI acts as the advertising and lending agent, but advertising costs are the major component. These are likely to be one-time costs, usually in the first one to two years. In the following years, maintenance costs, more specifically herd cohesion costs, may be minimal in Model III. This is because groups formed by MFIs are more likely to survive longer as they spend more time with the group during and after its formation. In any case, the fact remains that models involving banks have proven to be cheaper in terms of loan size, possibly due to bank experience, as they increase loan amounts and reduce loan tenure. Moreover, SHG linkages are mainly concentrated in southern India and have not extended to areas where the banking network is poor[33]. Hence, one cannot expect miraculous results from this program in terms of correcting the coverage imbalance.

India's rural credit policy has focused on institutionalisation to provide cheap credit to farmers. As a result, the share of private moneylenders has fallen from 93 % in the early 1950s to 31 % in 1991. Worryingly, private moneylenders have been a key source of finance, especially for the resource-poor sections of the population, whose share fell to 39 %in 1991. By 2002, the multi-agency system, which was meant to provide more options to farmers, has proved ineffective due to flaws in design and architecture. Poorly run cooperatives, lagging RRBs and commercial banks with declining interest in rural credit have also contributed to the inefficiencies of the multi-agency system and hindered lending. Various steps are being taken from time to time

to rejuvenate the system. Following the Vaidyanathan Committee report, cooperative societies will receive a revival assistance package. RRBs have been merged and are receiving capital to clean up their balance sheets. Commercial banks have participated successfully in the Farm Credit Package and other initiatives of the Government of India to double their lending. SHG-bank linkages have been significantly promoted to complement lending to rural areas. However, high transaction costs make it a costly alternative especially where business is handled exclusively by NGOs/ MFIs. A thorough overhaul and restructuring of the rural credit system is the need of the hour. But this cannot be done in isolation without reviving Indian agriculture itself. What agriculture needs now is a new mission mode, similar to what was done in the Green Revolution in the 1970s. The difference is that back then, the focus was on two relatively homogenous products across the country to make the national strategy similarly homogenous. The approach was a package approach that tried to combine technology inputs (targeted investments in new agricultural universities decentralized in the regions, complementary organization of agricultural extension services) with the provision of infrastructure inputs like electricity at subsidized prices, arrangements for purchased power supply, etc., inputs like seeds, fertilizers, tractors, and most importantly, proper regulation of lending through the then newly nationalized banking system. The model has clearly paid off as India has become food self-sufficient and effectively achieved food security. But since then, the model has not changed significantly, resulting in various adverse effects. High subsidies on fertilizer, electricity and minimum prices remain entrenched, which may now act as a barrier to crop diversification.

The difference now is that efforts need to be made in various sectors of agriculture and agro-industry, including horticulture, aquaculture, pisciculture, dairying, sericulture, poultry, vegetables, meat, food processing and other agro-processing. We need to launch a large-scale countrywide mission programme with regional disaggregation of various activities and in a similar package mode. Packages should vary for each activity and location. First, expert teams should be assembled for each agro-climatic zone to focus on the relevant activities there. These teams can design the packages that need to be assembled for each location. The basic components of each package are likely to be similar: provision of technical inputs, infrastructure, advisory services, input supply arrangements, and corresponding credit models. The main difference in the approach would be the deeper involvement in all these activities of local-specific market players and private providers, as well as lenders such as public banks, cooperative banks, new private banks, microcredit providers, and especially self-financing institutions, and help groups.

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