Aspects of Rural Households' Debt in India

Strategic Action to Minimize Incidence of Informal Debt

Dr Amrit Patel

As early as in 1895, Sir Frederick Nicholson at the instance of the then Government of India studied the working of the Land Bank system and cooperative village banks in Germany and recommended system for providing institutional credit to the poor peasants and save them from clutches of the moneylenders. Pursuant to the recommendations, the Raiffeisen models of Primary Agricultural Credit Societies [PACS] were organized under the cooperative societies Act of 1904. Since 1904 the rural credit delivery system was a preserve of the cooperative credit institutions, which provided both production and investment credit for agriculture. From 1969, the Government of India adopted the policy of the multi-agency approach envisaging concurrent dispensation of rural credit by the cooperatives, the commercial banks [1969] and later by the Regional Rural Banks [1975] to provide institutional credit to rural households to progressively reduce their dependence on moneylenders for improving their agriculture as well as alleviate rural poverty. Government of India has since 1969 created extensive rural banking infrastructure, comprising 13,500 branches of District central cooperative banks supported by 109,924 Primary Agricultural Credit Societies at village level, 31,645 rural and semi-urban 3,751 branches of 27 public and 22 private sector banks and 14,500 branches of 96 regional rural banks to facilitate rural households easy and reliable access to agricultural credit.

Provision of farm credit has, from time to time, significantly/phenomenally increased from Rs.16.75 billion in 1970-71 to Rs.52.44 billion in 1980-81, Rs.164.94 billion in 1990-91, Rs.620.45 billion in 2000-01 & further to Rs.2871.49 billion in 2008-09. However, according to the National Sample Survey Organization data, 45.9 million [51.4%] farmer households out of 89.3 million did not access credit from institutional or non-institutional sources and according to All India Debt and Investment Survey, as on June 2002, out of 39.2 million indebted households in rural areas as many as 22.9 million [58.4%] were indebted to non-institutional agencies. Government also implemented very ambitious rural poverty alleviation 'Integrated Rural Development Program' involving bank credit of Rs.213.3663 billion & Government's capital subsidy of Rs.117.9601 billion during 1979-1999 covering 53.522 million beneficiaries. And from 1 April 1991 to 31 March 2009 under the Self-Help-Group-Bank Linkage Program [SBLP] banks have provided credit amounting to Rs.222.79132 billion to 45,589,65 SHGs. However, according to the Expert Group [2004-05] 41.8% of rural population lived on a monthly per capita expenditure of Rs447 [less than US $ 10], which economists called the 'starvation line' rather than poverty line. And according to Multidimensional Poverty Index [MPI] worked out by UNDP & Oxford University in July 2010, about 645 million people or 55% of India's population are poor. As compared with 410 million MPI poor in 26 of the poorest African countries there are as many as 421 million such poor in just eight of the poorest Indian States of Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajastha, Uttar Pradesh & West Bengal. The MPI is like a high-resolution lens, which reveals a vivid spectrum of challenges facing the poorest households. MPI considers 10 pinpointing indicators under three important components of rural life, such as [i] Education [child enrolment & years of schooling] [ii] Health [child mortality & nutrition] and [iii] Standard of living [electricity, flooring, drinking water, sanitation, cooking fuel & assets.

Against this background an attempt is made in this paper to understand the nature and magnitude of rural indebtedness in India by analyzing the periodical data in respect of following aspects and suggest enabling measures to minimize the incidence of rural informal indebtedness & poverty within a time frame.

A.. Changes that have taken place in 1960-61, 1970-71, 1980-81,1990-91 & 2002

[i] Features of operational holdings, size distribution of operational holdings & operated area

[ii] Agency-wise source of cultivators' borrowings; Number of institutional & non-institutional indebted households & outstanding household debt

[iii] Distribution of debt by purpose & Institutional share of rural, cultivator & non-cultivator in annual cash borrowings

B. Changes that have taken place between 1991and 2002, during post-financial sector reforms

[i] State-wise share of borrowings from institutional & non-institutional sources; State-wise per hectare and per capita amount of institutional & non-institutional borrowings; State-wise interest rtes on institutional & non-institutional borrowings;

[ii] Share of institutional & non-institutional rural indebted households according to Asset Holding Classes; Number of households & outstanding debt by loan purposes;
[iii] Credit delivery and landless laborers, marginal, small, medium & large land holders

C. Status of rural indebtedness in 2003

[i] Incidence of indebtedness in major States; Debt by sources across major States;
[ii] Incidence, Amount and source of debt by size class of holdings; Non-institutional debt for each size class of holdings across major States; Debt by interest rates of institutional & non-institutional sources;
[iii] Distribution of Debt by purpose across major States

D. Loans by purpose by earners from Institutional & non-institutional sources in 2007.

E. **Credit Accounts**

[i] Savings & credit accounts with scheduled commercial banks in rural areas [1981,1991,2001,2007]
[ii] State-wise savings & credit accounts and amount per rural branch as on 31 March 2005

Distress Phenomenon: In most developing economies and more importantly in India farmers' indebtedness has long been treated as a distress phenomenon. Often it is so when the loan taken is not used for productive purposes [such as purchase of inputs of crop production that increase crop-output or creation of assets that expand the income generating base of the borrowers] and is used for consumption purposes or meeting expenses towards social and religious ceremonies. Debt can also become a distress phenomenon if the borrower's crop fails due to use of spurious inputs, infructuous investment, natural calamities, other unforeseen reasons, or if production becomes uneconomic because of high input costs, lack of remunerative prices or unviable technology, which make it impossible for farmer to repay the borrowed capital and interest. In many cases interest becomes a heavy liability if the loan is taken from non-institutional sources, such as moneylenders at high rates of interest. The accumulated liability of principal and compounding effect of interest aggravates borrower's problem and the borrower is forced to mortgage or sell his land, thereby loosing his only means of food security and livelihood. In certain cases, indebtedness and failure to repay the debt can be one of the important causes for farmer's suicides, which National Crime Records Bureau statistics in India reported more than 150,000 farmers' suicides between 1997 & 2005, because they were terribly indebted, cyclically poor and seriously credit constrained

The need, nature, causes and magnitude of rural indebtedness have significant bearing upon the purposes of borrowing and ultimate use of borrowed funds by rural families, relationship between the debtor and creditor, prevailing system of agrarian and socio-economic reforms and ownership structure and governance of the credit institutions operating in rural areas.

Causes: The surveys, research studies and expert committees' reports in India bring to the fore that nature of rural households' borrowings for purposes of meeting their consumption needs [expenditure on social ceremonies like marriage ceremonies, funerals, other religious rites, educational and medical expenses etc.] and that too from moneylenders is primarily responsible to perpetuating poverty. Besides, primitive methods of cultivation, lack of assets of economic size, inaccessibility to sources of services and goods of approved standards & quality and absence of enabling/conducive environment for sustainable development of agriculture have handicapped farmers to generate adequate surplus, which can take care of their subsistence/consumption needs.

The majority of the farmers live in a state of perpetual debt. They borrow to repay old loans and/or for securing ready cash for social ceremonies. The financial situation goes from bad to worse when crops fail. In tribal and socio-economically backward/vulnerable areas, the productivity of land and crops is very low and many families often are found to be hand-to-mouth. " *Tribal is born, bred and buried in debt*" is a proverb for tribal areas. The birth of a child is surely an occasion of rejoicing in the family. The birth ceremonies are, however, performed by borrowing money to serve liquor to invitees. So with the birth of the child, the seeds of economic downfall are sown. Children are often undernourished and without clothes. They begin married life with a burden of heavy inherited debt on their shoulders. They die almost penniless and death ceremonies too are performed with borrowed money. Thus, the Royal Commission on Agriculture [1924-25] has rightly observed in its report, " to witness a continuation of a system under which innumerable people are born in debt, live in debt and die in debt, passing on their burden to those that follow."

The National Sample Surveys in India have revealed that in general a sizable portion of the rural debt was incurred to meet household expenditure. Among the different purposes for which outstanding loans were reported to have been raised, the proportion of rural households reporting outstanding loans for the purpose of household expenditure was as high as 49% and the amount outstanding on this account was also as high as 51% of the aggregate outstanding of all the rural households in the country. When funds are raised for such unproductive purposes [though are absolutely essential] the possibility of repaying the loans is severely constrained, particularly, in view of the meager land/asset/resource base of the small farmer and consequential low levels of productivity and income per unit of land. This is further aggravated by primitive methods of farming and inaccessibility to institutional credit and services/facilities including marketing. In fact, small farmer gets into the firm grip of the moneylender. When crop fails, his pecuniary position becomes extremely miserable. With his land mortgaged to the moneylender for usurious rate of interest, the farmer has to borrow even to sustain a living and thus keep on accumulating debt. In an attempt to partially fulfill his interest obligations, he resorts to distress sales of his produce immediately after the harvest when market prices happen to be quite low in the season. Thus, the debt burden is almost a millstone around his neck. It has been averred, " *worm or beetle, drought or tempest on a farmer's land befall, each is loaded full of ruin, but a mortgage beats them all".*

Relationship: The social relationship based on customs and traditions in rural India and continuous decline in the stable gainful occupational opportunities have been the basic attributes responsible for increasing debt-burden of rural families. This time immemorial traditional relationship compels rural families to perform social and religious ceremonies, which increase consumption expenditure with utter disregard to the means of income. Almost in all cases expenses were many times higher than income. As the population grows, pressure on land is accentuated and, therefore, scramble for land begins. Under the circumstances, the private moneylenders as a non-institutional credit agency offer several advantages to the poor rural families. In the first instance, the moneylenders adapt their practices to suit to the needs of the situation, at a time when rural financial institutions are neither available nor able to provide credit needs of these poor rural families. Besides, the nature of their borrowings, mostly for the purpose of consumption expenses [purely non-productive purposes] is the root cause, which almost significantly find favor from private moneylenders in sharp contrast to rural financial institutions. Not only the moneylender is ready and happy to provide credit for this purpose at any time, but also his terms and conditions are enough flexible depending on his personal assessment of each borrower and provide credit promptly as a member of the rural community to which the borrower also belongs.

In the ultimate analysis, in view of the pressing needs of the borrowers and lack of alternative credit agencies with adequately flexible lending system, the moneylenders are not only able to dictate terms specifically in regard to the rate of interest but also succeed in limiting the freedom of action of their borrowers in several ways in the light of their interests as landlords or traders. While the landlords acquire the ownership of their borrowers' mortgaged lands, the traders continue to purchase farm produce at a pre-determined price, which is far lower than the prevailing/ruling market price. The relationship between the debtor and creditor becomes much more enduring and complex. Over the period when the population grows, pressure on land increases, thereby the size of land held by rural household gets reduced and ultimately his means of income/livelihood also gets reduced. Thus, the value of land for obtaining credit increases in monetary terms as well as its value as security. As the land is almost the only security that the rural families have to offer to the moneylender, their failure to repay loans secured against land results into alienation of land, which further jeopardizes the means of livelihood of the rural families.

Increasing Number: According to the Rural Labor Enquiry Report [1974-75], the number of rural households rose from 70.4 million in 1964-65 to 82.1 million in 1974-75, an increase of 11.7 million in a decade. The number of rural *labo*r households increased by 7.0 million from 17.8 million in 1964-65 to 24.8 million in 1974-75. Among these, the number of labor households with land rose by 4.3 million from 7.8 million to 12.1 million during the period, while those without land rose by 2.7 million from 10 million to 12.7 million. Of the rural labor households, those belonging to Scheduled Caste [SC] and Scheduled Tribe [ST] rose by 2.9 million from 8.7 million to 11.7 million. These data showed that over the decade while all rural households increased by 16.6%, labor households with land increased by as much as 55.1% and those without land by 27.0%. With the passing of time more and more households are losing their lands and are reduced to the status of farm laborers. The SC and ST labor households also rose by 34.5%. According to the Rural Labor Enquiry Report, the proportion of *indebted* rural labor households increased from 59% to 65.4% during the period. The proportion of SC increased from 65% to 70% and that of ST households increased from 46% to 49% during the period.

The problem is further aggravated in view of the fact that the number of small farmers, marginal farmers, landless laborers, tenant farmers, sharecroppers and oral lessees has been continuously increasing. Not only number of small and marginal farmers is increasing but also size of land held by them gets reduced, many a times becoming uneconomic. The NSSO reveals that 40% of Indian farmers report that farming is not profitable The operational holding as defined in the Agricultural Census might be located in a compact block or divided into many scattered fragmented pieces. In the case of small and marginal farmers, the latter compounds the problem. Even within this broad classification of small/marginal farmers on one hand and medium/large on the other, the cultivator may be owner, tenant or share cropper, wholly or partly. All these facts clearly indicate that landholdings and land rights are characterized by extreme inequalities. This is, therefore, found to be the root cause of limiting and declining productivity of crops, even under most modern and scientific farming techniques. Over a period of time, medium sized farmer becomes small farmer, small farmer becomes marginal farmer and then marginal farmer becomes landless laborer.

Declining Farm Size: The increasing burden of labor force on a slowly contracting cultivable land area leads to increasing number of holdings with lower size. Over the period 1960-61 to 2003, the number of holdings doubled from 51 million to 101 million, while the area operated declined from 133 million hectares to 108 million hectares. This has resulted in a sharp decline in average size of holding and growing marginalisation. Added to this is the fact that despite land reforms, the land holding pattern continues to be skewed.

Table 1

Characteristic Features of Operational Holdings [1960-61 to 2003]

Key Characteristics	1960-61	1970-71	1981-82	1991-92	2003
National Sample Survey Round	17th	26th	37th	48th	59th
Number of operational holdings [million]	50.77	57.07	71.04	93.45	101.27
Percentage increase	-	12.4	24.5	31.5	8.4
Area operated [million hectares]	133.48	125.68	118.57	125.10	107.65
Average area operated in hectare	2.63	2.20	1.67	1.31	1.06

Table 2

Changes in the Size Distribution of Operational Holdings & Operated Area [1960-61 to 2003]

Category of holdings	Percentage of Operational Holdings				
	1960-61 [17th]	1970-71 [26th]	1981-82 [37th]	1991-92 [48th]	2003 [59th]
Marginal	39.1 [6.9]	45.8 [9.2]	56.0 [11.5]	62.8 [15.6]	71.0 [22.6]
Small	22.6 [12.3]	22.4 [14.8]	19.3 [16.6]	17.8 [18.7]	16.6 [20.9]
Semi-medium	19.8 [20.7]	17.7 [22.6]	14.2 [23.6]	12.0 [24.1]	9.2 [22.5]
Medium	14.0 [31.2]	11.1 [30.5]	8.6 [30.1]	6.1 [26.4]	4.3 [22.2]
Large	4.5 [29.0]	3.1 [23.0]	1.9 [18.2]	1.3 [15.2]	0.8 [11.8]
Total	100 [100]	100 [100]	100 [100]	100 [100]	100 [100]

Figures in parentheses indicate % of operated area

Sources of Credit*:* The All India Rural Credit Survey [1951-52] for the first time, shortly after country's independence, revealed that total borrowings in rural areas in 1951-52 were of the order of Rs.7,500 million. An important finding of the survey related to the source-wise distribution of the cultivators' borrowings. Following Table indicated the extent to which the main agencies for rural credit contributed to the total annual borrowings of the cultivators.

Table 3

Agency-wise Proportion [%] in the Cultivators' Borrowings in Rural Areas [1951 to 2002]

Agency	1951	1961	1971	1981	1991	2002
A. Institutional Sources [1+2+3]	**[548] 7.3**	**[4130] 14.8**	**[10940] 29.2**	**[37940] 61.3**	**[142150] 64.0**	**[636480] 57.1**
1.Government	3.3	5.3	6.9	4.7	8.7	5.3
2.Cooperatives	3.1	9.1	20.1	28.6	21.6	27.3
3.Commercial Banks	0.9	0.4	2.2	28.0	33.7	24.5
B. Non-institutional Sources [1+2+3+4]	**[6952] 92.7**	**[23760] 85.2**	**[26580] 70.8**	**[23990] 38.7**	**[79960] 36.0**	**[478200] 42.9**
1.Landlords	14.2	0.9	8.6	4.0	4.0	1.0
2.Agricultural Moneylenders	24.9	45.9	23.1	8.6	7.1	10.0
3.Professional Moneylenders	44.8	14.9	13.8	8.3	10.5	19.6
4.Relatives & Others	8.8	23.5	25.3	17.8	14.4	12.3
Cultivators' Borrowings [Rs. million]	**[7500] 100**	**[27890] 100**	**[37520] 100**	**[61930] 100**	**[222110] 100**	**[1114680] 100**

Figures in parentheses indicate cultivators' borrowing in Rs million

The Committee observed that in 1951,between institutional and non-institutional sources of rural credit, the share of non-institutional sources of credit [92.7%] was almost 13 times of institutional sources [7.3%]. The professional moneylenders and agricultural moneylenders between them, among non-institutional sources, accounted for as much as 70% of the total credit followed by 23% provided by landlords and relatives. The credit supplied by all three institutional agencies, viz. the Government, the cooperatives and the commercial banks was insignificant. In quantitative terms, cooperatives supplied a little more than 3% of the total borrowings of the cultivators. Bulk of the credit needs of members of cooperative credit societies was met from agencies other than cooperatives. Even in areas where cooperative credit societies were functioning, a large part of the cultivating population was outside its ambit. There were large parts of the country, which were not covered by the cooperatives. These three-fold inadequacies had made the Survey Committee to conclude that the 50 years' record of the cooperative credit agency in the country was a failure. Among other reasons for the poor performance of the cooperative agency, the Survey Committee found that organizationally and financially the cooperative credit institutions at almost all levels were weak and inefficient.

The financial and administrative support given by the Central and State Governments as well as RBI under the Integrated Rural Credit Scheme recommended by the Survey Committee had enabled the cooperatives to improve their performance marginally in the years that followed. The findings of the comprehensive survey conducted by the RBI a decade later, viz. the All India Rural Debt and Investment Survey had brought out that the share of institutional sources in the total borrowings of cultivators significantly improved to 14.8% in 1961 and 29.2% in 1971. The growth of institutional sources of credit during 1961 and 1971, however, did not match the pace of growth in terms of cultivators' borrowing. The share of institutional sources of credit in 1981 was phenomenally as high as 61.3% and it almost kept the pace of growth with that of cultivators' borrowing. However, in the subsequent decade that ended in 1991 the share of institutional sources improved marginally by 2.7 percentage points but it sharply declined to 57.1% in 2001, when cultivators' borrowings steeply shot up to Rs.222,110 million and Rs.1,11,46,80 million in 1991and 2001 respectively. The borrowings from agricultural and professional money lenders followed by relatives were as high as 32% and 41.9% respectively during the period.

The survey further revealed that the household expenditure constituted 71.6% of the total borrowings for the asset group of less than Rs.500, 60.8% for the asset group of Rs.500 to Rs.1000, 59% for the asset group of Rs.1000 to Rs.2,500 and 53% for the asset group of Rs.2500 to Rs.5000. This sharply focused on the fact that with the increase in the size of assets the proportion of borrowings declined, thereby implying that there has been a need to significantly increase assets of the poor rural households.

Household expenditure included consumption expenditure and expenditure on social obligations like marriage ceremonies, funeral and other religious rites, educational and medical expenses. Thus, the consumption credit for all purposes for the land-holding size groups "nil and 0.01 to 0.50 acre" together was of the order of Rs.3400 million. Similarly, for the landholding groups of above 0.50 acre and up to five acres, the consumption credit for all purposes was Rs.2500 million.

Outstanding Household Debt

Table 4

Number of Indebted Households, Outstanding Households' Debt,
Outstanding Debt per Indebted Household in Rural Areas

End-June	Number in million	Amount of debt Rs. million	Debt per household Rs. Nominal Terms	Period	Compound Annual Growth Rate [%]
1961	43.1 [62.8]	27890 [21.4]*	647 [12,629]**	1961-71	3.0 [--3.2]$
1971	31.8 [41.3]	37520 [12.2]*	1,180 [12,356]**	1971-81	5.1 [--3.7]$
1981	18.2 [19.4]	61930 [6.2]*	3,411 [14,904]**	1981-91	13.6 [4.3}$
1991	27.2 [23.4]	222110 [6.3]*	8,166 [15,105]**	1991-02	15.8 [8.5]$
2002	39.2 [26.5]	1114680 [9.4]*	28,443[25,711]**		

Figures in parentheses indicate number of indebted households as percentage to total households
** Indicates per cent of GDP at current market prices. ** Indicates at 1999-00 prices*
$ Indicates at 1999-2000 prices

The All India Debt & Investment Surveys from 1961 to 2002 in respect of number of indebted households, outstanding households' debt and outstanding debt per indebted household in rural areas showed as under.

1.The number of indebted households, in absolute terms as well as percentage to total households, declined sharply from 43.1 million [62.8%] in 1961 to 31.8 million [41.3%] in 1971 and further to 18.2 million [19.4%] in 1981. Thereafter, however, number of indebted households and their percentage to total households, increased significantly to 27.2 million [23.4%] in 1991 and 39.2 million [26.5%] in 2002, but could not reach the level of 1961.

2.Amount of outstanding households' debt progressively increased from Rs.27,890 million in 1961 to Rs.222,110 million in 1991 and further to Rs.1,11,468 crore in 2002. However, outstanding households' debt in terms of percent of GDP at current market prices declined from 21.4% in 1961 to 6.3% in 1991 and then significantly rose to 9.4% in 2002..

3.Debt per household also progressively increased from Rs.647 in 1961 to Rs.28,443 in 2002 in nominal terms. However, in terms of 1999-00 prices, debt per household declined slightly from Rs.12,629 in 1961 to Rs.12,356 in 1971 but significantly increased in 1981, 1991 and 2002.

4.The share of rural indebted households in the total indebted households increased from around 77% in 1991 to around 80% in 2002. Indebtedness [households with debt as percentage to total households] was larger in rural areas than in urban areas. Further, the gap between rural and urban indebtedness widened in 2002 as against in 1991.

5.According to National Council of Applied Economic Research Survey [2008], at end-June 2005, 23.9%[49.2 million] of all households in the country had loans outstanding with the ratio being 25.2%[36.4 million] in rural areas.

6.According to various surveys, the aggregate amount of outstanding debt of rural households, in nominal terms, increased significantly during all the previous four decades [1960s, 1970s, 1980s, and 1990s]. The increase in debt of rural households, both in nominal and real terms, in the 1990s was the largest among all decades.

7.The outstanding debt, in nominal terms, in rural areas during 1991-2002 grew at an around compound rate of 15.8%, while in real terms it grew by 8.5% [4.3% in the 1980s].

Outstanding debt per indebted household in real terms in rural areas increased sharply between 1991-2002.

8.According to All India Debt & Investment Survey [1971-72], 40% of the small farmers and 38.5% of the rural artisans reported outstanding debt of Rs.380 and Rs.450 per household respectively. Household expenditure for consumption accounted for about 70% in case of artisans. Between 50% and 60% of the total outstanding debt of the poorest cultivating households [asset groups of up to Rs.2500] was availed at relatively higher interest rates of above 18%. As against this, in case of higher asset groups, larger was the proportion of outstanding debt of households at interest rates below 12.5%.

9.According to the Rural Labor Enquiry [1974-75] debt incurred for consumption purposes accounted for 48.2% of the indebtedness in 1974-75 compared to 53.3% in 1964-65. In 1974-75, the share of ceremonial expenses at 18.8% was little lower and of productive purposes at 12.7%, was marginally higher than in 1964-65. Of the debt incurred in 1974-75, 47.9% was borrowed from moneylenders as against 30.6% in 1964-65. Cooperative Societies and commercial banks accounted for 5.3% and 4% respectively; compared to 1964-65, the share of cooperatives had only improved marginally. Other sources comprised employers, shopkeepers etc providing another 43.4%.,

10.The Sivaraman Committee on Consumption Credit [1976] giving the estimate of liability of borrowing households under the various holding size groups up to and including two hectares in each of the States, estimated that the actual liability of all the borrowing households affected by the debt legislation worked out to Rs.9,744 million as on June 30,1971

Institutional & Non-institutional Debt

Table 5

Number of Indebted Households & Outstanding Household debt

Institutional & Non-institutional sources

Credit Agency	Number .of Indebted Households [Million]					Outstanding Debt [Rs Million]				
	1961	1971	1981	1991	2002	1961	1971	1981	1991	2002
Institutional	7.5 [17.3]	7.6 [24.0]	8.9 [48.8]	18.2 [61.5]	19.8 [46.4]	4,130 [14.8]	10,940 [29.2]	37,940 [61.3]	142,150 [64.0]	636,480 [57.1]
Non-institutional	35.6 [82.7]	24.2 [76.0]	9.3 [51.2]	11.4 [38.5]	22.9 [53.6]	23,760 [85.2]	26,580 [70.8]	23,990 [38.7]	79,960 [36.0]	478,200 [42.9]
All agencies	43.1 [100]	31.8 [100]	18.2 [100]	29.6 [100]	39.2 42.7 [100]	27,890 [100]	37,520 [100]	61,930 [100]	222,110 [100]	1,114,680 [100]
CAGR: Institutional			1.77	8.27	0.85					

Non-institutional				2.29	7.22					
All Agencies				5.55	2.85					

Figures in parentheses indicate % to total

1.The data of the All India Debt and Investment Survey [AIDIS] conducted by the National Sample Survey Organization revealed that between 1961 and 1981 the number of borrowing households as well as households borrowing from non-institutional sources continued to decline significantly and thereafter between 1991 and 2002, their number significantly increased. As against this trend, number of households borrowing from institutional sources, however, marginally increased between 1961 and 1981 and the increase was significant between 1991 and 2002. The percentage share of households borrowing from non-institutional sources in the total was higher than that of households borrowing from institutional sources in all decades except decade ended-1991.

2.The percentage share of outstanding debt of households borrowing from non-institutional sources in the total outstanding debt continued to decline in all decades except decade ended-2002. The outstanding debt of households borrowing from non-institutional sources in terms of percentage to total outstanding dent was considerably higher than that of borrowing from institutional sources between 1961 and 1971,which then declined significantly between 1981 and 2002.

3.While percentage of total indebted households increased by 44.1 in 2002 over that of 1991, percentage of households indebted to non-institutional sources significantly shot up by 100.8% as against mere 8.8% to institutional sources during the period. Number of households indebted to agricultural and professional moneylenders increased sharply to 15.1 million accounting for 38.5% of the total 39.2 million in 2002. The total outstanding debt increased sharply by 401.8% from 1991 to 2002, whereas outstanding debt to non-institutional sources sharply shot up by 498% as compared to 347.7% to institutional sources during the period. Outstanding debt to agricultural and professional moneylenders in particular steeply rose by 844% as against 370.4% to cooperative and commercial banks between 1991 and 2002. It may be recalled that in the scheme of integrated rural credit recommended by the All India Rural Credit Survey and accepted by the Government, " *no place has been assigned to the private moneylenders*"

4.Number of borrowing households from institutional sources marginally increased from 7.5 million in 1961 to 7.6 million [101.3%] in 1971, which however significantly rose to 8.9 million [117.1%] in 1981 and sharply to 18.2 million [204.5%] in 1991 and 19.8 million [108.8%] in 2002. As against this, number of borrowing households from non-institutional sources significantly declined from 35.6 million in 1961 to 24.2 million [67.9%] in 1971 and steeply declined to 9.3 million [38.4%] in 1981, which, then significantly increased to 11.4 million [122.6%] in 1991 and sharply shot up to 22.9 million [200.9%] in 2002. The pattern has been that with the declining total number of indebted households from 1961 to 1981 and increasing from 1991 to 2002, the number of indebted households to non-institutional sources also declined from 1961 to 1981 and then increased between 1991 and 2002.

5.The percentage share of cultivator households and their share of borrowings from institutional sources in the total progressively increased from 1961 to 1991, but significantly declined between 1991 and 2002

According to the National Sample Survey Organization [NSSO] it was, further, revealed that as many as 45.9 million [51.4%] farmer households in the country out of a total of 89.3 million households did not access credit, either from institutional or non-institutional sources. A more or less similar trend was observed in the pattern of outstanding household debt too.

6.According to the NSSO's 59th round Survey, the share of non-institutional sources in the outstanding household debt increased sharply to Rs.636,480 million in 2002 as compared to Rs.142,150 million in 1991. A major reason for increase in the overall household debt and the increase in the share of households indebted to non-institutional sources between 1991 and 2002 was attributed to a significant increase in current farm expenditure and household expenditure in rural areas. The household expenditure of rural households included many items for which households found it difficult to obtain loans from institutional sources. **[Table 6**]

7.The Invest India Incomes & Savings Survey for the recent period [IIMS, 2007] also revealed that rural households often borrowed substantial amount to meet financial, medical emergency and social obligations. These three purposes accounted for about 32.8% and 60.6% % of the loans availed of by indebted earners [persons in the age group of 18-59 and earning some cash] from institutional and non-institutional sources respectively [Table 8]. In case of emergency, households had easy and reliable access to non-institutional sources. Financial emergencies included unplanned expenditure on business, consumption, religious and social ceremonies, among others, for which bank loan was not available.

Indebtedness by Purpose*:* A substantial portion of cultivator households' debt was for productive purposes at the all-India level. However, debt for productive purposes as a percentage of total debt declined from 72% in 1981 to 63% in 2002. Similarly, the share of debt incurred for farm business declined from 64% in 1981 to 53% in 2002. Within farm business expenditure, the share of capital expenditure declined from 45.3% to 34.3%. The increase in capital expenditure for non-farm business could not fully compensate the fall in farm business expenditure, which resulted in a fall in the share of overall productive expenditure between 1981 and 2002.

There were substantial inter- State variations in the purposes for which debt was incurred. Outstanding debt for productive purposes varied from 40% to 80%. While it was as high as 80% in Maharashtra, followed by 78% in Karnataka & 75% in Gujarat it was as low as 40% in Assam, 44% in Kerala and 47% in Bihar. The outstanding debt largely incurred for productive purposes in the States [Andhra Pradesh, Karnataka, Maharashtra and Punjab], which reported suicides.

Table 6

Distribution of Debt by Purpose Among Rural Cultivator Households

[1961,1971,1981,2002] [%]

Purpose	1961	1971	1981	2002	Purpose	1961	1971	1981	2002
Productive	40.1	54.0	71.6	62.9	Non-productive	60.0	46.0	28.4	38.1
Farm Business	36.1	49.7	61.8	52.5	Household expenditure	49.2	37.8	20.0	27.7
Capital expenditure	26.8	34.7	45.3	34.3	Other purposes	10.8	7.2	8.4	10.1
Current expenditure	9.8	15.0	18.5	18.2	Repayment of debt	5.0	1.5	0.1	1.5
Non-farm Business	3.5	4.3	7.8	9.4	Expenditure of litigation	1.8	0.7	0.8	0.3
Capital expenditure	1.4	3.2	6.3	7.4	Financial investment	0.2	0.2	1.0	0.6
Current expenditure	2.1	1.1	1.5	2.0	All purposes	100	100	100	100

Farmers' Annual Borrowing*:* The trends in annual borrowings [flow] are similar to those of outstanding debt [stock]. The percentage of farmer households' borrowings from institutional sources in total borrowings increased very rapidly during the 1970s but stagnated at levels achieved in 1981. The rapid growth in the earlier period was primarily due to nationalization of banks and policy reorientation in favor of expanding credit to agriculture.

Contrary to the general belief that there are more defaults of institutional debt compared to non-institutional borrowings, the recent development in the repayment profile of cultivator households shows marginally better compliance of institutional borrowings. During 2002-03, in the case of institutional credit, cultivator households repaid 14% of loans taken during the year and 49% of the loans taken prior to that year. In the case of non-institutional sources, the corresponding proportions were 12 %and 39%.[AIDIS 2003]

Table 7

Institutional Share in Annual Cash Borrowings [%]

Occupation	1971-72	1981-82	1991-92	2002-03
Rural	19.7	54.5	53.3	57.2
Cultivator	21.7	56.2	55.0	59.5
Non-cultivator	7.7	40.4	47.1	51.3

State-wise Borrowings

Table 8

State-wise Share of Borrowings from Institutional & Non-institutional Sources

[1991-92 & 2002-03] [%]

	Institutional Borrowings		Non-institutional Borrowings	
States	1991-92	2002-03	1991-92	2002-03
Andhra Pradesh	25.56	37.50 [11.94]	74.44	62.50
Arunachal	56.47	78.40 [21.93]	43.53	21.60
Assam	45.04	46.43 [1.39]	54.96	53.57

Bihar	51.23	23.51 [-27.72]	48.77	76.49
Chhatisgarh	74.39	57.32 [-17.07]	25.61	42.68
Gujarat	74.70	75.74 [1.04]	25.30	24.26
Haryana	52.67	61.78 [9.11]	47.33	38.22
Himachal	60.30	57.16 [-3.14]	39.70	42.84
J&K	42.80	82.74 [39.94]	57.20	17.26
Jharkhand	94.40	90.93 [-3.47]	5.50	9.07
Karnataka	62.78	62.51 [-0.27]	37.22	37.49
Kerala	81.79	81.63 [-0.16]	18.21	18.37
Maharashtra	77.06	78.12 [1.06]	22.94	21.88
Manipur	53.19	7.76 [-45.43]	46.81	92.24
Meghalaya	91.88	38.11 [-53.77]	8.12	61.89
Mizoram	68.22	84.54 [16.32]	31.78	15.46
Madhya	57.76	62.26 [4.50]	42.24	37.74
Nagaland	72.76	71.29 [-1.47]	27.24	28.71
Orissa	70.15	69.27 [-0.88]	29.85	30.73
Punjab	59.26	53.82 [-5.44]	40.74	46.18
Rajasthan	30.29	38.69 [8.4]	69.71	61.31
Sikkim	98.58	75.81 [-22.77]	1.42	24.19
Tamil Nadu	61.92	46.63 [-15.29]	38.08	53.37
Tripura	84.02	74.04 [-9.98]	15.98	25.96
Uttar Pradesh	54.84	53.61 [-1.23]	45.16	46.39
Uttarakhnd	28.97	53.94 [24.97]	71.03	46.06
West Bengal	55.52	48.63 [-6.89]	44.48	51.37
All India	55.65	57.09 [1.44]	44.35	42.91

Figures in parentheses indicate change in percentage points in 2002-03 over 1991-92

1.The share of institutional credit in agriculture in the total at national level increased marginally between 1991-92[55.65%] and 2002-03 [57.09%].

2.In Meghalaya share of institutional credit sharply declined from 91.88% in 1991-92 to 38.11% in 2002-03 whereas in Jammu and Kashmir it shot up from 42.80% to 82.74% reflecting abrupt change.

3.Share of institutional credit in 2002-03 ranged from as low as 7.76% in Manipur to as high as 84.54% in Mizoram as compared to the lowest at 25.56% in Andhra Pradesh and the highest at 98.58% in Sikkim in 1991-92, showing extreme variance among States' access to institutional credit and heavy dependence on non-institutional sources of credit in 2002-03.

4.In 2002-03 share of institutional credit in 11 States was below national average [57.09%], viz Andhra Pradesh [37.5], Assam [46.43], Bihar [23.51], Manipur [7.76], Meghalaya [38.11], Punjab [53.82], Rajasthan [38.69], Tamil Nadu [46.63], Uttar Pradesh [53.61], Uttrakhand [53.94] and West Bengal [48.63].

5.Not only the performance and trends were not uniform across different States but also in some States like Bihar, Chhatisgarh, Manipur, Meghalaya and Tamil Nadu the share of institutional credit in the total rural credit declined steeply. The situation has the latent potential to worsen since the poor have to depend excessively on non-institutional sources, which are exploitative in nature.

State-wise Credit per Hectare/Capita

Table No. 9

State-wise Per Hectare & Per Capita Amount of Institutional & Non-institutional Borrowings [1991-92 & 2002-03] [Rs. per hectare & capita at 1993-94 prices]

	Institutional Borrowing		Non-institutional Borrowing		Total Borrowing	
States	1991- 1992	2002- 2003	1991-92	2002-03	1991-1992	2002-2003
Andhra Pradesh	504 [25.6]* [87]	2418 [37.5]* [290]	1467[253]	4030 [483]	1970 [340]	6448 [774]
Arunachal	81 [56.6]* [14]	71 [78.9]*[17]	62 [10]	19 [05]	143 [24]	90 [21]
Assam	148 [44.8]* [16]	336 [46.5]* [33]	181 [20]	387 [38]	33 [36]	723 [72]
Bihar	275 [51.3]* [25]	387 [23.5]* [26]	261 [24]	1259[83]	536 [49]	1646 [109]
Chhatisgarh	222 [74.2]* [64]	495 [57.3]* [102]	76 [22]	369 [76]	299 [86]	864 [178]
Gujarat	582 [74.6]* [145]	1976 [75.8]* [384]	197 [49]	633 [123]	780 [194]	2608 [507]
Haryana	578 [52.7]* [183]	4308 [61.8]* [645]	519 [164]	2666[399]	1097 [347]	6974 [1044]
Himachal	1121 [60.3]* [124]	2624 [57.1]* [258]	738 [82]	1967[193]	1859 [206]	4591 [451]

J&K	296 [42.8]* [44]	1097 [82.7]* [130]	396 [58]	229 [27]	692 [102]	1326 [157]
Jharkhand	203 [94.4]* [30]	1609 [90.9]* [147]	12 [02]	160 [15]	215 [32]	1769 [162]
Karnataka	465 [62.8]* [112]	1817 [62.5]* [341]	276 [66]	1090[205]	740 [178]	2907 [545]
Kerala	4819 [81.8]* [278]	19270[81.6]*[1201]	1073[62]	6587[270]	5893 [339]	35857 [1471]
Maharashtra	721 [77.0]* [192]	1833 [78.1]* [387]	215 [57]	513 [108]	936 [249]	2347 [496]
Manipur	119 [53.1]* [13]	111 [7.8]* [11]	105 [12]	1316[126]	224 [25]	1426 [137]
Meghalaya	45 [91.8]* [06]	70 [37.8]* [10]	4 [01]	114 [17]	49 [07]	185 [27]
Mizoram	98 [68.0]* [16]	282 [84.4]* [51]	46 [07]	52 [09]	144 [23]	334 [60]
Madhya	326 [57.8]* [104]	1035 [62.3]* [236]	238 [76]	627 [143]	564 [179]	1662 [379]
Nagaland	164 [72.9]* [25]	911 [71.3]* [84]	61 [09]	367 [34]	225 [35]	1278 [119]
Orissa	209 [70.1]* [30]	1236 [69.3]* [137]	89 [13]	548 [61]	298 [43]	1784 [198]
Punjab	1398 [59.3]* [248]	5478 [53.8]* [796]	961 [170]	4701[683]	2359 [419]	10179 [1478]
Rajasthan	166 [30.2]* [69]	483 [38.7]* [142]	383 [159]	765 [225]	550 [228]	1247 [367]
Sikkim	390 [98.7]* [76]	1605 [75.8]* [156]	6 [01]	512 [50]	395 [78]	2117 [206]
Tamil Nadu	2388 [61.9]* [226]	6988 [46.6]* [526]	1469[139]	7998[602]	3857 [365]	14987 [1127]
Tripura	895 [83.9]* [39]	2449 [74.0]* [91]	170 [07]	859 [32]	1066 [46]	3308 [123]
Uttar Pradesh	395 [54.8]* [56]	1164 [53.6]* [121]	325 [46]	1007[104]	721 [103]	2171 [225]
Uttarakhnd	557 [28.9]* [49]	709 [53.9]* [57]	1367[121]	606 [48]	1924 [171]	1315 [105]
West Bengal	641 [55.5]* [54]	1494 [48.6]* [83]	514 [43]	1578[88]	1155 [96]	3072 [171]
All India	545 [55.6]* [98]	1916 [57.1]* [254]	435 [79]	1440[191]	980 [177]	3356 [445]

*Figures in parentheses indicate per capita in Rupees & with * indicate percentage share of institutional credit per hectare in the total amount*

1.The data showed variance of significant extent among States within each of the six regions as also among 27 States in the country in respect of [i] total borrowing as well as institutional and non-institutional borrowing of credit per hectare & per capita credit during 1991-92 and 2002-03 and [ii] share of institutional and non-institutional borrowing of credit per hectare in the total during 1991-92 and 2002-03.
In 2002-03, per hectare credit of Rs.3356 increased by 242.4% over that of Rs.980 a decade ago.

2.Per hectare credit [Rs.1916] in 2002-03 from institutional sources accounted for 57.1% of the total [Rs.3356] at the national level as against Rs.545 [55.6%] of the total [Rs.980] in 1991-92 revealing insignificant increase. It also confirmed that during the post-reform period the increasing growth rate of institutional sources was not able to contain/arrest the growth of credit per hectare and per capita from non-institutional agencies.

3.While 15 States had per hectare credit amount below national average [Rs.1916] ranging from Rs.71 in Arunachal Pradesh to Rs.1833 in Maharashtra in 2002-03, seventeen States in 1991-92, had below national average [Rs.545] varying from Rs.45 in Meghalaya to Rs.504 in Arunachal Pradesh.

4.The variance in respect of percentage of institutional credit to total credit per hectare ranged from 23.5 in Bihar to 90.9 in Jharkhand in 2002-03 as against from 25.6 in Andhra Pradesh to 94.4 in Jharkhand in 1991-92 reflecting significant imbalance among States.

5.Thirteen States in 2002-03 had less than national average [57.1%] institutional credit per hectare, viz Andhra Pradesh [37.5], Assam [46.5], Bihar [23.5], Chhatisgarh [57.3], Himachal Pradesh [57.1], Manipur [7.8], Meghalaya [Rs.37.8], Punjab [53.8], Rajasthan [38.7], Tamil Nadu [46.6], Uttar Pradesh [53.6], Uttarakhand [53.9] and West Bengal [48.6] as against 15 States having below national average [55.6%] in 1991-92.

6.Within North Eastern States, share of institutional borrowing per hectare in the total was much less in Arunachal Pradesh, Manipur and Assam than that in Meghalaya, Mizoram, Nagaland and Sikkim during 1991-92, whereas during 2002-03 States of Assam, Manipur and Mehgalaya had significantly lower institutional share than that in other four States. Similarly, within Eastern region, Bihar and West Bengal States had significantly lower institutional share than that in Orissa and Jharkhand in both the years. In case of Central region, Uttrakhand had the least institutional share among four States in 1991-92, whereas in 2002-03, Madhya Pradesh had the highest institutional share among four States. .

7.The borrowings by rural households either per hectare of their gross cropped area or per capita increased from both sources. The availability of credit from institutional sources increased from Rs.545/ha in 1991-92 to Rs.1916/ha in 2002-03, whereas credit per capita increased from Rs.98 to Rs.254 during this period.

8.Likewise, the borrowings from non-institutional sources increased from Rs.435/ha to 1440/ha and Rs.91/capita to Rs.191/capita during this period. The per hectare and per capita borrowing from institutional sources between 1991-92 and 2002-03 exhibited annual growth rate of 15% and 11%

respectively. As against this, the growth in case of non-institutional sources was 14% & 10% sharply establishing the fact that the increasing growth rate of institutional sources was not able to contain/arrest the growth of credit per hectare and per capita from non-institutional agencies.

State-wise Interest Rate

Table 10
State-wise Interest Rates on Institutional & Non-institutional Borrowings
[1991-92 & 2002-03]

	Institutional Interest Rate		Non-institutional Interest Rate	
States	1991-92	2002-03	1991-92	2002-03
Andhra Pradesh	13.36	12.75 [-0.61]	25.41	30.87 [5.46]
Arunachal Pradesh	13.98	5.83 [-8.15]	0.04	4.15 [4.11]
Assam	7.28	9.73 [2.45]	1.37	10.45 [9.08]
Bihar	11.27	11.73 [0.46]	23.28	36.02 [12.74]
Chhatisgarh	12.24	13.91 [1.67]	24.29	27.40 [3.11]
Gujarat	12.38	12.73 [0.35]	6.54	8.87 [2.33]
Haryana	10.16	13.54 [3.37]	24.53	23.85 [-0.67]
Himachal Pradesh	9.32	11.42 [2.10]	5.02	3.53 [-1.49]
Jammu &Kashmir	8.67	11.13 [2.46]	5.66	0.12 [-5.55]
Jharkhand	7.22	8.29 [1.07]	8.31	18.89 [10.58]
Karnataka	13.05	14.33 [1.28]	18.29	25.19 [6.90]
Kerala	15.29	13.15 [-2.14]	21.25	29.48 [8.23]
Maharashtra	13.79	15.05 [1.26]	14.70	24.78 [10.08]
Manipur	3.74	25.36 [21.62]	32.57	51.17 [18.60]
Meghalaya	12.56	8.54 [-4.02]	0.00	4.10 [4.10]
Mizoram	5.83	9.46 [3.63]	0.00	0.21 [0.21]
Madhya	12.13	12.89 [0.75]	27.07	29.59 [2.52]
Nagaland	9.23	11.92 [2.69]	0.95	7.94 [6.99]
Orissa	11.59	13.00 [1.41]	31.77	41.72 [9.94]
Punjab	11.56	12.72 [1.16]	11.52	18.24 [6.71]
Rajasthan	12.47	13.38 [0.91]	27.87	22.69 [-5.18]
Sikkim	9.42	9.89 [0.48]	0.00	13.29 [13.29]
Tamil Nadu	11.54	15.48 [3.95]	34.29	35.09 [0.80]
Tripura	6.88	8.63 [1.74]	3.88	2.90 [-0.99]
Uttar Pradesh	12.86	11.95 [-0.91]	25.05	26.30 [1.25]
Uttarakhnd	8.12	11.92 [3.80]	2.32	27.52 [25.20]
West Bengal	10.16	11.76 [1.60]	19.27	23.85 [4.57]
All India	12.48	13.38 [0.91]	24.24	28.58 [4.35]

Figures in parentheses indicate change in 2002-03 over the year 1991-92

1.Annual rate of interest charged in terms of percent in 2002-03 on borrowings from non-institutional sources was extremely exorbitant /exploitative as against institutional sources in 18 States, viz, 30.87/12.75 [Andhra Pradesh], 36.02/11.73 [Bihar], 27.40/13.91 [Chhatisgarh], 23.85/13.54 [Haryana], 18.89/8.29 [Jharkhand], 25.19/14.33 [Karnataka], 29.48/13.15 [Kerala], 24.78/15.05 [Maharashtra], 51.17/25.36 [Manipur], 29.59/12.89 [Madhya Pradesh], 41.72/13.00 [Orissa], 18.24/12.72 [Punjab], 22.69/13.38 [Rajasthan], 13.29/9.89[Sikkim], 35.09/15.48 [Tamil Nadu], 26.30/11.95 [Uttar Pradesh], 27.52/11.92 [Uttarakhand] and 23.85/11.76 [West Bengal].

2.It was also reported that debt amounting to Rs.180 billion [37.5%] out of Rs.480 billion of non-institutional debt carried 30% annual interest rate.

There are several factors compelling poor rural households resorting to non-institutional sources, more importantly, moneylenders, traders and landlords, such as the transaction costs of informal borrowings are low since they are located conveniently, loan procedure is simple and minimum, cash is disbursed immediately at odd hours even for consumption purpose. But the terms including interest rate are exploitative. The average annual interest rate charged by moneylenders was around 36% in 1991-92, which further increased to around 42% in 2002-03. Interest rates charged varied considerably across the country and among different informal agencies. It was, however more than three times the interest rate charged by the institutional agencies. Of course interest rate depended upon the types and amount of loans, perceived and actual risks involved, time, exigencies and the bargaining power of the borrowers, high opportunity cost of capital and the absence of legal recourse for loan recovery, etc. However, the high interest rates and exploitative terms have long term and pernicious economic and social costs to poor households. They limit the growth of borrower's entrepreneurial ability and in large number of cases force them to become defaulters. The non-institutional agencies charging extremely low interest rates in Arunachal Pradesh, Assam, Nagaland, Himachal Pradesh, Jammu & Kashmir and Gujarat are reported to be relatives and friends.

Debt by Asset Holding Classes

Table 11
Percentage of Rural Indebted Households According to Asset Holding Classes Institutional and Non-institutional Credit Agencies

	As on June 1991				As on June 2002		
Asset holding Rs.'000	Institutional	Non-institutional	All*	Asset holding Rs.'000	Institutional	Non-Institutional	All*
Less than 5	44.9	62.7	107.6	Less than 15	24.0	80.0	104.0
5-10	49.2	51.8	101.0	15-30	32.6	73.2	105.8
10-20	52.7	53.2	105.9	30-60	34.5	70.2	104.8
20-30	64.3	39.4	103.7	60-100	41.1	66.8	107.9
30-50	62.4	44.9	107.3	100-150	47.1	61.9	109.0
50-70	66.1	42.3	108.4	150-200	50.9	59.6	110.5
70-100	70.0	40.0	110.0	200-300	56.4	54.7	111.1
100-150	72.1	41.6	113.8	300-450	65.2	46.0	111.2
150-250	78.9	34.4	113.3	450-800	71.0	41.9	112.9
>250	85.9	26.6	112.5	>800	81.2	31.3	112.5
All	66.7	41.9	108.5	All	50.6	58.5	109.1

** Total exceeds 100 as some households borrowed from both sources*

1.According to data provided by AIDIS, the share of institutional sources in household debt declined between 1991 and 2002, while that of non-institutional sources increased. However, a detailed analysis of the RBI in its report on currency and finance [2007-08] established that institutional sources continued to provide credit in the 1990s broadly at the same pace as in the 1980s as was explained by the following.

The distribution pattern of indebtedness of rural households indicated that the percentage of households borrowing from non-institutional sources were higher among those having the low value of assets [less than Rs.5000, Rs.5000 to Rs.10,000 & Rs.10,000 to Rs.20,000] than those having high value of assets [Rs.20,000 to above Rs.250,000]in 1991, and value of assets from less than Rs.15,000 to Rs.200,000 in 2002.

2.Thus, the distribution pattern of indebtedness of the rural households belonging to different Asset Holding Classes [AHC] representing income levels, showed that the lower income groups depending upon non-institutional sources was relatively high. Conversely, as the income level increased, the proportion of households borrowing from institutional sources also increased. The data of the Invest India Incomes and Savings Survey [2007**]** conducted by IIMS further supported this trend, as its data established that the earners [who were in the age group of 18 to 59 years & earned some cash] at higher income level borrowed more from institutional sources than non-institutional sources. The Survey found that 70% earners in the annual income bracket of more than Rs.400,000 borrowed from institutional sources as compared to only 27.5% in the case of earners in the income bracket of less than Rs.50,000.

3.The relatively increased dependence of households with low income on non-institutional sources had been attributed to several factors. The studies revealed that households with low level of income had often to borrow for such purposes for which loans were not generally and readily provided by financial institutions. Rural financial institutions by and large provided loans for productive purposes which generated or increased income from which loan with interest could be repaid on due date. Besides, the inability of low-income groups to provide collateral to secure loan, even for productive purposes, accompanied by cumbersome procedure many a times compelled them to take recourse to the informal financial system.

4.It was, also, observed that the access of higher AHCs to institutional sources was more on account of their ability to provide required collateral, educational background to understand bank procedure, enhanced capacity to borrow, increased level of confidence of lenders in them, higher financing requirements resulting into cost-effective lending, their greater awareness about availability of different sources of finance etc.

5.The indebtedness increased with the increase in income levels [represented by asset holding classes]. The pattern of indebtedness across different AHCs remained broadly unchanged between 1991 and 2002. This, therefore, sharply suggests that enabling environment needs to be created to increase income level of rural households along with improving their formal educational level.

Purposes of Loans

Table 12
Purposes of Loans Taken by Rural Households [1991 & 2002]
Number in Million & Debt in Rs.crore

	Number in Million		Outstanding Debt in Rs. Million	
Purpose of loan	1991	2002	1991	2002
1.Farm business	6.3 [23.2]	15.1 [38.5]	5,4420 [24.5]	45,7020 [41.0]
1.1Current expenditure	1.3 [4.7]	7.5 [19.2]	6000 [2.7]	15,828 0 [14.2]
1.2Capital expenditure	3.0 [11.1]	8.1 [20.8]	2,6650 [12.0]	29,873 0 [26.8]
2.Non-farm business	3.3 [12.0]	4.3 [10.9]	2,8650 [12.9]	13,376 0 [12.0]
2.1Current expenditure	0.9 [3.4]	1.2 [3.0]	4440 [2.0]	3,1210 [2.8]
2.2Capital expenditure	1.7 [6.4]	3.1 [7.9]	1,2880 [5.8]	10,2550 [9.2]
3.Household expenditure	12.4 [45.6]	22.9 [58.5]	8,8400 [39.8]	52,3900 [47.0]
4.Unspecified	6.3 [23.1]	00	5,0640 [22.8]	00
Total [1to4]	27.2 *	39.2*	22,2110 [100]	1,11,4660 [100]

**Indicates Total exceeds 100 as some households took loans for more than one purpose*
Figures in parentheses indicate % share in the total

1.The total number of rural house holds borrowing for various purposes were 27.2 million with outstanding debt of Rs.222,110 million in 1991, which significantly increased to 39.2 million [144.1%] households with outstanding debt of Rs.1,114.660 million [501.8%] in 2002. While the number of households borrowing for farm business sharply increased from 6.3 million with outstanding debt of Rs.54,420 million in 1991 to 15.1 million [239.7%] households with outstanding debt of Rs.457,020 million [839.8%] in 2002, those for non-farm business increased marginally from 3.3 million with outstanding debt of Rs.28,650 million to 4.3 million [130.3%] households with outstanding debt of Rs.133,760 million [466.9%] during the period. As against this, the number of households borrowing for household expenditure rose from 12.4 million with outstanding debt of Rs.88,400 million in 1991 to 22.9 million [184.6%] households with outstanding debt of Rs.523,900 million [592.6%] during the period.

2.While total number of households borrowing for productive purposes [farm and non-farm business] increased from 9.6 million with outstanding debt of Rs.83,070 million in 1991 to 19.4 million [202%] households with outstanding debt of Rs.590,780 million in 2002, the number of households borrowing for non-productive purposes, though most essential, [household expenditure] rose from 12.4 million with outstanding debt of Rs.88,400 million in 1991 to 22.9 million [184.6%] households with outstanding debt of Rs.523,900 million [592.6%] during the period.

3.This, therefore, suggests the most important need for rural financial institutions to develop financial products to meet the household expenditure on one hand and for Government to create enabling environment to improve the income of rural households on the other.

Small Holder Households

Table 13
Credit Delivery and Small-Holder Households: 1991-92 & 2002-03

Indicators	Year	Landless Laborers	Marginal Farmers	Small Farmers	Medium Farmers	Large Farmers	Total
% Distribution of Households	1991-92 2002-03	33.8 39.6	39.5 41.4	13.0 10.6	8.7 5.5	5.0 2.9	100.00 100.00
%Households having access to credit							
Institutional	1991-92 2002-03	3.9 4.1	7.3 5.7	9.1 10.6	14.1 15.3	18.3 22.1	7.5 6.6
Non-institutional	1991-92 2002-03	10.6 13.5	10.8 13.8	10.3 9.4	9.3 9.4	7.9 7.7	10.4 12.8
Total	1991-92 2002-03	0.7 0.7	1.2 1.1	1.1 2.9	2.4 2.4	2.2 3.3	1.2 1.3

%Share of institutional borrowing	1991-92 2002-03	49.2 51.6	52.1 51.3	51.2 59.7	56.6 66.1	70.1 69.3	55.6 57.1
% Distribution of borrowing							
Institutional	1991-92 2002-03	18.7 25.6	28.2 27.4	11.6 14.5	16.7 14.5	24.7 17.9	100.00 100.00
Non-institutional	1991-92 2002-03	24.3 31.9	32.6 34.6	13.8 13.0	16.1 9.9	13.2 10.6	100.00 100.00
Per hectare borrowing [Rs]							
Institutional	1991-92 2002-03	00 00	880 2114	332 1236	372 1244	346 1132	545 1916
Non-institutional	1991-92 2002-03	00 00	809 2004	316 833	285 639	148 501	435 1440
Per capita borrowing [Rs]							
Institutional	1991-92 2002-03	65 193	72 162	77 296	154 540	332 1098	98 254
Non-institutional	1991-92 2002-03	67 181	66 154	73 200	118 277	142 486	79 191
Interest rate %							
Institutional	1991-92 2002-03	11.5 13.7	12.9 13.5	12.2 12.9	12.1 13.2	13.4 13.2	12.5 13.4
Non-institutional	1991-92 2002-03	24.3 30.2	25.4 28.1	22.9 26.3	22.4 25.6	20.3 25.2	24.2 28.6

1.Between 1991-92 and 2002-03 while the percentage share of landless and marginal households among rural households increased from 33.8 to 39.6 and 39.5 to 41.4 respectively, the share of small, medium and large households declined considerably from 13.0 to 10.6, 8.7 to 5.5 and 5.0 to 2.9 respectively. This showed that during the decade percentage share of landless and marginal households taken together swelled from 73.3% to 81% of the total and others comprising small, medium and large households contracted to 19% from 26.7%.

2.The percentage of landless and marginal households having access to non-institutional sources shot up sharply from 10.6 and 10.8 in 1991-92 to 13.5 and 13.8 respectively in 2002-03, whereas percentage of small, and large households' access to non-institutional sources was considerably less from 10.3 and 7.9 to 9.4 and 7.7 respectively. There was no difference in case of medium households.

3.The percentage share of institutional borrowing by small and medium households significantly increased in 2002-03 as compared to that in 1991-92. The landless households had marginal increase in the share of institutional borrowing during the period as against slight declined share in case of marginal and large households.

4.Per hectare borrowing from institutional as well as non-institutional sources by marginal farmer households in 1991-92 and 2002-03 was much higher than national average whereas per hectare borrowing by small, medium and large households from institutional as well as non-institutional sources was appreciably below national average in 1991-92 and 2002-03.

5.Per capita borrowing by medium and large households from institutional as well as non-institutional sources was higher than national average in 1991-92 and 2002-03 as against below national average by landless and marginal households from both sources of borrowings and two points of time. As against this, small households had per capita borrowing from both sources little less than national average in 1991-92 and little higher in 2002-03.

6.Interest rate on borrowings from non-institutional sources for landless and marginal households in 2002-03 was 30.2% and 28.1% being relatively much higher than the interest for small [26.3%], medium [25.6%] and large [25.2%] households.

7.Not only rural areas had predominance of landless laborers, marginal and small farmers but also their number in absolute and percentage share among rural households had increased over a period of time. In 2002-03, they together accounted for as high as 92% of total households. Since the agricultural and rural credit policy as evolved by the Government and the RBI has been reoriented much more towards rural poor, one of the most important indicators of the performance of rural credit delivery system has been to assess the participation of these rural poor in the flow of institutional credit. The access of these households to institutional credit had increased modestly during 1991-92 and 2002-03. But their shares in institutional borrowings did not commensurate with their shares in the total number of households, despite the credit per hectare and per capita was higher among these groups than that of medium and large farmers. This might perhaps be due to the fact that medium and large farmers had larger holdings and size of family than that of marginal and small farmers. However, higher and increasing interest rate paid by them was very much disappointing as landless laborers paid 25% interest rate on non-institutional borrowings in 1991-92, which increased to 30% in 2002-03.

8.All-India Debt & Investment Survey [AIDIS] and Situation Assessment Survey of Farmers [SAS]: The latest decennial AIDIS & SAS, both conducted by the NSSO during January-December 2003 in its 59th Round provide insights into varied dimensions of farmers' indebtedness in India. The SAS covered outstanding debt during January-August 2003 of farmer households defined as those operating some land and engaged in agricultural activities on that land in the past year whereas AIDIS covered outstanding debt at the end of June 2002 for cultivator households operating at least 0.002 hectare of land in the past year. Though the two surveys have some differences in definitions and coverage their broad conclusions appear comparable.

State-wise Incidence of Indebtedness: Of the 89.33 million farmer households estimated in 2003, the SAS shows that 43.42 million [48.6%] were indebted. In other words, more than half [45.91 million] or 51.4% had not accessed debt either from institutional or non-institutional sources. A large proportion of them might have been financially excluded. The average outstanding debt per farmer household was Rs.12,585 and per indebted farmer household was Rs.25,902.

A State-wise analysis showed that in 2003 incidence of indebtedness was higher in States, which had input-intensive or diversified agriculture. The incidence of indebtedness was the highest in Andhra Pradesh followed by Tamil Nadu, Punjab, Kerala, Karnataka, Maharashtra, and Haryana. Average debt per farmer was higher in States with higher incidence of outstanding debt. For instance, average outstanding debt per farmer household was higher in the State of Punjab followed by Kerala, Haryana, Andhra Pradesh and Tamil Nadu, all relatively developed and better banked States. On the other hand, the incidence of indebtedness as well as outstanding debt per farmer was low in the States of Central, Eastern and North-Eastern regions of the country indicating partly low absorptive capacity and partly inadequate banking services. Clearly, neither indebtedness nor outstanding debt per farmer was an indicator of backwardness. In the five States of Andhra Pradesh, Karnataka, Kerala, Maharashtra and Punjab where suicides were reported, both indebtedness and outstanding debt per farmer household were higher than the All India level. As will be seen, in these States except for Kerala, large proportion of the debt was incurred for productive purposes. Strikingly, sources of debt were different. For instance, in Maharashtra the institutional sources accounted for a major portion of the debt whereas in Andhra Pradesh it was from moneylenders.

Table 14

Incidence of Indebtedness in Major States: [2003] [Amount in Rupees]

State	Estimated Number of Indebted Farmer Households	Average Loan per Household	State	Estimated Number of Indebted Farmer Households	Average Loan per Household
Andhra Pradesh	49493 [82.0]	23965	Madhya Pradesh	32110 [50.8]	14218
Tamil Nadu	28954 [74.5]	23963	West Bengal	34696 [50.1]	10931
Punjab	12069 [65.4]	41576	Orissa	20250 [47.8]	5871
Kerala	14126 [64.4]	33907	Uttar Pradesh	69199 [40.3]	7425
Karnataka	24897 [61.6]	18135	Himachal Pradesh	3030 [33.4]	9618
Maharashtra	36098 [54.8]	16973	Bihar	23383 [33.0]	4476
Haryana	10330 [53.1]	26007	Jammu & Kshmir	3003 [31.8]	1903
Rajasthan	27828 [52.4]	18372	Assam	4536 [18.1]	813
Gujarat	19644 [51.9]	15526	All India	434242[48.6]	12585

Figures in parentheses indicate per cent of indebted farmer households

The inter-state variations in the incidence and amount of debt per farmer household could be on account of the difference in their level of development and commercialization of agriculture. The Southern States have a relatively more diversified agriculture as the proportion of their area devoted to food grains was relatively less than that at national level. On the other hand, Punjab and Haryana are primarily food grain producing States using high doses of inputs purchased from the market. In both the category of agriculturally developed States, farmers need to borrow for financing investment, marketing and production.

According to SAS [2003], there were differences in the incidence of indebtedness among different social groups. The incidence of indebtedness was 36.3% for Scheduled Tribes, 50.2% for Scheduled Castes, 51.4% for other backward classes and 49.4% for others. The average amount of outstanding debt was Rs.5,506 for Scheduled Tribes,Rs.7,167 for Scheduled Castes, Rs.13,489 for Other Backward Classes and Rs.18,118 for others. The incidence of indebtedness as well as average amount of debt was lowest for the most deprived group viz., Scheduled Tribes. In the case of other groups, the incidence of indebtedness was closer to that of national level [48.6%]. Average outstanding debt was also lower for Scheduled Castes.

State-wise Debt by Sources: Total debt of farmer households was estimated at Rs. 1130 billion in 2003, of which Rs.650 billion [57.5%] was from institutional agencies and Rs.480 billion [42.5%] from non-institutional agencies. Private moneylenders accounted for Rs.290 billion [25.7%] and traders Rs.60 billion [5.31%]. Farmers' debt from moneylenders carried interest rate more than 30%. Clearly, there is an urgent need to relieve the farmers from private debt carrying high interest rate by transferring it to institutional sources.

There are wide variations across States in the share of institutional and non-institutional sources of farmers' debt [SAS, 2003]. In a majority of States, the outstanding debt of the farmers was financed more by institutional agencies than by non-institutional agencies. However, in a few States, such as Andhra Pradesh, Rajasthan, Assam, Bihar and Punjab the financing of the debt was more by the non-institutional sources.

The share of moneylenders in the farmers' outstanding debt was higher in Andhra Pradesh [53%], Tamil Nadu [40%], Rajasthan [37%], Punjab [36%] and Bihar [33%]. In all these States, except Bihar, the share of moneylenders in farmers' outstanding debt was higher than that of commercial banks. Traders were a significant source of financing debt in Rajasthan, Jammu & Kashmir, Assam and West Bengal.

Table 15

Distribution of Debt by Sources Across Major States [2003] [in Percentage]

State	Institutional				Non-institutional				Total
	Govern-ment	Cooper-atives	Banks	Sub Total	Money-lenders	Traders	Others	Sub Total	
Maharashtra	1.2	48.5	34.1	83.8	6.8	0.8	8.6	16.2	100
Kerala	4.9	28.3	49.1	82.3	7.4	1.7	8.5	17.6	100
Uttrakhand	31.5	4.8	39.8	76.1	5.9	1.7	16.3	23.9	100
Oriss	13.0	18.1	43.7	74.8	14.8	0.8	9.5	25.1	100
Chhatisgarh	1.3	20.6	50.5	72.4	13.0	4.2	10.5	27.7	100
Gujarat	0.5	41.8	27.2	69.5	6.5	4.4	19.6	30.5	100
Karnataka	1.9	16.9	50.1	68.9	20.0	1.9	9.3	31.2	100
Haryana	1.1	23.9	42.6	67.6	24.1	3.1	5.3	32.5	100
J & K	13.1	0.2	54.3	67.6	1.1	15.5	15.7	32.3	100
Himachal P	6.1	11.6	47.6	65.3	7.2	5.5	22.0	34.7	100
Jharkhand	3.9	4.5	55.7	64.1	19.0	1.7	15.2	35.9	100
Uttar Prades	2.4	6.7	51.2	60.3	19.1	2.9	17.7	39.7	100
West Bengal	10.3	19.2	28.5	58.0	13.0	10.7	18.4	42.1	100
Mdhya P	1.9	16.9	38.1	56.9	22.6	9.0	11.4	43.0	100
Tamil Nadu	2.0	23.3	28.1	53.4	39.7	0.4	6.4	46.5	100
Punjab	1.9	17.6	28.4	47.9	36.3	8.2	7.6	52.1	100
Bihar	2.2	2.5	37.0	41.7	32.8	1.1	24.6	58.5	100
Assam	7.0	2.7	27.8	37.5	15.5	12.0	35.1	62.6	100
Rajasthan	1.3	5.9	27.0	34.2	36.5	19.2	10.1	65.8	100
Andhra P	1.0	10.4	20.0	31.4	53.4	4.8	10.4	68.6	100
All India	2.5	19.6	35.6	57.7	25.7	5.2	11.5	42.4	100

It is indeed a matter of concern that in spite of all efforts made for the spread of institutional finance, it accounted for only two-fifths of farmers' total outstanding debt. Further, in some States like Andhra Pradesh, Rajasthan and Assam, it was less than two-fifths. Since the interest rates charged by the non-institutional sources are high, this might have imposed heavy burden on the farmers.

Debt by Land Size: The incidence of indebtedness and the share of institutional finance in outstanding debt for all-India increased with the size of land holding. The incidence of indebtedness increased from 46% for marginal and small farmer households to 66% for large farmers and the share of institutional agencies in the total debt increased from 51% to 68%. The average size of loan per farmer also increased with the landholding size. Small and marginal households, which accounted for 80% of indebted farmer households, absorbed 61% of the total outstanding credit from institutional agencies. The dependency of marginal and small farmers was more on non-institutional agencies than of large farmers. As against large farmers, one-third of whose debt was from non-institutional sources, one-half of debt of small and marginal farmers was from non-institutional sources. The marginal farmers received a relatively smaller share even from cooperatives and had to depend more on private moneylenders.

Table 16
Incidence, Amount and Source of Indebtedness by Size Class of Holdings
[2003]

[Amount in Rupees]

Size class of land possessed	Total Households	Total Indebted Households	Incidence of Indebtedness	Amount Outstanding	Sources of Loan	
Hectares	Percentage	Percentage	Percentage	Per household	Institutional [%]	Non-institutional [%]
<0.01	1.4	1.3	45.3	6121	22.6	77.4
0.01 to0.40	32.8	30.0	44.4	6545	43.3	56.7
0.41 to 1.00	31.7	29.8	45.6	8623	52.8	47.2
1.010 to 2.00	18.0	18.9	51.0	13762	57.6	42.3
Up to 2.00	83.9	79.9	46.3	8870	51.3	49.7
2.01 to 4.00	10.5	12.5	58.2	23456	65.1	35.0
4.01 to 10.00	4.8	6.4	65.1	42532	68.8	31.1
>10.00	0.9	1.2	66.4	76232	67.6	32.1
All Sizes	100.0	100.0	48.6	12595	57.7	42.4

Debt by Land Size State-wise: Sources of outstanding debt varied across the land holding size groups. The outstanding debt of the sub-marginal landholder [land possessed less than 0.40 hectare] households was financed mostly by non-institutional agencies. In a large number of States, more than 70% of their outstanding debt was from non-institutional agencies. In Andhra Pradesh and Rajasthan, non-institutional agencies accounted for as high as 80% of their outstanding debt. In Kerala and Maharashtra, dependency of very sub-marginal landholding households on non-institutional sources was much less. This could be attributed to the spread of commercial banks and cooperative societies in the rural areas of these States.

Table 17
Non-institutional Debt for Each Size Class of Holding Across States [2003]

State	Size Class Land Possessed [%]							
	<0.01	0.01 to 0.40	0.41 to 1.00	1.01 To 2.00	2.01 to 4.00	4.01 to 10.00	>10.00	All Sizes
Andhra	83.1	80.7	74.9	73.4	58.5	51.4	50.5	68.6
Assam	100.0	70.9	62.2	54.8	53.6	77.0	100.0	62.5
Bihar	63.5	79.2	53.0	33.9	36.6	80.4	29.9	58.3
Chhatisgarh	52.9	73.4	49.9	19.6	29.3	11.5	00.0	27.6
Gujarat	89.9	65.2	59.3	34.8	15.1	19.8	00.0	30.5
Haryana	75.4	53.5	29.0	38.0	13.6	40.6	25.3	32.4
Himachal	0.0	49.2	22.2	20.6	45.2	07.7	100.0	34.7
J & K	0.0	39.1	38.4	26.1	11.1	99.9	100.0	32.4
Jharkhand	35.5	29.2	65.5	12.4	39.5	02.0	00.0	35.9
Karnataka	84.4	66.6	37.9	41.3	26.6	13.0	03.0	31.1
Kerala	35.2	23.9	13.2	7.1	03.6	32.7	29.7	17.7
Madhya P	89.6	64.6	56.6	47.3	53.2	26.9	16.1	43.1
Maharashtra	41.7	16.8	19.8	21.2	16.2	11.3	08.9	16.3
Orissa	35.3	37.6	22.9	27.9	11.6	03.1	86.8	25.2
Punjab	75.2	70.8	34.4	50.9	38.8	52.5	69.9	52.1
Rajasthan	93.8	80.8	77.6	67.1	59.9	58.1	61.8	65.8
Tamil Nadu	80.9	62.6	54.0	38.5	34.8	25.7	17.1	46.6

Uttar Prades	79.8	70.2	43.3	31.5	20.2	11.5	01.8	39.7
Uttarakhand	100.0	21.3	27.1	23.3	92.7	100.0	100.0	23.9
West Bengal	76.6	57.3	36.9	19.9	24.6	78.7	100.0	42.0
All India	77.4	56.7	47.2	42.4	34.9	31.2	32.4	42.3

Debt by Interest Rates*:* The data on interest rates charged by non-institutional agencies were much higher than those charged by institutional agencies for outstanding debt as on end-June 2002. About 85% of outstanding debt of cultivator households from institutional agencies was in the interest range of 12% to 20% per annum. On the other hand, 36% of cultivator households' outstanding debt from non-institutional agencies was at the interest rates range of 20% to 25% and another 38% of outstanding debt at high interest rate of 30% and above. This shows the exploitative nature of non-institutional credit market.

Table 18

Distribution of Debt by Interest Rates and Source for Cultivator Households [2002]

Interest Rate%	Institutional	Non-institutional	Interest Rate %	Institutional	Non-institutional
00	0.5	17.4	15 to 20	34.8	2.7
0 to 6	1.8	2.3	20 to 25	1.4	36.2
6 to 10	3.0	0.3	25 to 30	0.0	0.3
10 to 12	7.4	0.6	>30	0.3	38.2
12 to 15	50.0	1.6	All	100.0	100.0

Debt by Purpose State-wise: Indebtedness for productive purpose was generally high in States with high incidence of indebtedness and low in States with low incidence of indebtedness. Debt incurred by farmers for social and religious ceremonies was also very significant in some States. Though Bihar had low level of debt per farmer household 23% of the outstanding debt was for social and religious ceremonies. This was much higher than the all-India average of 11%.

Table 19

Distribution of Debt by Purpose Across Major States [2003] [In Percentages]

State	Productive				Others					Total
	Farm Business		Other	Total	Consum-ption	Social Ceremonies	Education	Medical	Other	
	Capital	Current								
Andhra	23.4	38.1	3.2	64.7	11.5	9.6	1.4	2.4	10.5	100
Assam	16.6	6.7	16.2	39.5	12.4	11.8	0.1	1.5	34.8	100
Bihar	30.8	8.6	7.6	47.0	6.4	22.9	2.3	10.2	11.2	100
Gujarat	20.3	50.3	3.9	74.5	6.3	10.2	0.5	3.0	5.6	100
Haryana	36.0	26.2	6.8	69.0	4.8	14.0	0.0	2.0	10.3	100
Himachal	9.4	10.1	29.0	48.5	6.6	10.2	0.9	2.9	30.9	100
J & K	26.0	3.2	24.1	53.3	18.3	9.3	0.0	2.0	17.1	100
Karnataka	30.7	37.5	9.8	78.0	5.6	7.4	0.6	0.2	8.1	100
Kerala	11.0	10.4	22.8	44.2	10.2	11.2	1.4	2.5	30.5	100
Madhya P	47.0	21.3	1.4	69.7	9.6	14.4	0.1	3.6	2.7	100
Maharashtra	37.9	37.5	4.8	80.2	4.2	4.9	0.9	1.5	8.3	100
Orissa	28.9	24.4	11.5	64.8	11.4	14.0	0.1	2.9	6.9	100
Punjab	26.4	36.0	4.4	66.8	8.5	10.2	0.0	2.6	12.0	100
Rajasthan	37.5	19.7	2.2	59.4	13.8	17.6	0.8	3.9	4.4	100
Tamil Nadu	24.3	25.1	5.5	54.9	13.1	8.7	2.6	4.1	16.6	100
Uttar Prades	40.3	20.6	7.0	67.9	6.8	11.8	0.2	6.1	7.1	100
West Bengal	24.4	21.3	10.3	56.0	7.2	11.1	0.5	5.1	20.1	100
All India	30.6	27.8	6.7	65.1	8.8	11.1	0.8	3.3	10.8	100

Loan Taken by Earners: Of the total 76.6 million earners as many as 52.4 million [68.4%] earners accessed loans from non-institutional sources for various purposes. While only 9.8 million [40.2%] borrowed from institutional sources for productive purposes [farm /crop loan & business equipment] as many as 14.4 million [59.8%] borrowed for non-productive purposes. As against this, as low as 16.3% [8.5 million] borrowed from non-institutional sources for productive purposes [farm/crop loan & business equipment] as compared with as high as 83.7% [43.9 million] for non-productive purposes. At national level, only 23.9% [18.3 million] earners borrowed for productive purposes as compared with 76.1% [58.3

million] borrowing for non-productive purposes. The survey data revealed that a very large number of earners accessed credit for non-productive purposes, though absolutely needed, from either sources.

Table 20
Purpose of Loans Taken by Earners in Rural Areas
[Number of loan taking earners in million] 2007

Purpose of Loan	Institutional	Non-institutional	Total
Purchase of house/land/real estate	2.8 [11.4]	4.1 [7.7]	6.9 [8.9]
Purchase of vehicle	1.1 [4.4]	0.8 [1.6]	1.9 [2.5]
Purchase of consumer durables	1.1 [4.4]	2.1 [4.0]	3.1 [4.1]
Meeting a financial emergency	4.8 [19.6]	15.4 [29.4]	20.2 [26.3]
For business requirements	3.2 [13.0]	3.9 [7.5]	7.1 [9.3]
Medical emergency	2.0 [8.1]	10.9 [20.1]	12.5 [16.3]
Farm/crop loan	6.6 [27.2]	4.6 [8.8]	11.2 [14.6]
Meeting social obligations	1.2 [5.1]	5.8 [11.1]	7.0 [9.2]
Other consumption purposes	0.7 [2.8]	2.6 [5.0]	3.3 [4.3]
Education	0.5 [2.2]	1.3 [2.5]	1.8 [2.4]
Others	0.4 [1.8]	1.1 [2.2]	1.5 [2.1]
Total	24.2 [100]	52.4 [100]	76.6 [100]

Figures in parentheses indicate % share in total

Savings & Credit Accounts:

- The number of total savings accounts increased significantly from 56.9 million to 213.8 million [375.7%] between 1981 and 2007.
- The increase in terms of percentage to the population [being measured in terms of savings accounts per 1000 persons] in the country was 109 in 1981, which improved to 262 in 2007, except that it declined in 2001.
- Total number of credit accounts increased from 16.4 million in 1981 to 53.1 million [323.8%] in 2007 and number of credit accounts per 1000 population increased from 31 to 65 during the period. However, they were too low as compared with savings accounts.

This reflected the rise in the income levels, banks' concern to reach as many persons/adults as possible and the RBI's policy initiatives advised to banks of "no frills" accounts with "nil or low" minimum balances. There was a significant progress in the number of "no frills" accounts opened by banks. However, it transpired that rural branches since 1991[after financial sector reforms] accorded low priority to credit portfolio despite under the Service Area Approach, which came into operation from 1April 1989, all rural branches have been allotted 10 to 15 villages specifically to accelerate credit flow through formulation & implementation of village credit plans for with the National Bank has also been providing significant guidance.

At the disaggregated level, credit accounts per 1000 persons in urban areas were considerably higher than that in rural areas between 2001 and 2007. According to the RBI, the significant increase in credit accounts, particularly in the urban areas, in recent years was on account of robust growth in retail, housing and consumer finance. This was mainly due to rise in the purchasing power, changing consumer demographics and high potential for growth in consumption, technological innovations in delivery of financial services/products, and recognition of retail business by the financial entities as an important part of their business activities. At present, the retail-banking sector is characterized by three basic elements, such as multiple products [deposits, credit cards, insurance, investments and securities]; multiple channels of distribution [call centers, branch, internet and kiosk] and multiple customer groups [consumers, small businesses, and corporate]. The typical products offered in the Indian retail- banking segment are housing loans, consumption loans for purchase of durables, auto loans, credit cards and educational loans. Within the retail segment, housing credit increased significantly over the last few years.

There could have been significant rise in the number of credit accounts per 1000 persons in rural areas too, had banks developed similar financial service products to meet the needs of rural clients and marketed aggressively, in the light of increased income in rural areas as reflected through increased savings accounts.

Table No.21

Savings & Credit Accounts with SCBs in Rural Areas

Accounts	1981	1991	2001	2006	2007
Savings Accounts					
Number of Accounts [m]	56.9	153.8	169.8	194.4	213.8
Accounts per 1000 persons	109	245	229	242	262
Credit Accounts					
Accounts Number [m]	16.4 [28.8]	49.4 [32.1]	36.6 [21.5]	50.5 [26.0]	53.1 [24.8]
Accounts per 1000 persons	31 [28.4]	79 [32.2]	49 [21.4]	63 [26.0]	65 [24.8]

Figures in parentheses indicate % share of credit accounts to savings accounts

State-wise Credit Accounts & Credit Portfolio per Rural Branch

Total number of credit accounts increased from 16.4 million in 1981 to 53.1 million [323.8%] in 2007 and number of credit accounts per 1000 population increased from 31 to 65 during the period. However, they were too low as compared with savings accounts.

Table No.22

State-wise Deposits [current & savings] & Credit of Scheduled Commercial Banks [including RRBs] in Rural Areas As on March'05

	Savings Accounts & Amount				Credit Accounts & Amount			
State	A/Cs*	Accounts Per Branch	Amount/ Branch Rs.Mn	Amount Per Account	A/Cs *	A/Cs Per Branch	Amount/ Branch RS.Mn	Amount Per Account
Haryana	365.7	4752.0	72.77	15313	59.19	769.04	101.118 [139.9]	131493
Himachal Pr	487.8	3313.9	56.93	17178	74.25	504.42	77.624 [136.3]	154016
J&K	315.3	3523.6	74.26	21079	35.33	394.79	43.156 [58.1]	109533
Punjab	622.6	5290.5	90.42	17093	76.12	646.88	75.966 [84.0]	117594
Rajasthan	198.5	3278.3	36.51	11138	47.75	790.63	51.797 [141.9]	65566
Chandigarh	1006.7	4416.1	121.52	27518	136.02	596.67	290.733 [239.2]	487807
Delhi	720.7	8570.0	203.42	23736	27.51	327.10	333.230 [163.8]	101905
Arunachal Pr	249.3	3184.4	97.49	30619	40.88	522.13	52.949 [54.3]	101435
Assam	197.7	4320.8	54.19	12544	30.28	661.70	46.182 [85.2]	69867
Manipur	71.6	2368.0	32.12	13564	15.57	514.76	32.060 [99.8]	62373
Meghalaya	170.6	2121.9	42.83	20193	41.04	510.54	108.677 [253.7]	213092
Mizoram	185.4	1209.3	23.68	19586	56.79	370.39	35.358 [149.3]	95562
Nagaland	133.7	2996.4	87.61	29242	24.44	547.73	41.740 [47.6]	76307
Tripura	184.2	3251.5	50.91	15660	88.42	1561.73	30329 [59.6]	19429
Bihar	155.0	3626.6	48.35	13334	31.98	748.31	27.822 [57.5]	37195
Jharkhand	222.1	3700.3	69.56	18800	45.54	758.66	30.894 [44.4]	40757
Orissa	189.5	3055.3	38.35	12553	71.76	1156.80	65.567 [171.0]	56719
Sikkim	296.4	2589.7	68.42	26427	61.66	538.65	67.255 [98.3]	125009
West Bengal	205.7	4156.5	49.72	11963	45.86	926.71	37.596 [75.6]	40600
A &N	574.6	4176.6	107.58	25761	76.26	554.30	96.639 [89.8]	174439
Chhatisgarh	151.4	2968.0	48.11	16209	33.27	652.07	39.996 [83.1]	61343
Madhya Pr	174.7	2901.5	36.82	12692	42.06	698.56	49.744 [137.3]	71266
Uttar Prades	266.2	5625.4	57.90	10293	46.71	986.95	43.399 [74.9]	44015
Uttrakhand	440.8	3763.3	69.59	18493	69.16	590.47	48.046 [69.0]	81434
Goa	2587.0	4976.0	93.07	18704	218.78	420.82	100.427 [107.9]	239112
Gujarat	294.8	3954.2	52.82	13359	49.59	665.25	74.807 [141.6]	112492
Maharashtra	215.2	3591.6	36.29	10106	41.25	688.44	74.742 [205.9]	108637
Dadra &N	555.7	7871.8	188.96	24007	35.26	499.50	337.058 [178.4]	675467
Daman&D	906.2	5705.5	172.89	30305	61.38	386.44	225.800 [130.6]	584974

Andhra Pr	309.6	4651.1	32.48	6983	136.11	2044.76	92.650 [285.2]	45328
Karnataka	350.1	3738.0	32.42	8673	103.11	1100.83	87.375 [269.5]	79432
Kerala	683.1	5593.0	54.80	9798	166.81	1365.75	78.039 [142.4]	57171
Tamil Nadu	377.3	4406.1	43.10	9782	148.10	1729.47	98.728 [215.1]	57101
Lakshadweep	729.7	2727.9	83.58	30649	78.08	291.89	24.822 [29.7]	85299
Pondichery	792.7	6295.1	84.30	13391	187.07	1485.61	101.534 [120.4]	68373
All India	269.6	4201.8	49.76	11845	64.16	999.94	63.741 [128.1]	63805

** Indicates Number of Accounts Per 1000 Population. Figures in Parentheses indicate C-D Ratio*
There are some multiple accounts particularly in Goa & Chandigarh.

1.The number of credit accounts [64] per 1000 population, which is one of the indicators of the expansion of credit delivery services, revealed that at national level it was significantly low. Besides, the numbers of credit accounts [64] per 1000 population as well as numbers of credit accounts [999] per branch were too low as compared with number of savings accounts [269] per 1000 population and number of savings accounts [4201] per branch. Similar was the pattern in respect of all States. This demonstrated that rural branches in all States between 1April 1989 & 31 March 2005 [during 16 years of period] accorded significantly lower priority to credit portfolio in comparison with savings mobilization.

2.In case of credit too, more importantly 12 States, namely Jammu & Kashmir, Rajasthan, Arunachal Pradesh, Assam, Manipur, Mizoram, Nagaland, Bihar, Jharkhand, West Bengal, Chhatisgarh, Madhya Pradesh and Uttar Pradesh, had poor performance in respect of the number of credit accounts per 1000 population and number of credit accounts & amount per branch, as all these States had lower values in these three parameters of performance than that of national average. As against this, States of Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and Pondichery in Southern region showed significantly better performance in respect of these three attributes since each one of them had more than 100 credit accounts per 1000 population, more than 1099 credit accounts & credit amount of more than Rs.77.9 million per branch. There were 13 States having credit amount of more than Rs.100,000 per account.

3.The utilization of savings mobilized through deployment as credit by the rural branches in the said States [as measured in terms of credit-deposit ratio] revealed considerable variance among States. As many as 13 States and four Union Territories had C:D ratio above national average of 128.1%, of which four States [Maharashtra, Karnataka, Andhra Pradesh and Meghalaya] and one Union Territory [Chandigarh] had more than 200%, whereas 12 States[J&K, Punjab, Arunachal Pradesh, Assam, Nagaland, Tripura, Bihar, Jharkhand, West Bengal, Chhatisgarh, Uttar Pradesh &, Uttrakhand] and two Union Territories [Andaman-Nicobar & Lakshdweep] had less than 100%.

Summary

1.Average area operated declined from 2.63 hectare in 1960-61 to 1.06 hectare in 2003

2.Share of marginal farmers increased from 39.1% in 1960-61 to 71.0% in 2003 while their share in total operated area increased from 6.9% to 22.6%

3.Share of small farmers declined from 22.6% to 16.6% and in operated area increased from 12.3% to 20.9%

4.Percentage share of cultivators' borrowings in institutional credit increased from 7.3 [Rs.548 m] in 1951 to 64[Rs.142150 m] in 1991 and then declined to 57.1 [Rs.636480 m] in 2002, whereas share of agricultural and professional moneylenders declined from 69.7% in 1951 to 17.6% in 1991 and then increased to 29.6% in 2002

5.Number of indebted households declined from 43.1m [62.8% of total] in 1961 to 39.2 m [26.5% of total] in 2002. Their debt amount declined from 21.4% of GDP in 1961 to 9.4% of GDP in 2002 at current prices and debt per household increased from Rs.12629 to Rs.2511 at 1999-00 prices

6.Number of indebted households with institutional agencies increased from 7.5 m [17.3% of total] in 1961 to 19.8 m [46.4% of total] in 2002, whereas number of households with non-institutional agencies declined from 35.6 m [82.7 %of total] to 22.9 m [53.6% of total. Their institutional outstanding debt increased from Rs.4130 m [14.8% of total] to Rs636480 m [57.1%] and non-institutional debt of Rs23760 m [85.7% of total] increased to Rs.478200 m[42.9%]

7.Debt for productive purpose s a percentage of total debt declined from 72% in 1981 to 63% in 2002. Similarly, the share of debt for farm business declined from 64% to 53% during the said period.

8.The percentage of farmer households' annual cash borrowings [flow] from institutional sources in total borrowings increased between 1971-72 and 1981-82 but stagnated/hovered around at levels achieved in 1981

9.In 2002-03, there were 14 States out of 27 having borrowings from non-institutional sources closer or higher than national average of 42.91%, such as Andhra Pradesh [62.5%], Assam[53,57%], Bihar [76.49%], Chhatisgarh [42.68%], Himachal Pradesh [42.84%], Manipur [92.24%], Meghalaya [61.89%], Orissa [46.18%], Punjab [46.18%], Rajasthan [61.31%], Tamil Nadu [53.37%], Uttar Pradesh [46.39%, Uttrakhand [46.06] and West Bengal [51.37%]. Similarly, there are States having borrowed from non-institutional sources more than average amount of Rs1440 per hectare, such as Andhra Pradesh [Rs4030], Haryana [Rs2666], Himachal Pradesh [Rs.1967], Kerala [Rs.6587],Tamil Nadu [Rs7998]and West Bengal [Rs.1578].

10.Average interest rate for borrowing from non-institutional sources in 2002-03 was28.58% per annum as compared with 13.38% from institutional sources. The States having interest rate more than 13.38% per annum from non-institutional sources were 17, such as Andhra Prdesh [30.87%], Bihar [36.02%],Chhatisgarh [27.40%],Haryana [23.85%],Jharkhand[18.89%], Karnataka [25.19%],Kerala [29.48%], Maharashtra [24.78%], Manipur [51.17%], Madhya Pradesh [29.59%],Orissa [41.72%], Rajasthan [22.69%]Tamil Nadu [35.09%],Uttar Pradesh [26.30%],Uttrakhand [27.52%] and West Bengal [23.85%]

12.Share of households borrowing from non-institutional sources were higher among those having the low value of assets ranging from less than Rs5000 to Rs20,000 than those having assets of value more than Rs.20,000.

13.In 1991 the number of households borrowing for productive purposes [farm and non-farm business] were less [9.6 m with outstanding debt of Rs.83,070 million] than that borrowing for non-productive purposes [12.4 m with outstanding debt of Rs88,400 million]. In 2002, while the numbers of former were 19.4 m with outstanding debt of Rs590,780 million, the number of latter was higher at 22.9 m with outstanding debt of Rs.523,900 million.

14.In 2002-03, 4.1% landless laborers, 5.7% marginal and 10.6% small farmers had access to institutional sources of credit as compared to 15.3% medium and 22.1% large farmers. interest rate on non-institutional sources was 30.2% [landless laborers], 28.1% [marginal farmers], 26.3% [small farmers] as against 25.6% & 25.2% for medium and large farmers respectively.

In 2003, percentage of non-indebted farmer households in major 17 States were 18%[Andhra Pradesh], 25.5%[Tamil Nadu], 34.6%[Punjab, 35.6%[Kerala], 37.4% [Karnataka], 45.2% [Maharashtra], 46.9%[Haryana] 47.6% [Rajasthan], 48.1% [Gujarat], 49.2% [Madhya Pradesh, 49.9% [West Bengal],52.2%[Orissa],59.7%[Uttar Pradesh], 66.6%[Himachal Pradesh], 67% [Bihar],68.2%[J&K]81.9%[Assam.,

15.In 2003, three States [Maharashtra, Kerala, and Uttrakhand] had between 16.2% & 23.9% share in non-institutional credit, followed by 12 States [Orissa, Chattigarh, Gujarat, Karnataka, Haryana, J &K, Himachal pradeh, Jharkhand, Uttar Pradesh, West Bengal, Madhya Pradesh and Tmil Nadu] having between 25.1% and 46.5% and five States[Punjab, Bihar, Assam, Rajasthan and Andhra Pradesh] with between 52.1% and 68.6% share.

16.Marginal and small farmers holding land up to two hectares had share of non-institutional source of credit ranging from 42.3% to 77.4% whereas medium and large farmers' share was limited to 31.1% to 35%.

17.In four States [Punjab, Assam, Andhra Pradeh & Rajasthan] the share of non-institutional debt in case of land holding between one and two hectare was between 50.9% and 73.4%, followed by nine States [J&K, Orissa, Bihar, Gujarat, Haryana, Madhya Pradesh, Tamil Nadu, Uttar Pradesh,] having 26.1% to 47.3% and seven States[Kerala, Uttrakhand, Maharashtra, Chhatisgarh, Himachal Pradesh, Jharkhand, and West Bengal] having from 7.1% to 23.3%. In a large number of States, more than 70% of their outstanding debt was from non-institutional sources. In Andhra Pradesh and Rajasthan , non-institutional agencies accounted for as high as 80% of their outstanding debt.

18.About 85% of outstanding debt of cultivator households from institutional agencies was in the interest range of 12% to 20% per annum as compared to 36% cultivator households outstanding debt from non-institutional agencies was at the interest rate range of 20% to 25% and another 38% of outstanding debt at 30% and above.

19.Debt for productive purpose s a percentage of total debt declined from 72% in 1981 to 63% in 2002. Similarly, the share of debt for farm business declined from 64% to 53% during the said period.

20.Outstanding debt for productive purposes varied from 40% to 80%. Indebtedness for productive purpose was generally high in States with high incidence of indebtedness and low in States with low incidence of indebtedness. Debt incurred for social and religious ceremonies was also significant in some States.

21.In 2007, at national level, 76.1% earners [58.3 m] borrowed for non-productive purposes as against 18.3 m [23.9%] borrowing for productive purposes. Share of non-institutional borrowers was 68.4% [52.4 m] as against 24.2 m [31.6%] institutional borrowers. 70% earners in the annual income bracket of more than Rs400,000 borrowed from institutional sources as compared to only 27.5 % earners with income less than Rs50,000.

22.At national level total numbers of credit accounts increased from 16.4 million in 1981 to 53.1 million [323.8%] in 2007 and number of credit accounts per 1000 population increased from 31 to 65 during the period. Between 1981 & 2007, total numbers of credit accounts as well as number of credit accounts per 1000 population were in the range of 21% to 32% of total number of savings account as well as number of savings accounts per 1000 population.

23.The number of credit accounts [64] per 1000 population, which is one of the indicators of the expansion of credit delivery services, revealed that at national level it was significantly low. Besides, the numbers of credit accounts [64] per 1000 population as well as numbers of credit accounts [999] per branch were too low as compared with number of savings accounts [269] per 1000 population and number of savings accounts [4201] per branch. Similar was the pattern in respect of all States..

Areas of Concern

1. Between 1961 and 2002, average size of farm declined, percentage share of marginal &small farmers in the total increased, percentage share of cultivators' borrowings from institutional sources of credit declined and share of agricultural & professional moneylenders increased, while number of indebted households declined, the number of indebted households with non-institutional source of credit were higher than those with institutional source of credit, debt for productive purpose as well as for farm business as percentage to total debt declined and percentage of farmer households' cash borrowings [flow] from institutional sources stagnated/hovered around the level achieved in 1981.

2. Between 1991-92 & 2002-03, during post-financial sector reforms period 14 States out of 27 had closer to or higher percentage share of borrowings from non-institutional sources than that of national average, same was the status of per hectare & per capita amount of non-institutional borrowings, average interest rate on borrowings from non-institutional sources was almost double that of institutional borrowings, percentage share of borrowings from non-institutional sources were higher among those having low value of assets upto Rs.20,000 than those having value of assets more than Rs.20000, the number of households borrowing for non-productive purposes was a little less than double that of for productive purpose, share of landless laborers, marginal & small farmers to institutional credit was much less than that of medium & large farmers, interest rate charged by non-institutional sources to former ones was quite high as compared to latter ones. . .

3. In 2003, 17 major States had significant number of farmer households who had not accessed credit from institutional or non-institutional sources, average percentage of non-institutional debt of Rs.480 billion by 20 major States accounted for 42.4% of the total ranging from 16.2% to 68.6%, marginal & small farmers depended more upon non-institutional sources than medium & large farmers, in 13 States marginal & small farmers holding land between one & two hectares had non-institutional debt ranging from 26.1% to 73.4% of their outstanding debt, a significant number of households had non-institutional debt at higher interest rate than a very large number of farmers with less interest rate from institutional sources, debt for productive purpose was generally high in States with high incidence of indebtedness and debt incurred for social & religious ceremonies was significant in some States.

4. In 2007, at national level over 75% earners in rural areas had debt for non-productive purpose and share of non-institutional borrowers was over 68%. . .

5.Numbers of credit accounts per 1000 population as well as per rural branch in each of the 35 States & Union Territories were significantly lower than that of savings accounts as on 31 March 2005.

Policy Initiatives

Government and Reserve Bank of India [RBI] have from time to time evolved policies to accelerate the flow of credit among rural poor households and backward regions, minimize dependence on non-institutional agencies as well as regional imbalances. These include [i] mandated agricultural credit at least 18% of the adjusted net bank credit or credit equivalent of off-balance sheet exposure whichever is higher and disincentives, to banks failing to achieve this level, by contributing the shortfall amount to Rural Infrastructure Development Fund at low interest rate [ii] under the Special Agricultural Credit Plan, banks must fix self-set targets about 20% to 25% higher over the disbursements in the previous year.[iii] 10% of the adjusted net bank credit or credit equivalent of off-balance sheet exposure whichever is higher to weaker section of the society[iv] banks are encouraged to form, nurture and link Self-Help-Groups of poor households and provide them credit for various purposes, to be refinanced by National Bank at concessional interest rates [v] one percent of the outstanding advances adjusted net bank credit or credit equivalent of off-balance sheet exposure to be lent under differential interest rate scheme [at 4%] to borrower's with annual family income not exceeding Rs.18,000 in rural areas [iv] introduction of Service Area Approach for planned growth of rural areas through provision of credit and non-credit inputs/services[v] banks to waive margin/security requirements for agricultural loans up to Rs.50,000 and introduction of simplified loan application forms, documents and lending procedure. [vi] RBI from 2005 initiated policy on financial inclusion, which defines delivery of banking services at an affordable cost to the vast number of disadvantaged and low income groups who tend to be excluded [vii] banks are allowed to extend financial services for redeeming the loans taken by farmers from private money lenders [viii] in January 2005, RBI permitted banks to utilize the services of NGOs, SHGs, MFIs, and civil society organizations as intermediaries in providing financial and banking services through the use of Business Facilitators [BFs] and Business Correspondents [BCs] models. The BC model allows banks to do "cash-in/cash-out" transactions at a location much closer to the rural habitation.[ix] Government asked Banks to open branches in 73000 habitations with population more than 2000 by 31March 2012, for which Rs.7 billion is being provided to put in place the necessary infrastructure [x] Government established two Funds each with a corpus of Rs.5 billion, namely Financial Inclusion Fund to support the developmental and promotional activities to secure greater financial inclusion, particularly among weaker sections, low-income groups in backward regions and unbanked areas and Financial Inclusion Technology Fund to enhance the information communication technology, stimulate the transfer of research and technology, increase the technological absorption capacity of financial service providers and encourage an environment of innovation among stakeholders aimed at promoting financial inclusion [xi] National Bank has established the Farmers Technology Transfer Fund on 1 April 2008 with a corpus of Rs.250 million to promote technology transfer for enhancing production and productivity in agriculture and farm related activities.[xii] Government has asked Banks to establish "Financial Literacy & Credit Counseling Center" in each district to provide free financial literacy/education and credit counseling. The objectives are [a] to make the rural households fully aware of the advantages of being connected with the formal financial sector and educate them in respect of all details of various financial products and services being provided by banks including the procedure to avail them [b] to provide face to face financial counseling services so as to clarify all their doubts/misgivings and understand their banking requirements [c] to formulate a realistic debt restructuring plans for borrowers in distress, fully in consultation with them through proper dialogue and understanding of the pressing needs, in light of extant instructions and guidelines issued by the RBI and recommend the same to formal financial institutions for consideration [d] to take up any such activity that promotes financial literacy and amelioration of debt-related distress of an individual. Debt counseling /credit counseling can be both preventive and curative. In case of preventive counseling, the center would provide awareness regarding cost of credit and availability of backward and forward linkages to ensure technical feasibility and financial viability of the loan proposal. This should facilitate borrower to repay the loan with interest on time. In the case of curative counseling the clients may approach the center to help them work out effective debt restructuring plans in consultation with the bank. These Centers would be equipped to deal with requests received in person, by phone, e-mails, post, etc. They would have a toll free line, e-mail and fax facilities for easy contact. For ensuring adequate transparency/disclosure of information banks would display on their websites full particulars of all fees, interest rates, yield and other features of standard products offered by them. In order to manage these centers adequate and effective organizational/administrative set-up along with communication and networking facilities would be put in place. Full time well qualified/trained counselors would be recruited and the functioning of the centers would be effectively monitored. The need is to increase the use of information kiosks to disseminate information not only about banking products, but also about output/input prices, insurance products, health services etc.

Strategic Actions Needed

Following strategic actions need to be initiated in order to ensure that the rural credit policy put in place by the RBI and Government of India yields the expected results and well organized rural credit structure existing in the country responds favorably through its commitment and involvement.

Effectiveness of Service Area Approach: RBI launched a new approach to rural credit called the "*Service Area Approach*"[SAA] on 1st April 1989 throughout the country. Under the scheme, each of the rural and semi-urban branches of public sector and regional rural banks are allotted 10 to 15 villages such that rural households of all villages in the country have easy and reliable access to bank's financial services. Objectives of this approach are [i] to improve the quality and productivity of bank's lending and minimize costs both at bank's and borrower's level as well as mitigate credit risks [ii] to bring an orderly and planned development of identified villages and thereby increase the production, productivity and income levels of the rural people. In order to achieve these objectives it envisages [i] survey of villages for assessing the effective credit demand, based on the actual needs of the households to be ascertained by actual in-depth studies of villages by bank staff [ii] preparation of annual credit plan for each village and the Service Area and [iii] a continuous system of monitoring the progress in the implementation of the credit plans and the development schemes undertaken within the Service Area. The credit planning exercise in each district throughout the country has further been continuously improved and refined by the District Development Manager [DDM] of National Bank for Agriculture and Rural Development [NABARD], since April 1989, through the formulation of Potential Linked Credit Plan on an annual basis. Experience and expertise of qualified and trained bankers at the branch level should, therefore, enable them to intensify and strengthen credit operations at branch level. Since the SAA has been in vogue from April 1989 and the rural credit scenario places high demand on commercial banks, particularly in respect of bringing within the credit fold those rural households [i] who have so far not borrowing from institutional as well as institutional agencies and [ii] who have been borrowing from non-institutional sources, rural branches should focus sharply to significantly improve the planning, implementation & monitoring the credit delivery operations under the SAA.

Planning: Credit planning exercise for individual villages under service area should aim at [i] increasing the flow of credit [accompanied by adequate recovery of loans] year after year till the share of non-institutional credit is reduced to insignificant level [ii] increasing the number of borrowers, particularly the landless laborers, share croppers, oral lessees, tenant/marginal/small farmer households till all rural households in a village are brought within the banking fold and [iii] all households are issued Kisan Credit Cards[farmers' credit card] which they should use all the year round [iv] As number of households having savings accounts with rural branches in each State have been phenomenally higher than those having credit accounts, all those savings accounts holders need to be considered as potential borrowers, whose credibility is already established by the branch. All branches under Service Area should formulate "*Perspective Plan for five years*" focusing sharply on [i] provision of credit to all eligible households and particularly those who have not been issued Kisan Credit Cards [ii] increasing the share of institutional credit progressively to 90% in the total credit [iii] higher annual growth rate over the previous year through targeting additional borrowers, credit amount disbursed and repayments received. This perspective plan should be supplemented by preparation of "*Annual Action Plan*", which should incorporate new loan products, developments, schemes and programs and should focus branch-wise monthly business plan targets and strategy to achieve these goals.

Implementation: With the last two decades of field experience each branch by now has a good number of existing borrowers and their credit history is readily available. All these borrowers need to be served better, new loan products tailored to match their emerging credit needs, which should be adequately met, these existing clients be retained and their experience & expertise be profitably utilized to attract new clients and build bank's business on their success.

Intensive efforts are required in 16 States [Table No.8] where institutional credit has recorded negative growth in 2002-03 over 1991-92. Branch should properly identify households presently depending upon non-institutional sources of credit and help them switch over to banks for their credit needs. DDM of NABARD at district level can help branches operationalise the concept of debt swapping at field level as households in 18 States [Table No.10] depended heavily on non-institutional sources of credit and they paid exorbitant interest rates, which have significant economic and social costs.

Per hectare credit needs to be realistically progressively increased and short-term credit provided for multiple cropping system [vegetable, horticulture, floriculture], transport, storage, processing, marketing and investment credit for irrigation, farm mechanization, land development, animal husbandry, fisheries, sericulture, forestry, etc. In fact, investment credit and short-term credit are mutually reinforcing to accelerate productivity and output. The standardized prescription of *scale of finance* for crop-loans and *unit cost* for investment purpose should be done away with and replaced by realistic credit needs and designing new *loan products* best suited to agro-ecological area and households in consultation with Agricultural University and research institutes.

Monitoring: Individual bank on a monthly basis; NABARD and Lead District Manager in each district on a quarterly basis; and regional office of the RBI and NABARD at the State level on half yearly basis should monitor the performance with regard to additional coverage of new borrowers including swapping of informal debt, KCCs issued/utilized, increase in the amount of credit provided [including through KCCs], new loan products designed, repayments received in the light of the targets under Service Area.

Self-Help-Groups: Branches need to establish Farmers' Club & Self-Help-Groups [SHGs] in each village, In cooperation with Farmers' Clubs, NGOs & MFIs they need to promote, nurture SHGs of households with low asset value, namely landless laborers, sharecroppers, tenant/marginal/small farmers and link them with credit. Branches can serve better 45,589,65 SHGs already financed so far by meeting their additional credit needs from year to year and on their own promote, nurture SHGs & link them with credit, rather than depending upon other agencies. This would help branches better understand potential borrowers' cash flow for developing loan products to meet their credit needs.

Branchless Banking & Technology Adoption: Branches can operationalise the concept of a branchless banking by conducting pilot projects on lines of Corporation Bank. During the village surveys under the pilot projects, the branches need to identify rural households eligible for opening bank account keeping in view the stringent requirements of Know Your Customer prescribed by the Reserve Bank of India, as the regulator, help them open the account and issue a *smart card*. This can facilitate the client not to visit the Bank's base branch for opening account as required under the scheme of branchless banking. Bank's branchless banking makes use of a smart card that works on the basis of radio frequency identification [RFID] technology. This "near field communication" wireless device, which can be used in conjunction with mobile phone, is able to identify the customer with the help of biometric information captured on the smart card, which is compared with the actual fingerprint of the client. Transactions are processed based on this identification and they could be authenticated through printing of a receipt connected through the mobile phone. What is more important is to identify potential borrowers in the villages during the surveys, assess their credit needs, understand their cash flow, guide them on bank's lending procedure, let Business Facilitators/ Correspondents follow with them, appraise loan proposals and then branches may take decision on their loan proposals. All efforts need to be made to transform rural household's request for credit into a potential loan proposal. With the aid of m-banking technology loan disbursement & repayments can be facilitated without borrowers' visits to base branches. Each Bank can introduce significant technological & procedural changes to facilitate hitherto excluded borrowers or those borrowing from non-institutional sources. For this purpose, Government has established Financial Inclusion Fund [FIF] to support developmental and promotional activities to secure greater financial inclusion & Financial Inclusion Technology Fund [FITF] to enhance investment in information & communication technology. During 2008-09, four and five projects were sanctioned under FIF & FITF respectively.

Loan Products: Banks have so far neglected to develop loan products to match farmers' needs in different agro-ecological regions since one-fits-all concept has not worked. Loan products are quite different from purposes of loan. Banks should on a continuing basis develop new loan products, since rural economy has been witnessing fast and significant structural changes. A large number of "Earners" have been sourcing credit from non-institutional sources for purposes, namely purchase of house/land/ real estate, vehicle, consumer durables, to meet financial/medical emergencies, business/education/consumption requirements, social and religious ceremonies, repayment of debt, expenditure on litigation, financial investment etc. as revealed by IIMS [2007] from the field studies.

Loan products should be designed through detailed studies of rural households' financial needs and their cash flow and focus among others loan term & repayment schedule. Loan products should not be restricted to provision of credit for agriculture only since a large number households [including landless laborers with no land and marginal farmers with limited land holding] need credit for diversified & multiple purposes, namely income generating activities in agriculture, animal husbandry, poultry, fisheries, sericulture, non-farm sector [rural/cottage industries, handloom, handicrafts, coir industries, service and business segments], for housing, consumer durables, social, religious, health, education and debt swapping purposes etc. taking into account their credit history, willingness and capacity to repay the loan. This approach would increase per capita credit too. Banks in a district, in consultation with NABARD and District Industries Center, should design new *loan products* for landless, marginal and small households and artisans along with provision of technical, managerial and marketing inputs for their existing income-generating activities as also exploring scope for new economic activities.

The loan product for financing purchase of land for agricultural by agricultural laborers, sharecroppers, tenant and marginal farmers needs to be widely publicized since 607 borrowers in eight States obtained loan of Rs.200 million with 548 borrowers refinanced by the National Bank during 2008-09.As a part of the Village Adoption and Debt Swap Program, branches need to develop new loan products to meet the credit needs of households indebted to moneylenders and systematically marketed on lines of Regional Rural Banks, which have adopted 20,981 villages as on 31 March 2009 and have freed 7,811 villages out of them from debt of moneylenders

Kisan[Farmer] Credit Card: Kisan Credit Card [KCC] has been introduced since 1998-99 as credit product that allows farmers the required financial liquidity and avail credit when it is absolutely necessary, providing in the process flexibility, timeliness, cost effectiveness and hassle free services to the farmers. The study of the NABARD in 14 States in 2009 revealed that estimated number of cards issued to farmers would have been around 47.268 million and not 71.751 as reported by issuing banks in view of some problems with the MIS of KCC. About 68% of sample farmers used the card as one-shot loan and not as a cash credit limit as originally envisaged, which indicated that most of the card holders were not aware of the modalities, usefulness/benefits of KCC. Farmers experienced inadequacy of credit, non-adherence to scale of finance, lack of flexibility in its implementation, fixing of due dates, interest rates, levy of service charges, remittance of crop insurance premium etc. Card holders had serious problems particularly with cooperative banks with regard to cumbersome procedure for securing a loan above Rs.50,000, the effective rate of interest, the opportunity cost of the time spent, financing of tenant farmers & joint liability groups. These constraints and issues need to be addressed.

Information campaign: Massive publicity efforts are needed to create *"awareness"* among all categories of households in villages on the *availability* of bank's *financial services* and *procedures to avail* them. For this purpose, village level seminars and meetings can be organized, details be released in all local print media, regular and frequent advertisements can be given on electronic media, leaflets can be distributed, success stories be featured on a regular basis.

Enabling environment:

Branch expansion: As the Government has asked commercial banks to opening branches in 73,000 rural habitations before 31March 2012 to serve the population effectively, the banks should re-assess their human resources development and training policy for rural areas and initiate appropriate measures to provide qualified staff [instead promoting clerical staff and posting as officer or branch manager in rural areas], build their capacity, train them well and link their performance with incentives to meet the challenging task ahead.

Financing PACS: Currently the country has 109,924 Primary Agricultural Credit Societies [PACS] covering all villages that are financed by District Central Cooperative Banks. However, these banks are currently under the process of recapitalization. In order to optimally utilize this credit infrastructure & facilitate PACS to finance their millions of borrowing members it is necessary to cede them with rural branches of commercial banks as what was done in 1969. Besides, on a pilot basis some PACS in each State may be transformed into Credit Unions under the technical guidance of World Council of Credit Union so as to make them effective credit institutions owned & managed by farmers themselves.

Credit Bureau: The importance of a credit bureau can never be underestimated and with more players entering the fray, assessing the credit worthiness of a potential customer is bound to be wide ranging in terms of reach as well as the rigour required. In India, the concept of a credit bureau has been around for only 10 years with Credit Information Bureau [India] Limited [CIBIL], being the first to start operations. In recent times, reputed agencies in the US and Europe, namely Experian and Equifax that have been in existence for several decades have also commenced operations in India. It is time rural area benefits from this.

Infrastructure: Agricultural infrastructure has the potential to transform the existing traditional agriculture or subsistence farming into a most modern, commercial and dynamic farming system in India. Development economists recognize the growing importance of agricultural infrastructure in its role not limited to agricultural development but expanding it to encompass economic development of the country. Researchers have identified 11 components of infrastructure, such as [i] irrigation and public access to water [ii] means of transportation [iii] storage services [iv] commercial infrastructure [v] processing infrastructure [vi] public services [vii] agricultural research and extension services [viii] communication and information services [ix] land conservation services [x] credit and financial institutions and [xi] health and education services.

Improvement in rural infrastructure, education of all rural households, training them to improve their inherited skills and acquire new skills, provision of modern tools and equipment will enhance productive use of bank credit and facilitate banks to introduce new banking technology to minimize cost of lending.

Accordingly, State Governments must invest on an annual basis significant amount in creating &improving infrastructure, post-harvest technology, markets, agricultural research and extension to make farming profitable and increase rural income and also invest in creating training facilities for households in agriculture, rural & cottage industries, service and business segments for sustainable development of farming and non-farming enterprises.

DDMs of the National Bank in their “Potential Linked Credit Plan” have, since early 1990s, been sharply focusing on building specific need based infrastructure in each of country’s district for seeking State Government’s priority attention and is incorporated into the “State Focus document” prepared by the regional office of National Bank. The State Level Bankers Committee should monitor the progress in this area in coordination with the State Government.

Conclusion

With the introduction of financial sector reforms in India in early 1990s the response of scheduled commercial banks to achieve the mandated objectives of rural credit policy, namely ‘access to institutional credit and growth with equity’, has been lukewarm. As a result, while 45.9 million farmer households have been financially excluded, other 22.9 million have more to depend upon non-institutional agencies, pay exorbitant interest rate along with other exploitative terms. Regional and sectoral imbalances have been widening. With respect to the economics of financial inclusion, cost-benefit analysis estimates that in monetary terms the total net benefit that accrues following a financial inclusion policy stance is around Rs.547.15 billion per annum. For achieving the current policy stance of *’inclusive growth’* the focus on financial inclusion is not only essential but a pre-requisite. And for achieving comprehensive financial inclusion, the first step is to achieve *credit inclusion* for the disadvantaged and vulnerable sections of our society. It is high time that rural financial institutions commit themselves to serve progressively all households in a village, initiate steps to establish Financial Literacy and Credit Counseling Centers, adopt Technology Applications, make timely and judicious use of Financial Inclusion Fund and Financial Technology Fund and voluntarily adopt Mutual Code of Conduct. In the process, the Government may consider creating enabling environment and building rural infrastructure to facilitate rural financial institutions to serve all the rural households in a time bound period.