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Access to Institutional Credit in Rural Punjab

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Abstract

Agricultural production is typically associated with a substantial time gap between cultivation and harvesting/marketing the output. Several layers of risk and uncertainty are also involved in the production process. Thus, access to credit markets potentially plays a crucial role in smoothing out these risks, achieving sustainable agricultural productivity growth, and supporting more efficient production decisions. In Punjab state, majority of the loans disbursed were 'crop loans', i.e., working capital loans to finance one season of cultivation, in contrast, term loans were 30 percent of the total loan disbursed in 2018-19, raising concerns about the capacity of farmers to undertake long term investment on their farms. As per the primary data collected from different farm categories of rural households from 30 tehsils of Punjab, institutional agencies were the most important source of credit for farm households but still about 9 per cent of the farmers availed credit from informal sources (Market agents, mahajans, large farmers, relatives and friends) which formed about 5.26 per cent of the total credit availed. About 68 per cent credit availed was for crop production only of which about 66 per cent was in the form of cash. About 5 per cent of the total credit was availed especially by the marginal and small farmers at an interest rate of as high as 24 per cent indicating their dependence on the non-institutional agencies which charge exorbitant rate of interest. The average debt per household was estimated to be Rs 122855 and per hectare it was to the tune of Rs 41878. The debt per hectare was found highest among the marginal farmers. Besides, the farmers also reported large number of problems in availing institutional credit which drives them to fall into the debt trap of the crafty and exploitative non-institutional sources of credit. Therefore, the existing credit delivery system should be strengthened to accelerate the growth of the farming sector for evacuating the peasantry from the debt trap.

Keywords: Access, Credit, Institutional, Purpose, Rate of Interest

Introduction

Agricultural production is typically associated with a substantial time gap between cultivation—or, more generally, the period during which initial investments are made and inputs are purchased—and harvesting/marketing the output. Several layers of risk and uncertainty are also involved in the production process. Thus, access to credit markets potentially plays a crucial role in smoothing out these risks, achieving sustainable agricultural productivity growth, and supporting more efficient production decisions.

Recognizing the importance of the agricultural sector in the national economy, the Government of India (GoI) has undertaken a number of initiatives to strengthen the agricultural credit system and these initiatives have had a positive impact on the flow of agricultural credit and the ratio of agricultural credit to agricultural gross domestic product (GDP) has increased from 10 percent in 1999–2000 to about 43 percent in 2016–17. However, about half of agricultural households still have no access to credit services in the country. Timely availability of credit at affordable rates is a precondition for improving rural livelihood and fast-tracking rural development (Kumar *et al.,* 2015). The direct agriculture credit amount has a positive and statistically significant impact on agriculture output and its effect is immediate (Das *et al*., 2009).

Credit constraints have significant adverse impact on farm efficiency, productivity and profitability

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(Guirkinger and Boucher 2008). Besides, there exists a significant positive relationship between variable inputs usage and disbursement of production credit (Sidhu *et al*., 2008, Karlan *et al*., 2014). A 10 percent increase in the credit flow in nominal terms leads to 1.7 percent increase in fertilizers consumption, 5.1 percent increase in pesticides consumption and 10.8 percent increase in tractor purchases (Narayanan, 2016). Role of institutional credit in the economic wellbeing of farm households is well documented (Narayanan 2016). Lack of access to institutional credit can adversely affect the adoption of modern technology and capital formation.

Punjab agriculture has undergone a significant structural change since the advent of green revolution since mid-1960s. The state of Punjab was at the forefront of adopting new agricultural technology, which resulted in a large increase in the use of capital inputs to realise the benefits of this technology (Kaur and Singh, 2010).But, farmers have to spend huge amounts of cash on purchasing market-supplied farm inputs to carry out their production operations (Kaur, 2011). Rising costs along with stagnant technology and a near freeze in the minimum support price of wheat and paddy, which turned the already adverse terms of trade from bad to worse, has reduced returns on foodgrain production (Sajjad and Chauhan 2012), thus, the farmers are facing difficulties in meeting both farm and domestic expenditure (Sharma *et al.,* 2015). The demand for agricultural credit has enhanced manifold in the state. The institutional source meets only 51 per cent of the credit requirement of the farm sector (Rao, 2003). Therefore, the non-institutional sources are largely approached by the farmers due to lack of their security assets, frequent needs, inadequate supply of institutional credit, undue delay, sophisticated procedure and malpractices adopted by the institutional lending agencies (Nahatkar, 2002). Misutilisation of loans availed for agriculture by the farmers particularly marginal/small farmers results in their inability to increase their income level from crop production and they remain poor (Sharma and Rani, 2017).In the backdrop of this, the paper examines the performance of agricultural credit flow in Punjab, along with its availability, coverage and problems faced by the farmers in obtaining institutional loan.

Methodology

Both primary and secondary data were used to meet the stipulated objectives of the study. Secondary data were obtained from various published sources viz. unit level data of debt and investment survey carried out by National Sample Survey Organisation (NSSO), 2014 (70th round), Statistical Abstract of Punjab, Economic and Statistical Organization, Government of Punjab, Chandigarh. The primary were data collected from a sample of 300 farm households in 30 tehsils spread across the three agro-climatic zones of Punjab state with personal interview method. From each zone, farmers were selected using three-stage stratified sampling technique, with tehsil as stage one, a village/cluster of villages as stage two and operational holdings within the clusters as stage three. From each cluster, a sample of ten operational holdings i.e. marginal (< 1 ha), small (1-2 ha), semi-medium (2-4 ha), medium (4-6 ha) and large ($\leq$ 6 ha) were selected randomly. Information from each surveyed agricultural household i.e. 60 farmers from each of the five farm categories was collected relating to amount of loan outstanding along with source, purpose, nature of the loan and problems faced by the farmers in availing institutional agricultural credit.

Results and Discussion

A. Performance of agricultural Credit in Punjab

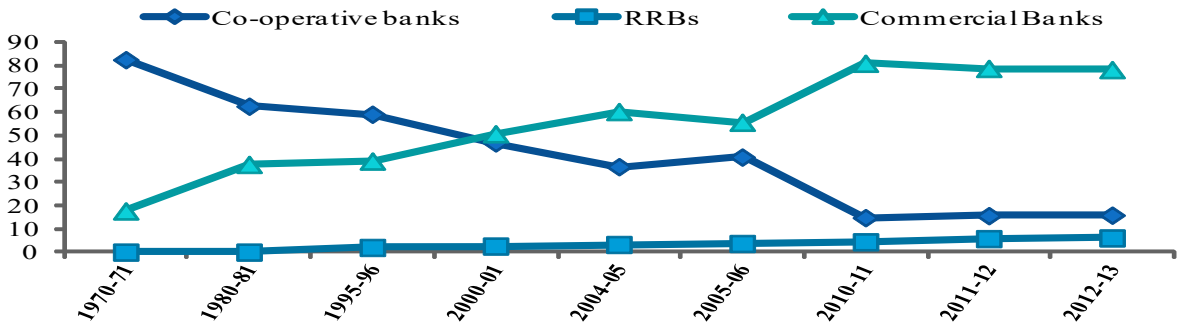
The state has a vast network of financial institutions, with the co-existence of dual (institutional and non-institutional) financial systems that both operate in the rural credit market. Institutional credit has been used as an important policy instrument for growth and development of agriculture sector in the state. The institutional credit agencies in Punjab not only encouraged adoption of green revolution technology but also escape the farmers from moneylenders by providing credit to the farmers at low rate of interest (Satish, 2006). The share of institutional credit by different agencies has been shown in Fig 1.

The spread of institutional agencies has led to a considerable increase in the share of agricultural credit. Over the period of time the share of commercial banks has increased from 17.62 per cent to 78.11 per cent and share of co-operative banks has declined from 82.38 per cent to 15.83 from 1970-71 to 2012-13 respectively. The share of RRBs has also increased to 6.06 per cent during this time period. At state level, among institutional sources commercial banks has emerged as the dominant force followed by cooperative societies and government sources.

Disbursement of agricultural loans in Punjab

According to the Situation of Agricultural Households in India (NSSO, 2014), 53.2% of agricultural households in Punjab have a loan, slightly

Fig 1 : Flow of institutional agricultural credit in Punjab (% share)



Source: Kaur and Pavneet, 2015

higher than the all India estimate of 51.9%. However, loans disbursed show a dip in 2017-18 and 2018-19. Another feature is that the majority of the loans are 'crop loans', i.e., working capital loans to finance one season of cultivation. In contrast, term loans were 30 per cent of the total loan disbursed in 2018-19, raising concerns about the capacity of farmers to undertake long term investment on their farms as shown in figure 2.

Banking offices in Punjab

Number of banking offices in different districts of Punjab during the year 2020 shows that commercial banks comprise large number of banks followed by co-operative and Punjab national banks (Table 1).

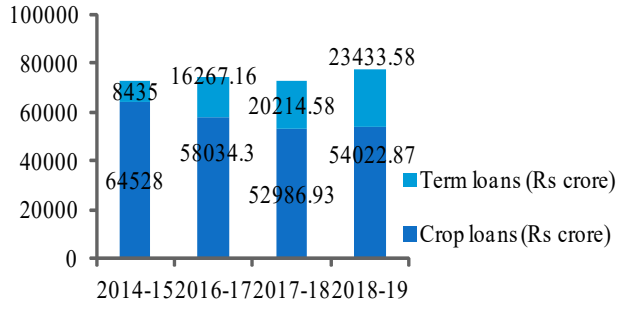
State bank of India has comparatively less number of banks. As most of the agricultural credit is provided by co-operative banks and commercial bank due to its easy availability so, this is the main reason of

Table 1: District-wise number of Banking offices in Punjab (as on 31st December, 2020)

District	Name of Bank				Total	No. of banks per NSA (000ha)
	State Bank of India	Punjab National Banks	Other Commercial Banks	Co-operative Banks		
Amritsar	68	113	398	57	636	2.90
Barnala	28	21	81	16	146	1.17
Bathinda	88	60	194	39	381	1.30
Faridkot	21	18	98	24	161	1.27
Fatehgarh	26	16	121	25	188	1.84
Faridkot	25	36	111	29	201	0.80
Firozpur	28	36	121	23	208	0.95
Gurdaspur	29	54	216	34	333	1.59
Hoshiarpur	44	99	256	66	465	2.28
Jalandhar	83	140	581	71	875	3.62
Kapurthala	27	60	204	41	332	2.52
Ludhiana	118	160	658	54	990	3.31
Mansa	27	20	85	22	154	0.83
Moga	26	50	154	47	277	1.43
Pathankot	32	24	87	10	153	3.26
Patiala	103	77	273	42	495	1.93
Rupnagar	22	17	119	25	183	2.26
S.A.S.nagar	54	60	331	21	466	6.05
S.B.S.nagar	19	32	134	47	232	2.42
Sangrur	65	51	209	46	371	1.18
Shri Muktsar Sahib	31	24	125	22	202	0.88
Tarn taran	19	31	116	40	206	0.95
Punjab	983	1199	4672	801	7655	1.86

Source: Statistical Abstract of Punjab, 2020

Fig 2 : Agricultural loans disbursed during different years in Punjab



their more branches in the state.

On an average, there were 2 banks per thousand hectares of net sown area in the state. In 10 districts there were more than 2 banks per thousand hectares of NSA whereas in 13 districts the number of banks are less than state average. The number of existing banks per unit of NSA were as high as 3.62 in Jalandhar and was lowest in Fazilka (0.80). Thus, at state level, commercial banks are the leading source of agricultural credit.

District wise analysis for agricultural credit provided by commercial banks indicated that outstanding credit for each unit of NSA was the maximum for S.A.S nagar (Rs 2.88 lakh) followed by Gurdaspur (Rs 2 lakh), Patiala (Rs 1.90 lakh), Amritsar (Rs 1.87 lakh), Firozpur (Rs 1.84 lakh), Kapurthala (Rs 1.68 lakh) while for other districts it lied below state average of Rs 1.52 lakh per unit of NSA (Table 2).

At state level for each thousand hectares of NSA there exist about 2 commercial banks (CB) with an agricultural credit outstanding of 1.52 lakh (Fig 3). Among districts, S A S nagar has highest number of CBs with least being for Fazilka and Sri Muktsar sahib (each 0.8). Also the agricultural credit outstanding is the highest for S A S nagar while it the lowest for Fazilka.

A. Agricultural credit in Punjab- Insights from field survey

On the basis of field survey, estimates of the agricultural credit was made per sample farm household and category-wise from different sources and the same have been presented below.

Agricultural credit availed

Analysis of data from field survey indicated that the average credit availed per household was about Rs 122855 while it was Rs 41878 per ha (Table 3).

It was interesting to note that the agricultural credit availed was the highest in terms of per hectare for the marginal farmers while for each household it was the highest for the large farmers.

Table 2: District-wise classification of outstanding credit of Scheduled Commercial banks, 2020

(Rs 000 million)

Districts	Agriculture	Direct	Indirect	Total agricultural credit (Rs 000 lakh per NSA)
Amritsar	40.93	39.79	1.14	1.87
Barnala	18.46	17.99	0.47	1.48
Bathinda	42.04	42.04	42.04	1.43
Faridkot	22.17	21.38	0.79	1.75
Fatehgarh	14.57	14.32	0.25	1.43
Faridkot	22.17	21.38	0.08	0.88
Firozpur	40.12	37.90	2.22	1.84
Gurdaspur	41.75	40.96	0.79	2.00
Hoshiarpur	30.62	30.25	0.37	1.50
Jalandhar	47.72	45.51	2.21	1.97
Kapurthala	22.19	20.22	1.98	1.68
Ludhiana	66.84	62.26	4.58	2.24
Mansa	22.12	21.56	0.57	1.20
Moga	27.19	26.29	0.90	1.40
Pathankot	4.69	4.61	0.08	1.00
Patiala	48.75	46.97	1.78	1.90
Rupnagar	10.68	10.30	0.37	1.32
S.A.S.nagar	22.17	18.53	3.64	2.88
S.B.S.nagar	13.45	13.21	0.24	1.40
Sangrur	46.52	45.15	1.37	1.48
Shri Muktsar Sahib	32.64	31.61	1.03	1.43
Tarn taran	28.47	28.07	0.40	1.31
Punjab	625.33	600.52	66.14	1.52

Source: Statistical Abstract of Punjab, 2020

Table 3: Farm category wise distribution of agricultural credit

Farm category	Volume of agricultural credit	
	Per hectare	Per household
Marginal	51001.69	38370.4
Small	59772.36	86638.5
Semi-medium	48835.85	100489.6
Medium	42567.49	149310.4
Large	34780.05	198142.9
Overall	41878.21	122854.8

Source: Field Survey

Further analysis indicated that the most preferred source of agricultural credit (Fig 4a) was the cooperative societies as about 71 per cent farmers were availing credit from them followed by commercial banks i.e. 20.26% while among other non-institutional sources, money lender was most preferred (6.58%)

Fig 4a: Distribution of respondents according to different sources of credit followed (% share)

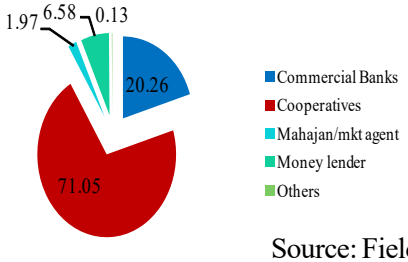
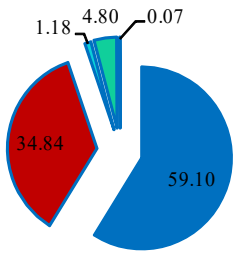


Fig 4b:Distribution of agricultural credit availed according to different sources (% share)



Source: Field Survey

followed by market agents and friends and relatives. While in terms of share in agricultural credit disbursed, commercial banks had a major share of 59 per cent followed by cooperatives (34.84%) and other sources (Fig 4b). Farm category wise analysis indicated that among all the categories, cooperatives remained the most preferred source followed by commercial banks, money lender and market agents (Table 4a).

On the basis of amount of agricultural credit availed, the major share came from the commercial banks (59.10%) as the farmers were getting credit from the banks for purchase of capital items from this source only (Table 4b) followed by cooperatives (34.84%). Money lender was meeting about 5 per cent of the credit requirements of the respondents. Money lenders met about 1 per cent of the credit requirement and from other sources only 0.07 per cent credit was availed.

Farm category wise analysis indicated that though maximum number of farmers were approaching cooperatives for availing agricultural credit yet the maximum share of credit supplied belonged to commercial banks only and it was so for all the farm categories. It was the large farmers who were mainly benefitted by credit facility from the cooperatives as well as money lenders while marginal farmers were enjoying it this facility the maximum from market agents and other sources.

Purpose of availing agricultural credit

The purpose for which a loan is taken / spent is an important indication of its potential to be repaid.

Table 4a: Distribution of respondents according to different sources of agricultural credit (% share)

Farm category	Source of credit				
	Commercial banks	Cooperatives	Mahajan/ market agent	Money lender	others (inc relatives, friends)
Marginal	16.82	70.09	6.54	5.61	0.93
Small	22.56	63.16	1.50	12.78	0.00
Semi-medium	17.34	75.14	1.73	5.78	0.00
Medium	24.42	72.67	0.58	2.33	0.00
Large	19.43	72.00	1.14	7.43	0.00
Overall	20.26	71.05	1.97	6.58	0.13

Table 4b: Distribution of agricultural credit according to different sources (% share)

Farm category	Source of credit				
	Commercial banks	Cooperatives	Mahajan/ market agent	Money lender	others (inc relatives, friends)
Marginal	52.73	37.55	2.14	5.87	1.70
Small	72.21	21.27	1.39	5.13	0.00
Semi-medium	59.71	33.91	0.89	5.49	0.00
Medium	64.52	33.89	0.39	1.21	0.00
Large	51.19	40.20	1.73	6.88	0.00
Overall	59.10	34.84	1.18	4.80	0.07

Productive loans included purchase of current agricultural inputs (seed, diesel/mobile oil and agro-chemicals) and capital items (purchase of tractors, harvest combines and farm machinery) y and non-farm production activities (seed shop, spare parts shops, mini buses, etc.). It was observed that about 68 per cent of agricultural credit was availed for arranging farm inputs like fertilisers etc only while about 27 per cent was engaged for meeting multi-purpose needs (Table 5). About 3 per cent of the credit availed was for capital items like buildings, buying implements etc and rest about 2 per cent was used for crop production. Similar results were found in a study for Punjab as an average farm household in the state was found to incurr 74.8 per cent on productive and 25.2 per cent on unproductive purposes (Singh *et al.,* 2009).

Farm category wise analysis indicated that the majority of the respondents had availed the credit to meet their requirement of agricultural inputs only (83.68%) and it was so for all the farm categories.

Type of credit availed

The respondents were getting credit mainly in cash form (66.4%) while about 29 per cent preferred it in kind form followed by about 4 per cent in mixed form including both cash and kind (Fig 5).

Farm category wise analysis indicated that cash form of credit was preferred by all the farm categories as more than 62 per cent respondents from each category were doing so with rest getting it in kind and mixed forms. Of the total credit availed, maximum was bought at an interest rate of 7 per cent only (Table 6) followed by another 14.1 per cent at 12 per cent rate of interest, 10 per cent at interest rate of 11 per cent. About 5 per cent was taken at a high interest rate of 24 per cent and the major source was the money lenders for it.

C. Farmers' Perception Regarding Institutional Borrowing

In Punjab, farm households in their zest to make high capital investments to sustain high output growth rate and incomes for maintaining their improved living and social standards intended to borrow from both institutional as well as non-institutional sources. They had their own perceptions about the source of borrowing, problems they face in availing the institutional loans and why they prefer non-institutional loans. They also made some suggestions to improve the institutional credit delivery system. About 43 per cent farmers reported the complicated and time-

Table 5: Distribution of agricultural credit according to purpose (% share in credit availed)

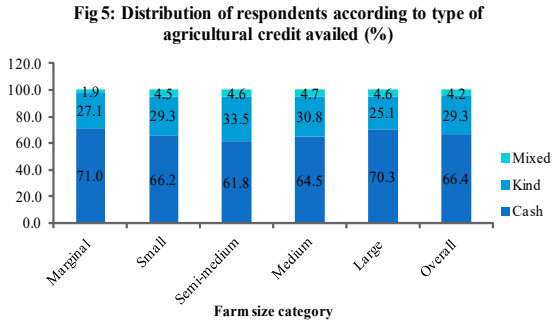
Farm category	Purpose of agricultural credit			
	Crop production	Capital items	Inputs	Others
Marginal	8.28(2.80)	4.14(2.80)	61.13(81.31)	26.45(13.08)
Small	0.00	12.67(1.50)	66.69(85.71)	20.64(12.78)
Semi-medium	1.07(1.73)	0.00	78.67(86.13)	20.26(12.14)
Medium	0.46(1.16)	1.50(1.16)	70.25(84.88)	27.79(12.79)
Large	3.89(2.29)	2.88(0.57)	62.24(80.88)	30.98(17.14)
Overall	2.14(1.58)	3.23(1.05)	68.00(83.68)	26.63(13.68)

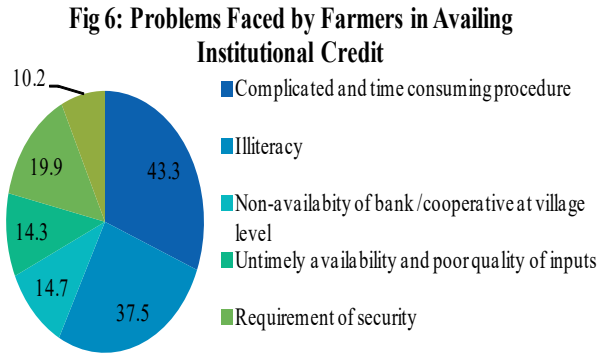
Note: Figures in parentheses indicate percent share of respondents

Table 6: Distribution of agricultural credit according to rate of interest charged

Farm category	Rate of interest charged (%)					Av. credit/
	7	11	12	18	24	household
Marginal	40833.0(85.98)	0	20000.0(0.93)	25000.0(1.87)	23250.0(11.21)	38370.4
Small	72290.4(82.71)	730000.0(1.50)	453333.3(2.26)	13995.8(4.51)	55583.3(9.02)	86638.5
Semi-medium	89772.3(89.60)	500000.0(1.16)	281000.0(2.89)	0	96818.2(6.36)	100489.6
Medium	105184.4(88.95)	521446.2(3.49)	756250.0(4.65)	100000.0(0.58)	77375.0(2.33)	149310.4
Large	160893.1(83.43)	650000.0(3.43)	537500.0(4.57)	260781.3(2.29)	176500.0(6.29)	198142.9
Overall	99400.7(86.32)	593042.3(2.11)	525400.0(3.29)	98238.5(1.71)	85240.0(6.58)	122854.8
% share in total credit	69.8	10.2	14.1	1.4	4.6	

Note: Figures in parentheses indicate percent share of respondents





consuming procedure as the main grudge in availing the institutional agricultural credit (Fig 6). The illiteracy of farmers making them hesitant to approach the banks for loans, was reported by about 38 per cent farmers and about 20 per cent reported that the loan was not available without surety /security. As many as 15 per cent farmers reported about bank /cooperative branch not being in the village.

Various reasons were also reported by the farmers behind approaching the non-institutional agencies for meeting their deficit credit requirements. The non-institutional loan was 'easier to avail' and 'no formality and surety/security was needed' was opined by almost all the farmers and were the major reasons reported for preference to the non-institutional loans.

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