

Growth and Regional Inequality in Rural Credit Flow in India

S K Goyal*, Satnam Kaur** & Atul Dhingra***

The flow of institutional credit to agriculture and allied activities increased at an annual compound growth rate of 16.57 per cent. The share of cooperatives in agricultural credit was about 63 per cent in 1980-81 which went on declining year after year and reduced to only 19 per cent in 2007-08. The decadal growth rate of agricultural credit disbursed by all the agencies indicate that the growth increased at the rate of 13.52 per cent per annum during 1980s which increased to 18.64 per cent in 1990s and this further increased substantially to 28.06 per cent during 2000-01 to 2007-08. Over the years, the share of co-operatives in the total Kisan Credit Cards issued has been declining whereas the share of commercial banks and regional rural banks has been increasing. On an average the loan advanced per borrower which was only Rs.1486 in 1993-94 increased to Rs.7259 in 2007-08 indicating about five-fold increase over this period. The amount of overdues increased at a compound growth rate of 13 per cent during this period. Wide fluctuation was noticed in the flow of agricultural credit per hectare of gross cropped area in different regions and across the states. The recovery of loan was recorded to be 64.33 per cent for the country as a whole. At the regional level, the recovery performance was the highest in the southern region and lowest in North eastern region. Interregional disparity was found to be relatively more in case of loans per member, loans per society, loans per ha of gross cropped area, number of societies in profit and deposits per member as compared to the number of societies, overdues per member, overdues as percentage of demand (recovery performance), villages covered per society, cropped area per society.

Introduction

India has reached the level of 230 million tones of foodgrains from merely 51 million tones during 1950-51. This significant growth in foodgrains production has been possible by the use of modern inputs and production technology which has resulted into increase in demand for credit. It is well known fact that in India, majority of the farmers do not have sufficient funds of their own to meet their requirements for adoption of modern technology. Therefore, they have to depend heavily upon the borrowed funds from one source or the other. A large number of agencies, including cooperatives, regional rural banks, commercial banks, non-banking financial institutions, self-help groups and a well spread informal credit outlets together represent Indian rural credit delivery system. The key milestone of rural credit system are Rural Credit Survey Committee Report (1954) and acceptance of its recommendations, nationalization of major commercial banks (1969 and 1980), establishment

of RRBs (1975), establishment of NABARD (1982) and the ongoing financial sector reforms since 1991. Further, several initiatives like Kisan Credit Card Scheme, Special Agricultural Credit Plans, RIDF Scheme etc, are put in place to increase the flow of credit to agriculture sector.

Among the institutional sources of credit, the cooperatives have relatively been important source of rural credit. Rural cooperative credit institutions have played an important role in enhancing institutional credit to the agricultural and rural sectors. The short term cooperative structure known as Primary Agricultural Credit Societies (PACS) at the grass root level are intended not only to cater to credit requirements of the members but also to provide several other credit linked services like input supply, storage and marketing of produce, etc. It is an established fact that the distribution of cooperative credit is uneven across the regions and states of the country. On the basis of above background, in the present study an attempt has

* Associate Prof. (Agricultural Economics), Department of Business Management, CCS Haryana Agricultural University, Hisar

** Joint Directors, Directorate of Human Resource Management, CCS Haryana Agricultural University, Hisar

*** Prof. & Head, Deptt of Business Management, CCS Haryana Agricultural University, Hisar

been made to study the growth, performance and regional concentration / dispersion in various aspects relating to cooperative credit in India.

Methodology

The present study is exclusively based on secondary data collected from various published sources such as Economic Survey of India; Fertilizer Statistics; www.nfscob.org, etc. The data was collected on institutional flow of credit to agriculture and on various other aspects of cooperative credit for the period 1980-81 to 2007-08. To study regional disparity, state-wise data was also collected. To measure the growth performance over the years Compound Growth Rates were calculated by using exponential form of equation and for measuring concentration and regional disparity, the Herfindahl Index has been used as given below:

$$H\text{-index} = \sum p_i^2$$

Where

$$p_i = X_i / \sum X_i,$$

X_i is the value of the indicator in each state; $i = 1, 2, 3, \dots, N$ (number of states).

The value of H-index closer to one indicates concentration and closer to zero dispersion and vice versa.

Result and Discussion

Institutional Credit Flow to Agriculture

To meet the burgeoning demand of rural credit, the concept of a multi-agency approach to rural credit was adopted during the mid-sixties. The major commercial banks were nationalized and were directed to expand the network of their branches in rural areas and extend credit in these areas on a priority basis. The Working Group constituted by the Govt. of India in July 1975 recommended setting up of State Sponsored region based Rural Banks known as Regional Rural Banks (RRBs). So, agricultural credit is disbursed through a multi agency network consisting of cooperatives, commercial banks and Regional Rural Banks. India at present has vast network of rural and semi urban branches to meet the financial requirement of agriculture sector and rural areas. The growth in institutional credit to agriculture has been significant over the years. The cooperative credit system is a

century old primary rural credit delivery system in the country covering about 4.5 crore borrowing members. There are 28 public sector commercial banks and 32 banks in private sector operating in villages through their more than 32000 branches in rural and semi-urban areas. Similarly, 196 RRBs are providing financial services through 14.31 branches in rural areas. The agricultural credit advanced by various institutional sources during the period 1980-81 to 2007-08 are shown in Table 1. The flow of institutional credit to agriculture and allied activities increased sharply from Rs. 3389 crores in 1980-81 to Rs. 2,54,657 crores in 2007-08 indicating growth at an annual compound growth rate of 16.57 percent. This increase in institutional credit to agriculture has been mainly due to the increased participation of scheduled commercial banks (SCBs) in agricultural credit. The share of cooperatives in agricultural credit was about 63 per cent in 1980-81 which went on declining year after year and reduced to only 19 per cent in 2007-08 while that of commercial banks rose from 37 per cent in 1980-81 to about 73 per cent in 2006-07 and then slightly declined to 71 per cent in 2007-08. The Regional Rural Banks which came into existence in 1975-76, now account for about 10 per cent share to total agricultural credit.

The decadal growth rate of agricultural credit disbursed by all the agencies indicate that the growth was at the rate of 13.52 per cent per annum during 1980s which increased to 18.64 percent in 1990s and this further increased substantially to 28.06 per cent during 2000-01 to 2007-08. During the current decade (2000-01 to 2007-08), the growth of cooperative credit has slowed down while that of Commercial Banks including Regional Rural Banks has increased substantially. The quantum jump in agricultural credit in the last few years has been due to increased target by the government. As in Union Budget 2005-06, it was proposed to increase the flow of credit by 30 per cent for the year 2005-06 and also Public Sector Banks were advised to increase the number of borrowers by 50 lakhs.

Micro-finance

Creating self employment opportunities is one way of attacking poverty and solving the problems of unemployment. The scheme of micro-finance has been found as an effective instrument for lifting the poor above the level of poverty by providing them

increased self-help opportunities and making them credit worthy. Self Help Groups (SHGs) form the basic constituted unit of microfinance movement in India. An SHG is a group of a few individual usually poor and often women – who pool their savings into a fund from which they can borrow as and when necessary. Such a group is linked with bank – a rural, cooperative or commercial bank. The micro-finance sector in India has experienced a tremendous growth in the last years due to the efforts of various agencies including government, international donor agencies and banks. Number of SHGs and credit disbursed by the different agencies during the year 2006-07 are presented in Table 2. The number of SHGs linked with banks was 1105 thousands with bank loan of Rs. 6570 crores during 2006-07 (NABARD, 2006-07). Share of commercial banks in respect of number of SHGs linked with banks and credit disbursed were highest (51.7 % & 59.6 %) followed by RRBs (34.5 % & 31.2 %) and cooperatives (13.8 % & 9.1 %) during the year 2006-07. On an average per SHG, bank loan of Rs. 59420 was disbursed. It was highest in case of commercial banks amounting to Rs. 68556 and lowest in case of cooperative banks (Rs. 39153).

Kisan Credit Card Scheme

The Kisan Credit Card scheme was introduced in August 1998 for short term loans for seasonal agricultural operations. As a pioneering credit delivery innovation, this scheme aims at provision of adequate and timely support from the banking system to the farmers for their cultivation needs including purchase of inputs. It now has been under implementation in all the states and Union Territories by Commercial Banks, Regional Rural Banks, and Cooperatives facilitating smooth flow of loans for agricultural sector. Agency-wise credit cards issued during different years have been shown in Table 3. The number of cards issued has increased in each successive year since its inception to reach a total of 752.89 lakh cards by 2007-08. In the first year of the scheme i.e. in 1999-2000, of the total cards (51.34 lakh) issued by the banking system, cooperative bank accounted for the largest share (70 %) followed by commercial banks (27 %) and regional rural banks (3%). Over the years, share of cooperatives has been declining whereas share of commercial banks and regional rural banks

has been increasing. Still cooperative banks alone account for about 46 percent of the total cards issued. Cooperative have been routing a major portion of their crop loans through KCC. With a view to expanding the coverage of borrowers under KCC and improving the flow of credit, NABARD has advised cooperative banks and regional rural banks to continue their endeavor to identify and bring into the KCC fold, other farmers, including defaulters, tenant farmers, etc.

Cooperative Credit

The cooperative movement was initiated in India in 1904, with the adoption of Cooperative Society Act. Cooperative credit is considered as the most important institutional source of rural finance. Cooperative credit structure in India is consists of a 3-tier structure. At the apex are the State Cooperative Banks followed by District Cooperative banks at the district level and Primary Agricultural Credit Society (PACS) at the grass root level. The PACSs take care of short term credit needs in rural areas while State Cooperative Agricultural and Rural Development Bank takes care of long term credit needs in these areas. The focus of the present paper is on Primary Agricultural Credit Societies.

Primary Agricultural Cooperative Credit Societies (PACS) form the lower tier of the short term structure of the rural cooperative credit institutions. The PACS directly interface with the farmers, provide short and medium term credit and supply needed agricultural inputs too. The total number of Primary Agricultural Cooperative Credit Societies in India increased to 94960 in 2007-08 from 91592 in the year 1993-94 depicting a compound growth rate of 0.98 percent per annum (Table 4). The percentage of borrowing members to total members which was 56.78 percent in 1993-94 increased to 60.37 percent in 2007-08. Despite small growth in percentage of borrowing members to total members, total loans and advances increased due to increase in limits of eligible borrowers. The loans and advances increased to Rs. 57642 crores in 2007-08 from Rs.7511 crores in 1993-94 showing a handsome growth of 14.58 percent per annum during this period. It is estimated that short term loans and advances constitute about 82 percent of the total loans and advances (Anonymous, 2007-08). On an average the loan advanced per borrower which

was only Rs. 1486 in 1993-94 increased to Rs. 7259 in 2007-08 indicating about five fold increase over this period. Although there is an overall increase in agricultural credit yet there is a severe problem of overdues which inhibit expansion and economic viability of the lending institutions. The amount of overdues increased at a compound growth rate of 12.98 percent during this period i.e. increased from Rs.4183 crores to Rs. 24003 crores during 1993-2007. However, in terms of percentage to demand, it has declined over the years which indicates improvement in recovery performance. PACS also made tremendous progress in deposit mobilization in the country. The average per member deposit during the year 1993-94 was Rs. 236 which increased to Rs.1935 in 2007-08. The annual compound growth for per member deposit worked out to be 14.89 percent. As a result of increase in per member deposit, there has been substantial growth in rural deposits per society i.e. rural deposit per society increased at an annual compound growth rate of 18 percent during the period under study.

Regional Variability / Disparity in Important Parameters of PACS

Distribution of rural credit by PACSs across different regions and states is very important as these are the institutions/agencies working at the grass root level and having direct contact with the farmers (Table 5). As far as number of Primary Agricultural Cooperative Credit Societies are concerned, societies are mostly concentrated in the Western and Eastern regions as 30.83 and 19.31 percent of the total societies are operating in these regions, respectively. Gross cropped area served per society ranged from 1142 ha in Western region to 3209 ha in Central region, the national average being 2014 ha per society. On an average, seven villages were served per society for the country as a whole. In western region coverage is relatively better as on an average for every two villages, there is a society. At the national level, about 40 percent of the total societies are in profit. The highest percentage is in Northern region (64.28 %) and North eastern region has lowest percentage (15.36 %) of profit making societies. On an average per member loan advanced increased from Rs.844 in 1993-94 to about Rs.4383 in 2007-08 (Table 4). Rural advances per ha of gross cropped area witnessed a substantial increase during

the period under the study. However, there was wide fluctuation in the flow of agricultural credit per ha of gross cropped area in different regions and across the states. The loans advances per ha of gross cropped area was highest in Southern region (Rs. 6899) and lowest in North eastern region Rs. (742). The data on state-wise gross cropped area pertains to the year 2004-05 due to non-availability of current data. In case of loan advanced per society, southern region again was at the top and north eastern region at the bottom position. The mounting overdues is a serious problem with PACS which affects the repaying capacity and also create obstacles in the recycling of funds. The recovery of loan was recorded to be 64.33 percent for the country as a whole. The recovery performance was highest for Southern region (73.93 %) followed by eastern region (64.77 %) and northern region (63.92 %) It was lowest in North eastern region (50). Cooperatives also play a important role in deposit mobilization in rural areas. The mean per member rural deposit was as high as Rs.3339 in southern region followed by northern region (Rs.2148), eastern region (Rs. 947). In western region, mean per member deposit was only Rs. 303. at the national level this figure is Rs. 1935.

Herfindahl index which measures concentration or dispersion have been calculated for important indicators of the PACS. In case of overdue as percentage of demand (recovery performance), gross cropped area per society, villages covered per society, overdue per member, and number of societies low value of Herfindahl Index indicate that these parameters are spread across the states which signify less variability. On the other hand, relatively high value of Herfindahl Index in case of loans per member, deposits per member, loan per ha of gross cropped area, loans per society and number of societies in profit indicate concentration (i.e. reduced diversification) which thereby signify more variability across the states.

Conclusion

The flow of institutional credit to agriculture and allied activities increased at an annual compound growth rate of 16.57 per cent. The share of cooperatives in agricultural credit reduced to only 19 per cent in 2007-08 from about 63 per cent in 1980-81 while that of commercial banks rose from

37 per cent to about 71 per cent during this period. The Regional Rural Banks which came into existence in 1975-76, now account for about 10 per cent share to total agricultural credit. Over the years, share of cooperatives in the total Kisan Credit Cards issued has been declining whereas share of commercial banks and regional rural banks has been increasing. Still cooperative banks alone account for about 46 per cent of the total cards issued. Marginal increase in the share of cooperatives and commercial banks and decline in the share of RRBs in the micro-finance scheme was also observed. There has been significant growth in loans advanced per member and per borrower, deposit per member and per society, loans per ha of gross cropped area by PACSs. The membership growth was observed to be 3.76 per cent that seems reasonably good. Still growing membership strength is indispensable so as to have a strong equity base. As regards to overdues, it has increased at the rate of about 13 per cent per annum. The high growth rate of overdues is not a healthy sign for the viability of the financial institutions. Interregional disparity was found to be high in case of loans per member, loans per society, loans per ha of gross cropped area, deposits per member and number of societies in profit.

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**Table 1: Growth of Institutional credit flow for agriculture and allied activities in India
(Rs. crore)**

Year	Cooperatives	RRBs	Commercial Banks	Total
1980-81	2126 (62.73)	-	1263* (37.27)	3389 (100.00)
1985-86	3875 (55.31)	-	3131* (44.69)	7006 (100.00)
1990-91	3973 (44.23)	-	5010* (55.77)	8983 (100.00)
1995-96	10479 (47.56)	1381 (6.27)	10172 (46.17)	22032 (100.00)
2000-01	20800 (39.37)	4220 (7.99)	27807 (52.64)	52827 (100.00)
2001-02	23604 (36.29)	4854 (7.46)	33587 (51.64)	65045 (100.00)
2002-03	23716 (34.09)	6070 (8.73)	39774 (57.18)	69560 (100.00)
2003-04	26959 (30.99)	7581 (8.72)	52441 (60.29)	86981 (100.00)
2004-05	31424 (25.08)	12404 (9.90)	81481 (65.02)	125309 (100.00)
2005-06	39404 (21.83)	15223 (8.43)	125859 (69.74)	180486 (100.00)
2006-07	42480 (18.52)	20435 (8.91)	166485 (72.57)	229400 (100.00)
2007-08	48258 (18.95)	25312 (9.94)	181087 (71.11)	254657 (100.00)
CGR (%)				
i) 1980-81 to 1989-90	10.53	-	17.43	13.52
ii) 1990-91 to 1999-2000	15.71	-	19.18	18.64
iii) 2000-01 to 2007-08	13.31	31.49	34.69	28.06
iv) 1980-81 to 2007-08	12.19	27.60**	18.91	16.57

Source: Economic Survey of India (various issues)

- Includes Regional Rural Banks, ** based on data for the period 1994-95 onwards.
- Figures in parentheses indicate percentages to respective total.

Table 2: Number of SHGs and credit disbursed by banks during 2006-07

Agencies	No. of SHGs		Credit disbursed (Rs. crore)		Per SHG loan disbursed (Rs)
	Number	% share	Amount	% share	
Cooperative banks	152914	13.8	3479.13	53.0	39153
Commercial banks	571636	51.7	3918.94	59.6	68556
RRBs	381199	34.5	2052.73	31.2	53849
Total	1105749	100.0	6570.39	100.0	59420

Table 3: Agency-wise Kisan Credit Cards issued over the years**(in Lakh)**

Year	Cooperative Banks	Regional Banks	Rural	Commercial Banks	Total
1999-2000	35.95 (70.02)	1.73 (3.37)		13.66 (26.61)	51.34 (100.00)
2000-01	56.14 (64.89)	6.48 (7.49)		23.90 (27.62)	86.52 (100.00)
2001-02	54.36 (58.20)	8.34 (8.92)		30.71 (32.88)	93.41 (100.00)
2002-03	45.79 (55.55)	9.64 (11.69)		27.00 (32.76)	82.43 (100.00)
2003-04	48.78 (52.76)	12.74 (13.78)		30.94 (33.46)	92.46 (100.00)
2004-05	35.56 (36.73)	17.29 (17.86)		43.95 (45.40)	96.80 (100.00)
2005-06	25.98 (32.42)	12.49 (15.59)		41.65 (51.98)	80.12 (100.00)
2006-07	22.97 (26.99)	14.06 (16.52)		48.08 (56.49)	85.11 (100.00)
2007-08	20.91 (24.69)	17.73 (20.93)		46.06 (54.38)	84.70 (100.00)
Total	346.44 (46.01)	100.50 (13.35)		305.95 (40.64)	752.89 (100.00)

Note: Figures in parentheses indicate percentage to respective total

Table 4: Growth of Cooperative credit flow for agriculture and allied activities

Parameters	1993-94	2007-08	CGR (%)	Parameter	1993-94	2007-08	CGR
No. of PACS	91592	94960	0.98	Loans advanced per borrower (Rs.)	1486.44	7259.03	12.26
Members (000)	88989	131530	3.76	Overdues per borrower (Rs.)	827.92	3022.80	10.70
Borrowers (000)	50528	79408	2.06	Deposit per member (Rs.)	236.25	1934.86	14.89
Loans advanced (Rs. Lakhs)	751070	5764248	14.58	Deposit per society (Rs. Lakhs)	2.30	26.80	18.06
Overdues (Rs. Lakhs)	418333	2400348	12.98	Overdues as % of demand	42.81	35.67	-0.90
Loan advanced per member (Rs.)	844	4382.46	10.43				

Table: 5. Distribution of various important indicators of PACS and coefficient of Herfindahl Index (2007-08)

Region/states	No. of societies	GCA /society (ha)	Villages/society	Loan/mem ber (Rs.)	Loan/ha GCA (Rs.)	Loan/ society (lakh)	overdues/mem ber (Rs.)	Overdues as % of demand	Deposit/mem ber (Rs.)	Societies in profit (No.)
Central	16,123	3209	12.76	2147	807	18	1530	45.02	606	6,882
MADHYA PRADESH	4,633	4361	12.06	2913	1133	35	2014	42.76	721	1,772
CHHATTISGARH	1,257	4547	15.75	1733	898	27	1727	62.26	437	79
UTTAR PRADESH	8,929	2755	12.63	2902	324	9	1877	42.40	248	4,536
UTTARANCHAL	1304	929	13.23	193	4759	12	71	76.92	106	495
Eastern	18,339	1530	9.29	1150	1851	15	496	35.23	947	4,990
BIHAR	5,969	1307	7.60	746	449	5	915	54.49	136	1,180
JHARKHAND	496	4325	17.36	0	868	0	242	95.89	1047	88
ORISSA	3,813	2286	11.10	1661	3756	72	365	20.92	1307	1,300
WEST BENGAL	8,061	1166	9.34	744	1474	7	538	51.22	502	2,422
North Eastern	3,125	1598	44.89	1000	742	11	539	49.88	344	480
ASSAM	766	4927	28.95	20	21	1	55	98.47	16	309
MANIPUR	186	1280	0.00	28076	15100	193	10298	43.07	5078	0
MEGHALAYA	184	1440	13.73	209	66	1	572	88.25	62	51
NAGALAND	1,719	221	0.56	1148	41	0	4403	90.72	46923	0
TRIPURA	270	1252	1.65	13	4	0	1074	91.67	26	120
North	12,752	2952	32.16	8027	3981	65	1807	36.08	2148	8,197
HARYANA	616	10430	2.92	15521	7607	170	3765	22.10	1016	365
PUNJAB	3,979	2028	3.12	17917	7335	95	2393	12.85	2908	2,370
HIMACHAL PRADESH	2,092	470	9.28	1523	2034	7	576	32.84	5686	1,672
JAMMU AND KASHMIR	938	1175	8.86	1746	7003	2	3250	79.48	117	499
RAJASTHAN	5,127	4108	7.99	2701	1523	30	968	30.71	230	3,291
Southern	14,804	2314	23.78	2811	6899	84	1157	26.07	3339	4,237
ANDHRA PRADESH	4,064	3080	6.81	1023	2161	50	836	52.29	348	874
KARNATAKA	4,620	2772	7.04	3585	2261	40	2121	43.06	1720	1,822
KERALA	1,555	1927	0.95	3491	44965	215	1207	22.80	7534	759
TAMIL NADU	4,513	1305	3.90	6192	7554	104	1423	24.02	3869	763
PONDICHERY	52	923	5.08	7216	23638	115	725	25.85	5209	19
Western	29,276	1142	1.89	5178	2769	22	3329	44.87	303	12,538
GUJARAT	8,092	1369	1.92	11297	3290	31	6287	41.60	613	4,948
MAHARASHTRA	21,184	1056	1.87	3735	2512	19	2631	43.22	123	7,590
All India Total	94950	2014	6.83	4383	31045	62	1825	35.67	1935	38307
Herfindahl Index	0.0993	0.0696	0.0655	0.1178	0.1565	0.1700	0.0893	0.0502	0.3213	0.3140