Empirical Analysis of Agriculture Credit Structure in Haryana

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Abstract: This paper examines the concerns and issues in agricultural credit in Haryana. The analysis states that the credit delivery to the agriculture sector continues to be insufficient. It appears that the banking system is still hesitant on various grounds to provide credit to small and marginal farmers. Transformation in banking policies and practices and the resultant access to total bank credit during the post-bank nationalization period have not satisfactorily addressed equitable and efficient delivery of agriculture and rural credit. Due to declining in public capital formation in the rural and agriculture sector and the persistent unenthusiastic attitude of rural bankers towards formal financing, the planners and policymakers believe on microfinance to suitably supplement formal banking in Haryana.

IndexTerms - Agriculture credit, Small farmers, Banking, Planners.

Introduction
Haryana has a geographical area of 44,212 sq km. It is comprised of six divisions namely Ambala, Rohtak, Gurgaon, Hisar, Karnal and Faridabad and 22 districts. It has a population of 2,53,51,462 with a literacy rate of 75.55 percent. Haryana is the bread basket of India. The state has high agricultural productivity and therefore reaps a surplus in food grain production and contributes about 15% of the central pool of food grains, despite constituting only 1.3% of the national landmass. Agriculture is the primary sector of Haryana and majority of the population is directly or indirectly dependent on agriculture and its allied activities. Agriculture has been the top priority for the state since decades. The strong infrastructure facilities like metal led roads, rural electrification, network of canals, development of market yards etc. were created that provide the needed impetus to agriculture development in the State. Such facilities coupled with agriculture research support and excellent extension network to disseminate the information related to improved farm practices for farmers yielded tangible results. Rural finance is a matter of credit concern in a developing state like Haryana where 70 percent of the population depends upon agriculture. The demand for agricultural credit arises due to i) lack of simultaneity between the realization of income and act of expenditure; ii) lumpiness of investment in fixed capital formation; and iii) stochastic surges in capital needs and saving that accompany technological innovations. Credit, as one of the critical non-land inputs, has two-dimensions from the viewpoint of its contribution to the augmentation of agricultural growth viz., availability of credit (the quantum) and the distribution in agriculture credit. Haryana has adopted three pronged strategy for developing agriculture credit, over the years, viz (i) Promoting of institutional structure, (ii) Directing lending, and (iii) Concessional or subsidies credit. Increasing commercialization and globalization also require expanded and improved infrastructure. The National Agricultural Policy not only envisages faster agricultural growth at 4 per cent a year, but also its equitable spread across regions and classes of farmers. All these translate into higher credit demand and acceleration in its growth, as well as cost-effective mechanisms for its delivery.

I. Loaning structure of rural based credit institutions:
Like all other businesses, agriculture has its short term and long term credit needs. The short term credit needs mostly relate to operating expenses or the cost of inputs. The long term credit needs relate to farm development or improvement. Agricultural loans covering production oriented short term credit needs are called crop loans and those covering long term credit needs are called term loans. In this part of the study, the principles of appraisal, sanction and conduct of crop loan and term loan have been explained in brief.

a) Crop Loan or short term credit: Agricultural loans covering production oriented short term credit needs are called crop loans. All the three types of credit institutions viz., cooperative societies, commercial banks and regional rural banks give short period loans to their members for productive purposes. In this portion of the study, the principles of appraisal, sanction and conduct of crop loans have been explained in brief. Crop production is the main agricultural activity in India and crop loans form the bulk of bank advances to agriculture. A request for a crop loan usually originates in an interview with the farmer. The interview
should be conducted by a qualified and experienced bank official like the agent, manager or field officer. If it becomes obvious during the interview that the request has to be declined, it would be desirable to end the interview at that stage with a clear explanation to the farmer why his request cannot be considered. However, if the data indicate that the farmers request for a crop loan can be considered, the interviewing official should assist him in completing the loan application form. The next stage is the appraisal of the proposal. The main considerations, of course, are the honesty and ability of the farmer, technical feasibility of the scheme and the economic viability of the farmer. For convenience, we shall consider crop loan proposals under the following heads are Eligibility, Feasibility, Viability, Borrower, Stake, Marketing and Security.

b) Medium-term and Long-term Credit:

Medium-term and long-term loans are granted primarily for –

1. Purchase of agricultural machinery, pump sets, electric motors, tractors, tillers, sprayers, etc;
2. Irrigation facilities such as sinking of wells, tube-wells, deepening of wells, building of tanks, drainage canals and fencing;
3. Land improvement and reclamation of land;
4. Dairy and poultry development.

c) Term Credit (Investment Loan):

The term loans are generally granted for development purposes and are therefore, often known as investment loans. The purposes for which term lending may be resorted to can be grouped into three broad categories:

1. Those relating to periodical maintenance or replacement of existing production assets with a view to maintaining the income-earning capacity of the farm equipments purchase of bullocks, reconstruction of lands, repairs of wells, farm houses, cattle sheds etc;
2. Those relating to new investments with a view to increasing the income earning capacity of the farmers, e.g., digging of new wells, leveling of land prior to introduction of irrigation, installation of pumping sets, consumption of new bunds, contour-ploughing, purchase of tractors and other costly farm machinery, purchase of milk cattle, purchase of new land, purchase of metallic storage bins, for installation at the farmers house, etc and

The purposes falling in category (1) can be met by and large by loans extending over 2 years but not more than 5 year, whereas, the period of loans for the purposes listed in categories (2) and (3) will have to be determined with reference to the repaying capacity of the concerned borrowers and it may vary between 5 and 15 years. Apart from the repaying capacity, account will have to be taken of the life of the assets created out of the proposed outlay while determining the appropriate period of the loan. Generally speaking, no loan should be extended beyond the life of the particular asset created. If for instance, the working life of an agricultural machinery or implement is placed at say, 8 years, the period of the loan should not extend beyond 8 years.

II. Eligibility, procedure and features for Agricultural Loans:

a) Short Term Agriculture Maximum Credit Limit (MCL):

The MCL of agriculturist members shall be prepared in accordance with crop planning separately for Rabi and Kharif. The following procedure is adopted to prepare the MCL of these members. The secretary of each society shall prepare a land register in respect of all its agriculturist members including tenants. It has been observed that some members provide wrong information regarding the area to be cultivated by them in order to avail higher MCL from the society. The land register shall, therefore be prepared on the basis of land record so as to avoid ghost acres. The entries in the land register shall be made in respect of each member on the basis of land record i.e. Jama Bandi / Khasara Girawari or Land Passbook, as owner or tenant and in absence of such record, these entries should be made on the basis of a declaration given by the member duly verified by the village patwari / lambardar / or committee member of the society.

b) MCL of members:

The maximum credit limit of all members shall be fixed by the managing committee of the respective societies once for a period of three years. A member may, however, get his MCL changed during this period due to change in the holdings, occupation, gross income etc., provided complete evidence in support thereof is produced to the satisfaction of the managing committee. The meetings of managing committee held for the purpose shall necessarily be attended by the executive officer of the cooperative bank. In case of societies having annual loaning business of more than Rs. 5 lacks, their meeting shall
also be attended by the managing director / development officer / manager of the central cooperative banks.

c) **Disbursement schedule:**
The farmer does not require the entire crop loan at one time. A proper schedule of disbursement corresponding to the farmers cropping pattern, stages in raising each crop and the durations of the season would ensure proper use of a crop loan besides saving the borrower interest on the crop loan.

d) **Repayment schedule:**
Similar to the disbursement schedule, a repayment schedule can be drawn up taking into account the duration of seasons, the time of harvest of each crop and the probable time required to sell the produce at reasonable prices. Repayment for Kharif crop is fixed on January 31 and for Rabi crop on 31st of May whereas in Medium-term loans are generally granted for three to five years and long-term loans for periods between five to ten years. Convenient instalments are allowed in the case of repayment of medium-term and long-term loans, some banks are even going to the extent of defining instalments depending upon the income from the farm and nature of improvements carried out by the farmer. Generally, quarterly or half-yearly instalments are prescribed for repaying medium-term loans

e) **Interest rate:**
Farmers have to pay interest on the loans received at the rate of 7% in case of cooperatives, it ranges between 4.50 to 12.5% in case of regional rural banks and commercial banks. The banks follow a practice of charging high interest for the default of loan, on the outstanding balance of loans from the date of default to the date of regularization while in Medium-term and Long-term Credit rate of interest charged ranges between 12.5 percent to 13 percent depending on the amount of loan.

f) **Insurance:** The borrowers plans can be spoiled by the sudden destruction of his assets by fire or otherwise. This type of a loss will be bear by the bank and the borrower in the ratio of 75:25.

g) **Loan Application:** The farmer has to apply for loan on prescribed form available from the bank in all languages. The form duly filled in and signed is to be submitted to the bank for verification in respect of applicant’s bio-data, amount of loan and the purpose for which loan is sought. The applicant has to submit the following documents along with the application are:

1. Land Particulars: Full particulars of land should be furnished to know the title, type of land etc;
2. Map of the Land: It shows the location of land to be mortgaged by the owner to the bank;
3. No Dues Certificate: To overrule the possibility of borrowing from more than one institutions for the same purpose, no dues certificates from the primary agricultural credit society and land development bank are to be attached along with the application form.

h) **Security:** In the case of medium-term loans granted for the purchase of tractors, pumpsets, etc., banks generally require hypothecation of such implements and the loan is advanced not covering the full cost of implements. Some banks ensure that the loan granted for the purpose of purchasing equipments is utilized to the same end by arranging the payment directly to the dealers.

i) **Size of Loan:** The amount of loan under medium-term and long-term categories is generally related to the purpose for which it is granted. For instance, though the banks have prescribed norms per acre in extending short-term loans, it has no rigid norms for medium-term and long-term loans in the case of which requirements for specific purpose and individual merit is taken into consideration.

### III. The role of various credit institutions in Haryana:
In this section the role of commercial banks, Gramin Banks and cooperative banks in financing agriculture credit in the state are discussed. A trend of repayments and various financial aspects are also explained in this section.

a) **Cooperative banks:**

1. **State cooperative bank or the apex bank:** The state cooperative bank serves as a state level federation of all the central cooperative banks. The apex bank serves as a coordinator between the NABARD and the central cooperative banks of the state for securing credit limits for short and medium term loans for each central cooperative bank. The apex bank compiles the requirement of credit limits for each central cooperative bank and pass on the same to the NABARD. National bank for agriculture and rural development (NABARD) places the funds of the sanctioned credit limit of each central cooperative bank at the disposal of the apex bank which the apex bank passes on to the concerned central cooperative banks for further advancements to the primary credit and service societies, etc. The apex bank retains only a nominal part of the interest (say about .5 percent to .75 percent) as service charges. The apex bank also directly provides credit facilities to other sister organizations like the apex marketing federation for the purchase of consumer articles.
2. Central-cooperative banks: District level the normal pattern throughout the country is that every district has a central cooperative bank at the middle level for the short and medium terms loan for rural masses. District central-cooperative banks secure credit limit for their requirements from NABARD through the state apex bank and advance loans to the various primary agricultural cooperative credit societies for further advancements to the members of these societies. They retain about two percent of the interest as service charge.

b) Primary Agricultural Credit Societies (PACS):
At the operational level, there exists a primary agricultural cooperative society to extend credit to the farmer. These societies were originally formed on Raiffeisen model. The essential elements of Raiffeisen principles were:

1. A restricted area of operation;
2. Unlimited liability;
3. Equal status and democratic control;
4. Gratuitous service;
5. Permanent indivisible reserve fund;
6. Limitation of loan to members only and that too after careful selection of such members. But subsequently certain deviations shifts, and changes took place in the original scheme.

Principal Features of PACS:

a) Membership and size: Scope of these societies is kept limited. The membership of the societies is different in different states. However, in most states facilities have been offered to form a society comprising of more then 10 members. National development council has accepted the principle of forming societies taking village community as the primary unit. According to Sarayya Committee, average membership of the societies is 32.

b) Registration of PACS: Any ten persons may combine and apply for the registration of a PACS. Such persons should be above 18 years of age. They should live within the area of operation of the society, which “area should not be so large that the cultivator finds it inconvenient to obtain the service which he requires from the society.” The persons should have a good character. These persons are required to sign an application in a prescribed form, requesting therein for the registration of the society. This application along with the copies of the bye-laws of the society and the prescribed fee, has to be submitted to registrar of the cooperative societies of the place in which the registered office is to situate. If the registrar is satisfied that all the formalities have been compiled with, he may register the society and issue a certificate of registration.

c) Liability: According to the cooperative societies Act 1912, these societies have unlimited, liability. Some economists favour limited liability for these societies. However barring UP and Bihar, in all states of the country, these societies have unlimited liability.

d) Management: The societies are managed in a democratic manner. Every member has the right to vote. But one member can cast only one vote irrespective of the number of shares held by him. All the members together constitute general committee Managing committee is elected by the members of the general committee. Managing committee members are not paid salaries. Only the secretary gets some nominal payment.

e) Supervision: Supervision of the societies implies the scrutiny of their affairs at regular interval. Supervision includes:

1. Periodical visits to societies (at least once in a quarter);
2. Preparation of statements, on the basis of merchants land and their productivity;
3. Assessment of finance required for agricultural and productive purposes;
4. Preparation of loan applications;
5. Maintenance of accounts, records etc.;
6. Holding of general meetings;
7. Arrangement for marketing of members produce;
8. Recovery of loans;
9. Taking actions in regard to overdue, mal-administration;
10. Rectification of defect’s pointed out at the time of audit;
11. Collection of figures for annual statements;
12. Imparting cooperative education to affect bearers and members of societies.
f) Funds of the Societies: To run their affairs, these societies procure credit from various sources. These sources may be divided into two parts.

1. **Internal sources:** There are many internal sources of finance for the societies such as entry fees, share capital, deposits of members and reserve funds. These societies procure capital by selling shares of small denominations of Rs. 10 to Rs. 50;

2. **External sources:** The government, central financial institutes, Reserve Bank of India and others are the external sources of finance for the cooperative societies. These societies also receive some money in the form of donations, presents and grants.

g) Loans: These societies give short-period loans to their members for productive purposes. The societies can also give, up to certain limit, medium term loans. At the time of giving loans, economic condition of the farmers is taken into consideration. Loans are given on the mortgage of land. Of late loans are being advanced even on the security of standing crops. Farmers have to pay interest on the loans received at the rate of 7 percent in case of cooperative. The banks follow a practice of charging high interest for the default of loan, on the outstanding balance of loans from the date of default to the date of regularization.

h) Distribution of Profits: Keeping 25% of their profits as reserve funds, the societies distribute the rest among its members.

i) Functions of PACS: The main functions of the credit societies are to: provide short and medium term credit; supply agricultural and other production requirements, and undertake marketing of agricultural produce. In addition to these, the cooperatives help in formulating and implementing a plan for agricultural production for the village and undertake such educative, advisory and welfare functions as the members might be willing to take up. The societies are also expected to inculcate the habit of thrift and saving among their members.

c) Regional Rural Banks:

The Regional Rural Banks were set up under RRB Act 1976 with the objectives to take the banking to rural masses particularly in hitherto unbanked rural areas to make available institutional credit to the weaker sections of the society, to mobilize rural savings and channelize them for supporting productive activities in rural areas. Earlier, Haryana Kshetriya Gramin Bank, H.O. Bhiwani, Hisar-Sirsia Kshetriya Gramin Bank, H.O. Hisar and Ambala Kurushetra Gramin Bank, H.O. Ambala City were set up with the same objectives and expectations. On 21st December, 2005 as per Govt. of India, notification, all the above mentioned three RRBs Sponsored by PNB (in State of Haryana) were amalgamated and a new entity, called “Haryana Gramin Bank” with its Head Office at Rohtak came into existence. Since then the bank has come into the category of big RRBs. The area of operation of amalgamated structure is in Bhiwani, Hisar, Jhajjar, Mahe, Rewari, Rohtak, Fethahbad, Sirsa, Ambala, Kaithal, Kurukshetra, Panchkula, Yamuna Nagar, Jind and Panipat districts. District Kamal has also been included in service area of bank by the Govt. of India. The Bank is rendering its services effectively to the different sections of the society viz. farmers, landless labourers, rural artisans, self employed persons, professionals for their socio-economic upliftment. The Bank has a network of 191 branches comprising of 156 rural branches, 26 semi urban branches and 9 urban in above stated 16 districts of Haryana State.

1. **Organization:** The RRBs have been established by ‘Sponsor Bank’ usually a public sector bank. The steering committee on RRBs identifies the districts requiring these banks. Later, the Central Government sets up RRBs with the consultation of the state government and the sponsor bank. Each RRB operates within local limits with such name as may be specified by the Central Government. The bank can establish its branches at any place within the notified area.

2. **Capital:** The authorized capital of each RRB is Rs. 5 crore which may be increased or reduced by the Central Government but not below its paid up capital of Rs. 25 lakh. Of this 50 percent is subscribed by the Central Government, 15 percent by the State Government and 35 percent by the sponsor bank. At present the formula for subscription of RRBs has been fixed at 60:20:20 between central government, state government and the sponsor bank. The Central Government’s contribution is made through NABARD.

3. **Management:** Each RRB is managed by a Board of Directors. The general superintendence, direction and management of the affairs and business of RRBs vests with the nine member Board of Directors. The Centre Government nominates 3 directors, the state government has two directors and the sponsor bank nominates 3 directors. The chairman, usually an officer of the sponsor bank but is appointed by the Central Government. The Board of Directors is required to act on business principles and in accordance with the direction and guidelines issued by the Reserve Bank. At the State Level, State Level Coordination Committees have also been formed to have uniformity of approach of different RRBs.
4. Responsibilities of Sponsor Bank: The Sponsor Bank shall help and aid the RRB sponsored by it by
   (i) Subscribing to its share capital;
   (ii) Training personnel and
   (iii) Providing managerial and financial assistance during the first five years or extended period. The
        sponsor banks are empowered to monitor the progress of RRBs, to conduct inspection, internal audit
        and scrutinizing and to suggest corrective measures as and when necessary.

Resources: The main resources of RRBs are (i) share capital, (ii) deposits from the public, (iii) borrowing from
sponsor banks, (iv) refinance from NABARD. The Reserve Bank of India has put RRB at par with the cooperative
banks for refinance facilities i.e. 2% below the bank rate. Like commercial banks, the RRBs, have been made
eligible for accommodation against a mere declaration of eligible loans and advances by them. Further the RRBs
have also been granted the status of scheduled banks by the Reserve Bank.

Several innovative steps as mentioned below have been taken by the Bank:

i. Infrastructure Development: To have good ambiance, furniture, counter, telephone, lighting, water
   facilities etc. have been provided and changes for better bank buildings have been effected as per
   requirement in the area. Computers have been installed in Head Office, Controlling Offices and all 183
   branches thereby facilitating data consolidation and other related works.

ii. Adopting Marketing Approach and Publicity: Published deposit and loans schemes of the bank by
     giving lectures in various training programmes. The 'customer meet' programmes and 'Kisan
     Goshthies' have been organized by the bank with participation of high profile customers, directors
     of the Bank, officers of Districts Administration and Agricultural Scientists. Loans Disbursement
     functions have been organized in the branches to promote KCC scheme and Self Help Groups.

iii. NPA Management: Recovery campaigns were organized by the branches in a planned manner to
     make recovery in irregular/likely NPA and NPA accounts, which were monitored at Head Office and
     Controlling Officers level and encouraging results were obtained. One time settlement scheme was
     implemented and compromise camps were organized which gave encouraging results.

iv. Human Resource Development: The bank managed available Manpower Resources judiciously to
     increase productivity.

d) Commercial Banks:
The government of India nationalized fourteen major banks on July 19, 1969 which had deposits of more than Rs.
50 crore. These Banks are: Punjab National Bank, Central Bank, United Commercial Bank, Bank of India, Bank
of Baroda, Allahabad Bank, Union Bank, Canara Bank, Dena Bank, Indian Overseas Bank, United Bank of India,
Bank of Maharashtra, Syndicate Bank and Indian Bank. On April 15, 1980, six more banks were nationalized.
Each of these had deposits of more than Rs. 200 crores. These banks are: Andhra Bank, Punjab & Sind Bank,
New Bank of India, Vijaya Bank, Corporation Bank and Oriental Bank of Commerce. Rs. 87 crores were paid as
compensation to the share-holders in 14 banks. Major share of ownership of State Bank of India and its 7
subsidiaries lies with the government. These are deemed as Public Sector banks: In India, 92 percent share in total
deposits and credit, is of nationalized and public sector banks. After nationalization, government has acquired full
ownership over these banks. Employees of these banks will continue to function as before but will henceforth he

treated as government employees. These banks will now be controlled and managed by the government.
Commercial Banks had more or less kept themselves aloof from the agricultural sector until the introduction
of Social Control. The subsistence nature of our agriculture and the policies of the Government up to the year 1967
had not given any encouragement to commercial banks to enter this field. Early attempts to provide credit to
the agricultural sector by the banks was in the nature of gold loans for agricultural operations. Most of the banks had
been granting advances of this kind to the farmers as these loans were not only self-liquidating soon after the
harvest but also provided first class security. The other kind of assistance given by the commercial banks was in
the nature of credit to traders for procurement and storage of fertilizers, pesticides and agricultural produce. Yet
another facility granted by the Commercial Banks after the establishment of the Warehousing Corporation was

provision of assistance against the security of Warehouse receipts. In fact a major objective of creating these

corporations was to make available institutional credit to the framers against the Warehouse receipts issued by
them. Although the volume of bank advances against Warehouses receipt has been increasing, it has not come up
to expectations. One factor for the hesitancy on the part of the commercial banks to grant such advance was
the fact that these receipts are not negotiable instruments.
1. Finance by Commercial Banks:
To be successful in this new activity, the following factors will have to be borne in mind by the commercial banks:

i. to provide credit to not only viable but also potentially viable cultivators.

ii. to keep a close watch on utilization of production and development credit to ensure proper input-output ratio.

iii. to create an organizational structure which is geared to grapple with the new kinds of problems.

iv. to create a new cadre of bank officials who should play a dynamic role both in providing credit and also finding ways and means of helping the farmers in various ways.

Lending to agricultural sector differs considerably from the kind of advances, commercial banks are used to grant to commerce and industry. In the field of agricultural advances, a constructive loan is one which will increase the farmer’s production, lower the cost of production and improve his ability to operate his farm profitably.

IV. RESULTS AND DISCUSSION
The analysis brings out that the trends of institutional credit to the agriculture sector during the post-reform period were high than the pre-reform period, and the composition also changed significantly over this period. The trends of direct short and long-term credit to the agriculture sector were increased during the post-reform period. Thus, the indirect credit to the agriculture sector was increased tremendously during the post-reform period. The cooperative credit structure needs revamping to improve the efficiency of the credit delivery system in rural areas. Merging and revamping of RRBs that are predominantly located in tribal/backward regions is seen as a potentially significant institutional arrangement for financing the hitherto unreached population. The access of small and marginal farmers to credit has been constrained by their inability to offer the collaterals, micro finance, which works on social collaterals, can go a long way in catering to their requirements. In the long run, an assessment of agriculture credit situation brings out the fact that the credit delivery to the agriculture sector continues to be inadequate. It appears that the banking system is still hesitant on various grounds to purvey credit to small and marginal farmers. The situation calls for concerted efforts to augment the flow of credit to agriculture, alongside exploring new innovations in product design and methods of delivery, through better use of technology and related processes. Transformation in banking policies and practices and the resultant of and access to total bank credit during the post-bank nationalization period have not satisfactorily addressed equitable and efficient delivery of agriculture and rural credit. Due to declining in public capital formation in the rural and agriculture sector and the persistent lukewarm attitude of rural bankers towards formal financing, the planners and policymakers may believe on microfinance to suitably supplement formal banking in Haryana. The Government of Haryana policies are pro-farmer and state has an efficient governance system to support farmers. The state can further scale agricultural productivity by initiating reforms in land settlement rules and procedures, boosting capital investments for developing agri-infrastructure, improving environmental services, risk management, providing agricultural credit, insurance and agro-advisory services to the farmers in order to enhance growth trajectory in the coming times. Going ahead, we look forward to the effective policy interventions and strong agricultural initiatives that would pave the way to achieve a high and sustainable agricultural growth in the state in the future. To ensure benefits for all crops and animals existing insurance schemes be expanded and strengthened. Initiation of State Insurance Scheme for major agricultural enterprises, besides availing of provisions under centrally sponsored scheme would be a welcome move. Adequate and timely supply of credit with easy terms and conditions to farmers would enhance production by masses.
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