Review of Literature:

Agriculture sector is vital for India in view of the food and nutritional security of the nation as well as the fact that the sector remains the principal source of livelihood for more than 58% of the population though its contribution to the national Gross Domestic Product (GDP) has declined over the past years and has reached 14.2% in 2010-11 due to higher growth experienced in industries and services sectors (GoI, 2011). Indian agriculture is dominated by small and marginal farmers as Small and marginal holdings (below 2.00 ha.) taken together constituted 83.29 percent of the total number of holdings in 2005-06 (the latest available data) against 81.80 in 2000-01 (GoI, 2011). For agricultural operations, availability of credit is a critical input as the farmers have to purchase inputs like fertilizers, pesticides and make payments for irrigation, labour and hiring machinery, etc., for agricultural operations. The farmers in general and small and marginal farmers in particular are resource poor and are dependent on credit for this purpose. Availability of credit is, therefore, very critical for agriculture. Recognising the importance of credit in the development of agricultural sector in India’s economy, the Government of India, the Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) have played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector by way of Multi- Agency network comprising of Commercial Banks (CBs), Regional Rural Banks (RRBs) and Cooperatives covering almost all the villages in the Country.

An elaborate policy framework has been implemented in the country with the objective of providing timely, adequate and reasonably priced (affordable) credit. Agricultural credit also forms an important segment of the ‘priority sector lending’ of scheduled commercial banks (SCBs) and target of 18 per cent of net bank credit has been stipulated for the sector since 1968 (RBI, 2011).

As a result of these measures, agricultural credit has doubled over last 5 years and reached a level of Rs 366919 crores in 2009-10 registering annual compounded growth rate of 18.5% over a period of 5 years (2005 to 2010) (NABARD, 2011)

Despite the significant strides achieved in terms of spread, network and outreach of rural financial institutions, the quantum of flow of financial resources to agriculture continues to be inadequate (Golait, 2007). As a result, agrarian distress on account of deceleration of
agricultural growth since late 1990’s has been recognized as one of the major impediments in the development process of India. The adverse impact of such slowdown is more serious in the rainfed regions especially on small and marginal farmers with limited resources. Recent studies on agrarian distress have revealed that indebtedness is one of the factors linked with farmers’ suicides on account of crop failure and related issues. This situation brings out the fact that the existing institutional arrangement for credit delivery is not adequate and suitable to address the agrarian distress in the country (Barah and Sirohi, 2011).

There are evidences to suggest a close link of debt to distress and suicides in farmers as indicated in higher suicide mortality rate (SMR - suicide death for 100,000 persons). SMR for male farmers in India was much higher at 17.5 than non-farmers at 14.2 during 2001-05 period (Mishra, 2007). The most common risk factors for farmer suicides are – ‘indebtedness’ (87% of suicides) and ‘economic decline’ (74%) (Mishra, 2006).

Reserve Bank of India (2006) also reported that one common factor that can be seen across all regions is that manifestation of economic distress is primarily through indebtedness. The distress may be ‘systemic’ (faced by a large number of households) or ‘idiosyncratic’ (specific to the particular household). This systemic distress may be due to production loses in two consecutive years due to natural calamities and consequent inability to repay loans resulting in increased indebtedness. A farmer will be considered to be ‘idiosyncratic’ distress if he meets any or both of the following criteria:

1. The farmer is indebted to the formal and informal sources of credit to the extent of more than the monetary value of the land and other productive assets owned by the family (negative net worth) and/or

2. The interest liability on loans from formal and informal sources exceeds 50 per cent, of his gross family income (liquidity crisis leading to inability to meet even consumption requirements).

Inadequacy of credit outreach by the formal banking system was highlighted by the findings of the 59th round of National Sample Survey Organization (NSSO) survey of 2003 on ‘Indebtedness of Farmer Households’. According to the Survey, of the 89.35 million farmer households forming 60.4 per cent of the total rural households, only 43.42 million households (48.6 per cent) availed financial services especially loans. Thus, 51.4 per cent
farmer households have either not availed loans or have been denied loans (NSSO, 2005). In this context it is pertinent to mention that the Planning Commission of India in the Approach Paper to 11th Five Year Plan 2007-2012 observed that ‘there is evidence that farm debt is increasing much faster than farm incomes’ (Government of India 2006).

The situation was quite disturbing in Maharashtra, Karnataka, Andhra Pradesh, Kerala and even in the agriculturally most progressive state of Punjab (Reddy et.al, 1998; Vasavu, 1999; Deshpande, 2002; Sainath, 2005; Mishra, 2005). In a study of indebtedness of farmers in Andhra Pradesh it was reported that 70% of the farmer households were dependent on informal sources (mainly money lenders) for their credit needs (Gulab and Reddy, 2007).

Satish (2006) reviewed the distress in agriculture in Punjab. He observed that since the nationalisation of banks and the green revolution, institutional credit for agriculture has grown in Punjab. But the growth had not been uniform and in line with the demand for such credit. Indebtedness has also increased in the state, but a large part of the debt has been for non-productive purposes. The incidence of suicides in Punjab has not been higher than the all India average and studies reveal that while indebtedness is indeed one of the major causes of suicides, it is neither the only cause nor the main one. There is thus no direct causal relationship between institutional credit, indebtedness and suicides in rural Punjab.

In a study in Maharashtra, Kale (2011), found that low productivity, low annual income, existence of income liability gap, indebtedness and availing of non-institutional credit were proved as important causes of suicide in Maharashtra.

Recognizing the need for increased institutional credit for agriculture, the Government of India initiated a series of policy measures since independence of the country. As a result the institutional credit structure in the country has shown a significant growth both in volume and complexity over the past few decades. At present there is an extensive banking infrastructure comprising 33,411 rural and semi urban branches of commercial banks, 14501 branches of Regional Rural Banks, around 12000 branches of District Central Cooperative Banks and nearly 1,00,000 cooperative credit societies at the village level which translates into at least one credit outlet for about 5000 rural people or 1000 households. This is remarkable and extensive network. (Puhazhendhi, 2011)
Another major innovation was the introduction of the Kisan Credit Card (KCC) scheme in August 1998 to provide credit to farmers in flexible manner. Now it has emerged as a major mechanism for purveying credit to agriculture. Up to September 2010 about 970.64 lakh KCCs have been issued (Government of India, 2011).

The National Commission on Farmers (NCF) under the chairmanship of Prof. M.S. Swaminathan submitted its final report in October 2007. It has stated that ‘Improvement in the outreach and efficiency of the rural banking system is the need of the hour. Towards this end, the financial services would be galvanised for timely, adequate and easy reach to the farmers at reasonable interest rates. The banking system would endeavour to meet the large credit potential needed to raise agriculture to higher thresholds and for the growth of rural and agribusiness enterprises and employment’. (Government of India, 2007).

Financial Inclusion is another important initiative of Government of India and Reserve Bank of India, through which poor and financially excluded people, like small and marginal farmers and oral lessees, are to be mainstreamed in the banking system thereby reducing dependence on money lenders and other informal sources of credit. For this purpose Committee on Financial Inclusion (Chaired by Dr. C.Rangarajan) recommended setting up of two funds, namely, Financial Inclusion Fund and Financial Inclusion Technology Fund, each of Rs 500 crore. Through these efforts are being made for providing credit facilities to the ‘financially excluded’ population, majority of whom are small and marginal farmers and land less (NABARD, 2011).

Mohan Rakesh (2004) while reviewing performance of agricultural credit in India indicated that though the overall flow of institutional credit has increased over the years, there are several gaps in the system like inadequate provision of credit to small and marginal farmers, paucity of medium and long-term lending, etc. These have major implications for agricultural development as also the well being of the farming community. He, therefore, suggested that efforts are required to address and rectify these issues.

Further, in the era of financial sector reforms, sustainability, viability and operational efficiency of Rural Financial Institutions (RFIs) are the major issues that need to be taken cognizance of in ensuring effective rural credit delivery system. However, the major problems plaguing the efficiency of rural credit delivery system are the mounting overdue
and Non Performing Assets (NPAs) of RFIs. The overdue problem of different entities of rural credit delivery structure is reported to be an all-pervasive phenomenon that cuts across these different agencies (Puhazhendi and Jayaraman, 1999).

Despite these problems, some entities (for example Infosys, 2011) have indicated that Indian banks have awakened to the vast potential of the rural sector. Specialized and innovative schemes to improve rural penetration have become the popular mantra. No-frills accounts, value chain financing for agriculture, investments in rural infrastructure, etc., are only some of the programs directed at the rural sector.