

Report
of the
**TASK FORCE ON CREDIT RELATED
ISSUES OF FARMERS**

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We the undersigned members of the Task Force, constituted by the Ministry of Agriculture, Government of India, to look into the issue of a large number of farmers, who had taken loans from private moneylenders, not covered under the loan waiver scheme, have approved the 'Report of the Task Force on Credit Related Issues of Farmers' and commend it to the Government for initiating action on the recommendations contained in it.

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Preface

It is a matter of great concern that while credit has doubled over the past few years, very large numbers of small and marginal farmers, especially, tenant farmers, oral lessees, sharecroppers, and among these, women, continue to have difficulty in accessing agricultural credit from formal sources. Their dependence on moneylenders has disturbingly been on the increase. To look closely at this problem of indebtedness of the most vulnerable of our farmers to the moneylender, and their lack of access to institutional credit, the Ministry of Agriculture, Government of India constituted a Task Force on 6 October 2009.

The Task Force visited 45 villages, across 17 states and held state and regional level consultations, to understand from women and men farmers, bankers, civil society, academicians, planners, activists, moneylenders (both traditional and modern), what the issues were and what now needs to be done to ensure that the smallest of farmers can access credit at reasonable rates and on reasonable terms. The Task Force also engaged in desk research, reviewing related literature, related laws and analysing data already available.

Our study and travels across the country were revealing. We met farmers who were deeply indebted to moneylenders and assumed that there was little else by way of choice available to them. We met farmers who had found ways around the crisis - through the establishment of their own organisations for credit, and for processing and marketing of produce. We met farmers who had opted for lower cost, more sustainable agricultural practices. We met bankers who had thought through imaginative schemes to help farmers come out of their indebtedness to moneylenders and get into a position where they could now access credit from formal sources. Civil society organisations educated us about the urgent need to think of finding equivalents to current subsidies for farmers who chose to use less external inputs. We interacted with state governments to learn from them about all the strategies that they had adopted to help the smallest of farmers to have access to low cost credit. Indeed, the Government of India itself has, in the recent past, taken several measures to enable farmers to come into and stay in the institutional fold. We visited primary agricultural credit societies, which had revived as a result of these measures, after a decade or so of lying defunct.

Through this report, we have tried to bring together the lessons that we learnt during the course of our study, to propose a list of measures to be taken by various agencies, to reduce farmer dependence on moneylenders, and to bring the most vulnerable farmer into the institutional credit fold. Some of these measures will have immediate effect, while others contribute to vibrant credit delivery and sustainable agriculture, reducing the farmer's debt burden, in the long term.

The measures suggested include simple but crucial changes to money lending laws; the repackaging of agricultural credit products to meet the needs of large numbers of farmers who do not follow external input intensive agriculture; changes in the designing and implementation of the Kisan Credit Card; the mobilising of farmers in mission mode through joint liability groups and their own financial services cooperatives, to access bank credit as also to establish easily accessible and self-managed vibrant alternate systems; computerisation of land records and easy access to such records for both farmers and bankers; functioning management information systems to capture better data related to priority sector lending to ensure that credit indeed reaches tenant farmers, oral lessees, sharecroppers and other small and marginal farmers.

The Task Force believes that its recommendations will result in the moneylender becoming one of many players in the rural financial market, and in the farmer having the option to choose from multiple players including farmers' own organisations. More important, the Task Force believes that its recommendations strike at the very causes that lead a farmer to seeking credit under duress, and to becoming caught in a debt trap difficult to overcome.

On behalf of the Task Force I would like to thank each of the hundreds of stakeholders who gave us their valuable time and invaluable insights. We hope very much that they will find, in this report, a useful, practical, solution-oriented set of recommendations. I thank the Government of India for entrusting us with so important a task, at so crucial a juncture in the agricultural and economic history of our country.

Umesh Chandra Sarangi
Chairman, Task Force

Summary of Observations and Recommendations

1. The farmer is a risk-taking entrepreneur who faces uncertainties from weather, spurious inputs, pests and diseases, and market shocks among other risks. Inadequate and untimely credit along with procedural hassles from formal institutions add to his/her burden. In recent years, policy interventions have led to doubling of agricultural credit, but the limited access of small and marginal farmers to institutional credit continues to be a matter of concern. What is worrying is that the proportion of such farmers is increasing and they form more than four-fifths of the operational holdings.

2. With spiralling costs of input-intensive cultivation there is an increasing need for credit, but in the absence of adequate and appropriate cover against various uncertainties, and commensurate rise in returns, the farmer's risk gets further accentuated. This calls for risk mitigation mechanisms including the promotion of alternate agricultural practices that reduce costs, insurance policy that compensates income loss, and appropriate prices for agricultural produce. It also calls for aggregation by farmers of their financial and other inputs, and commodity processing and marketing needs, so that the market can do more justice to their transactions with it.

3. The Task Force had its first meeting on 17 December 2009, and its last meeting on 30 June 2010. Apart from its own deliberations and study, it had the advantage of being educated by stakeholders from among women and men farmers, government functionaries, bankers, academicians, legal experts, moneylenders, activists, agricultural scientists, and others. It also engaged in its own desk and field research, learning from various studies, existing policies and legislation, from interactions in the field with small and marginal farmers, tenant farmers, oral lessees, members of self-help groups (SHGs), joint liability groups (JLGs), farmers' clubs, primary agricultural credit societies (PACS), thrift cooperatives and seed growers' cooperatives.

4. The observations and recommendations of the Task Force are laid out in this chapter under the following issues:

- a. farmers who were not covered by the Agricultural Debt Waiver and Debt Relief Scheme, 2008 (ADWDRS);
- b. policy measures for addressing the issues of farmer indebtedness to moneylenders and on measures to provide relief to such farmers;
- c. various measures including the Kisan Credit Card (KCC) scheme to ensure coverage of small and marginal farmers, tenant farmers, share croppers, and oral lessees by the institutional credit fold, to reduce their dependence on informal sources; and
- d. legislation regulating loans from private moneylenders.

Farmers not covered under ADWDRS

5. The ADWDRS with its generous outlay had reached 3.68 crore farmers, who were in default to banks. Farmers who had benefited and those who had not benefited from the scheme met Task Force members on their visits to villages across the country. The Task Force identified the following sections of farmers as those who did not benefit from the ADWDRS. They include those who could not possibly have benefited, given the parameters of the scheme. As the primary purpose of the Task Force was to arrive at measures that could bring in all farmers who needed to be brought into the institutional fold, this exercise helped distinguish between those who were already benefiting from institutional credit and those who needed to be brought into it:

- a. farmers who were members of PACS, and had taken agricultural loans, but these had been recorded as 'other' loans, because the borrower did not have access to land records for various reasons - in many instances, farmers had assumed that these loans were agricultural loans and were disappointed that they were not covered by the ADWDRS;

- b. women farmers who were members of SHGs and had borrowed for agriculture, but these had not been recorded as agricultural loans;
- c. tenant farmers, share croppers, oral lessees, who had received loans for agriculture through JLGs, as 'other loans';
- d. farmers who used low external inputs for agriculture, either because they were resource poor, or because they were in rainfed areas, or because they had opted for more sustainable agricultural practices and, therefore, did not access current agricultural credit products designed primarily for more external input intensive agriculture;
- e. farmers who took loans for agricultural activities as members of other functional co-operatives;
- f. tribal farmers who were members of tribal credit and marketing cooperatives, who accessed agricultural credit through their federations, in areas where there were no PACS;
- g. farmers who had taken agricultural loans prior to 1 April 1997 and were overdue on 31 December 2007 with their loans unpaid on 29 February 2008;
- h. farmers who repaid their loans on a regular basis; and
- i. farmers who had been defaulters but had repaid loans based on state initiated one-time settlement (OTS) schemes offering less benefit, just preceding the announcement of the ADWDRS.

6. The Task Force recognised that ADWDRS was not available to all farmers under all circumstances. It was of the view that farmers who were regular with the repayment of their loans, (see 'h' above) had already benefited from regular access to low interest bearing agricultural loans and could continue to benefit from such credit; farmers at 'i' above, too, had become eligible to access institutional credit, which had been the purpose of ADWDRS. To bring back to institutional fold farmers who were defaulters on loans taken prior to 1 April 1997, (see 'g' above) the Task Force recommends that banks may on their own reach out to such farmers and enable them to access fresh credit, as their defaults would anyhow have been written off in the books of the banks, and as the banks

had already been beneficiaries of ADWDRS. Further, cooperative banks in particular had benefited from the short-term cooperative credit revival package. The case of farmers at 'f' above, in areas where there were no PACS, is being processed by the Government of India (GOI). Observations followed by recommendations in this report, therefore, pertain primarily to farmers at 'a', 'b' 'c', 'd' and 'e' above, who needed urgently to be brought into the institutional fold.

Policy measures on relief from farmer indebtedness to moneylenders

7. Several state governments had attempted to reduce the debt and interest burden on farmers by offering rebates on interest, for timely repayments. This was perceived as a measure to encourage farmers to come into and stay in the banking fold and avoid going to moneylenders. In reality, however, these measures had not increased the numbers of farmers covered by the banking system. The low rates of interest appeared also to have had some influence on borrower behaviour, with, for example, farmers drawing out their entire credit limit on KCC at once.

8. On the other hand, debt waiver and OTS schemes of state governments and the ADWDRS of the union government appeared to have brought back into the banking system many farmers who had become defaulters and had recourse only to moneylenders, till these schemes were implemented. The Task Force members met several farmers in many states who spoke of their PACS having become functional again, and/or of members becoming borrowers again because of the OTS/ADWDRS. The Task Force also met farmers who had benefited from these schemes, but who had not borrowed again from the banks - either because the banks were not forthcoming enough, or because the farmers chose not to return to the banking fold.

9. The farmers who least benefited from these schemes and who, therefore, were perhaps most dependent on moneylenders, were those who did not have land title deeds in their names. These included tenant farmers, oral lessees,

sharecroppers, and those who had inherited land, with the records yet to take note of the changed circumstances. The formation of JLGs of such farmers to access collateral free farm loans had helped, except that the loans were not always recorded as agricultural loans, and the numbers of JLGs were too few, given the large number of tenant farmers and oral lessees across the country.

10. A related problem was that absenteeism among landowners was on the increase. Where lands of such owners were leased, JLGs could provide working capital credit but investment credit, which is essential for enhancing production, will not be accessed unless the owner directly engages in farming, or the lessee is confident of having access to the land for a continuous period of time.

11. Crop insurance schemes had blocks as their base units, and that gave only partial relief as it was based on the average loss for the entire block, and the resultant compensation proved to be unhelpful to farmers who had suffered significant losses. Farmers who met Task Force members stressed that without appropriate insurance schemes, crop failure would continue to result in default and a return to moneylenders for further financing.

12. Farmers had accessed debt relief schemes of the government, such as the one in Kerala, but not in relation to freeing them from their debts to moneylenders. While one reason could be the lack of adequate recorded proof of the debt, the other could be the unwillingness to report on loans from moneylenders, in the event that these channels then become choked and unavailable in future. Debt swap schemes had been designed by some banks and had helped a few farmers, though banks expressed difficulty in identifying such borrowers and scaling up such schemes.

13. The Task Force members interacted with farmers who identified volatility and uncertainty in agricultural commodity prices as a reason for not being able to service institutional debt, and opting for the moneylender. In the case of the latter, the regular payment of interest was sufficient to service the loan. Given that

farmers produce food for the nation and that they do not have the freedom to export food, or even to move agricultural commodities from state to state, it appears necessary that their contribution to the nation be recognised and their future financially secured.

14. With these findings from the field in mind, the Task Force recommends that

- a. banks and cooperative credit institutions may encourage farmers, who had defaulted on loans taken prior to 1 April 1997 to access fresh farm loans (para 3.14);
- b. a detailed analysis of ADWDRS be carried out, as this would have immense relevance for public policy (para 2.21);
- c. funds being made available by state governments to farmers as interest rebate/refund for timely repayment be continued (para 4.3);
- d. interest subvention be made available when loans (long-term) are rescheduled (para 4.19);
- e. a portion of the anticipated interest subvention amount be parked with banks at the beginning of the year (as in the case of subsidy oriented development schemes of GOI) and adjusted at the end of the year to incentivise banks to reach out to more farmers with crop loans (para 4.3);
- f. insurance schemes be redesigned, using satellite imagery and ground truths, with the panchayat as the unit for arriving at crop loss - insurance pay outs will have greater impact on preventing farmers from seeking financial assistance from moneylenders; pending a final decision on the modified crop insurance scheme, pilots of the modified scheme be implemented at least in one district of each state for subsequent scaling up based on field experience (para 3.27);
- g. insurance schemes be designed to provide relief to the farmer against loss of revenue - not as a mechanism for the banker to recover loans, as is the case currently (para 3.27);

- h. weather insurance products, too, be more urgently developed and made available to farmers, and budgetary support be provided, if needed (para 3.28);**
- i. state governments recognise the existence of tenant farmers, oral lessees, sharecroppers, and amend related laws appropriately, so that such farmers can formally access bank loans for crop raising and for investment, and not have moneylenders as the only source of finance (para 5.26)**
- j. a systematic study be taken by an independent agency to assess the impact of debt swap schemes (para 3.21);**
- k. farmers be assisted to form JLGs to access collateral free loans from the banking system, to avoid dependence on moneylenders, and such formation be undertaken in mission mode, with appropriate budgetary support; and support to SHGs of farmers be included under the National Rural Livelihood Mission (para 3.6 and 2. 40); and**
- l. surveys such as AIDIS and SAS be interspersed and undertaken every 5 years so that corrective action to ensure access to farm credit can be taken promptly; the survey should also capture credit from Section 25 NBFCs and from cooperatives other than PACS and cooperative banks (such as SHG federations and thrift and credit cooperatives) under formal sources; and credit from closely held, for profit NBFCs under informal sources (para 2.30).**

Increasing financial deepening

15. The term ‘institutional finance’ has meant different things to different people. The Task Force is of the view that ‘institutional finance’ should include the following:

- a. banks and other widely held financial institutions, whether they are public or private institutions;**

- b. state owned financial institutions aimed at financing the less privileged;
and
- c. user owned institutions such as SHGs and their federations and cooperatives - both PACS, as well as new generation thrift and credit cooperatives registered under more liberal cooperative laws (para 2.35).

16. Added to the above sources of finance are also not-for profit NBFCs (also known as Section 25 companies) and not-for-profit non-governmental organisations. Even though these, too, are private and may be closely held organisations, as their primary purpose is not the earning of profit for their 'owners', and as they need to get their tax exemption status renewed regularly by income tax authorities, the likelihood of their adopting exploitative measures while lending, is low.

17. The concern over indebtedness to the moneylender, appears to arrive more from the closely held nature of the lender, the resultant lack of transparency in the transaction, and the related unseemly desire for profit at all costs. It is for this reason that public policy needs to protect small and marginal, especially tenant farmers from the individual moneylender as well as the for-profit, closely held financial organisations such as the for-profit NBFCs.

18. The Task Force feels that it is important to address the underlying causes of the problem of exclusion, and not just the symptoms. The Task Force met several farmers, women and men, in states with liberal cooperative laws, who had established their own thrift and credit cooperatives, and who were providing agricultural loans to their own members, with or without the availability of land records. Farmers reported that the presence of such cooperatives had significantly reduced the presence of moneylenders, and/or had eased the terms and conditions on which they offered loans. The Task Force observed that only nine states had liberal cooperative laws, which respected the right and

intelligence of members to manage their own affairs and take full responsibility for the consequences.

19. At a phase in the history of the nation, when economic liberalisation has impacted significantly the growth of the company form of business, farmers continue to be plagued by archaic cooperative laws. Even though the implementation of the recommendations of the Task Force on Revival of Rural Cooperative Credit Institutions did result in some reforms in cooperative law, much more needs to be done to encourage the emergence of self-reliant, vibrant farmer organisations.

20. True financial inclusion and wealth retention are more likely when, alongside banking institutions, women and men of small means are able to establish their own organisations, for financial services, for inputs supply, for commodity sales, for technology, and, most important, for informational services. The Task Force saw several examples of such institutions of women and men farmers and agricultural labourers. Such aggregation enables small and marginal farmers to collectively fulfil their multiple needs for the betterment of the weakest among them, with benefit also accruing to the strongest among them. Under these circumstances, the Task Force recommends that policies be framed and pursued, in mission mode, to:

- a. encourage PACS to mobilise member savings so that member stake and ownership is increased and these institutions service their members effectively (para 2.32);
- b. enable the emergence of thrift and credit cooperatives under liberal cooperative laws, so that women and men farmers can establish their own financial services organisations through which they can access farm credit, regardless of whether they have land title deeds or not (para 2.32);
- c. enable the emergence of other cooperatives of marginalised farmers, especially for the supply of inputs and for the storage, processing and

- marketing of member produce and banks be encouraged to lend to these and other agro processing cooperatives (para 3.26) ; and
- d. contribute to the continued strengthening of SHGs and their federations as savings and credit organisations, and to value and publish regularly the internal savings and credit activity of SHGs for a more complete picture of access to credit by the more disadvantaged farming community (para 3.4).

21. The Task Force also recommends that closely held, for profit NBFCs be more closely monitored and their loans not be automatically considered as 'priority sector' loans, as ascertaining the nature of the disbursements, end use of loans and/or actual borrowers need more careful scrutiny (para 2.33).

Kisan Credit Card Scheme

22. The Task Force was perturbed to note that the KCC scheme was not being operated in accordance with the purpose for which it was first conceived. In particular, it observed that:

- a. farmers tended to access the credit limit either in 2-3 pre-determined instalments fixed by the financing bank, or all at once – banks appeared to continue to perceive these as 'normal' agricultural credit loans with amounts to be drawn at different times, for different phases of farming operations, or for different crops; similarly, farmers appeared to withdraw the entire amount at once either because they were required to do so by the bank, or because the loans were cheap, given the various interest reducing schemes; and
- b. farmers did not realise that they were covered by KCC and this may have been due to the fact that the KCC was, in fact, not a card, but a pass book, and farmers had such pass books even prior to KCC issuance.

23. To enhance coverage by banks of small and marginal farmers, especially tenant and other vulnerable farmers, the Task Force recommends that:

- a. financial literacy and counselling campaigns be undertaken to increase awareness among farmers on KCC (para 4.7);
- b. banks be encouraged to educate their rural branch staff about the KCC (para 4.7);
- c. banks use farmers' cooperatives and SHG federations as banking correspondents to increase outreach (para 4.7);
- d. the coverage of new farmers in the command areas of bank branches and new areas be ensured through meaningful and purposeful conduct of gram sabhas and kisan credit camps at regular intervals (para 4.9);
- e. bankers who have already been advised by RBI to lend without any collateral, up to Rs.1 lakh per farmer, put such advice into more widespread practice through JLGs of tenant farmers, share croppers and oral lessees (para 3.6);
- f. state governments exempt stamp duty on agricultural loan agreements (para 3.12);
- g. the KCC be technology enabled, including the conversion to a smart card with withdrawals and remittances enabled at ATMs, points of sale, and through hand held machines - banks need to have core banking solutions in place at the earliest, to enable technology to benefit the farmer (para 4.11);
- h. the KCC limit be fixed for five years, based on the bankers assessment of total credit needs of the farmer for a full year, and that the limit be operated by the borrower as and when needed, with no sub limits for *kharif* and *rabi*, or for stages of cultivation (para 4.12);
- i. each withdrawal under KCC be allowed to be liquidated in twelve months without the need to bring the debit balances in the account to zero at any point of time (para 4.12);
- j. there be automatic renewal and annual increase on credit limit linked to inflation rate (para 4.12);

- k. an increase in limit at farmer request be based on bank review for which the presence of the farmer may be sought (para 4.12);
- l. once issued, banks will review only for the purpose of cancellation of the card (para 4.12);
- m. credit balances in KCC accounts earn interest (para 4.13);
- n. women members of SHGs with a good savings history linked to federations, and members of well functioning PACS and thrift and credit cooperatives with a good savings record, be provided with specially designed credit cards by banks, with limits linked to the value of their land or labour on their own farms or on farms of relatives (para 4.15);
- o. management information system (MIS) on KCC be redesigned to reflect ground level reality and to provide disaggregated data on new and old clients, on women clients and on small and marginal farmers (para 4.6);
- p. agricultural credit be designed differently in different areas, and for different sets of farmers, so that farmers in rainfed areas and those engaged in sustainable farming have access to credit for paid and unpaid labour intensive farm work (para 3.24 and 3.25); and
- q. a farm credit rating institution (FCRI) be established in a decentralised manner with help from gram sabhas or cooperatives for recording credit history of farmer borrowers from banks, with costs met by banks as is done with Credit Information Bureau (India) Ltd (CIBIL) (para 4.18).

24. The Task Force observed that lending to farmers was not enough. Small farmers need to aggregate their input needs and produce in order to realise reasonable returns from farming. At least one reason for crop failure was the use of spurious seed. The Task Force met farmers who had established their own seed growers' cooperatives and were able to access quality seed for their own use at a much lower cost and generate additional income through marketing the surplus. The dairy cooperative movement is a prime example of the effect on production, and on contribution to Gross Domestic Product (GDP), of aggregation by the farmers themselves through their own set of institutions (para 1.20).

25. Farmers' marketing organisations, however, were not being provided with credit by banks, and the Task Force observed that specialised institutions such as the National Dairy Development Board (NDDB), the National Cooperative Development Corporation (NCDC), the National Bank for Agriculture and Rural Development (NABARD), had been formed to provide financial support to farmers' organisations. The result was that banks appeared to be wary of financing farmers for their agro processing and marketing operations. Credit to farmers includes credit not just for crop cultivation, but also for investment in land and in agro processing and marketing, whether individually or collectively. The Task Force recommends that

- a. financing by banks to farmers' cooperatives engaged in seed processing and other inputs (including for low external input sustainable agriculture, LEISA), be specifically included as direct finance for agriculture under priority sector (para 3.26);
- b. the Reserve Bank of India issue a clarification to commercial and regional rural banks that they could lend to farmers cooperatives for processing and marketing activities, as these bank branches appeared to be under the impression that cooperatives may be financed only by cooperative banks.

26. The Task Force was repeatedly exposed to farmers engaged in LEISA. Farmers reported significant reduction in costs and increased income from the very first year, even with organic farming, where this was backed by more comprehensive packages such as multi-cropping and measures to increase retention of soil moisture. Farmers engaged in such practices felt that current policies were weighed against them, even though they contributed significantly to more sustainable agriculture and to long-term ecological security. The Task Force recommends that

- a. as a parallel to the subsidies available to those engaged in chemical input oriented farming, the Government of India devise ways to provide

- incentives to those choosing to engage in more sustainable farming, as a recognition of their contribution to larger social and environmental good, and as a means to tide over any initial losses arising from decreased production and/or lag in recognition of the produce as organic produce (para 3.25);
- b. the Indian Council of Agricultural Research (ICAR) and agricultural universities undertake research projects to develop LEISA related production technology through a participatory approach involving the farmers, to help evolve low cost local inputs and their multiplication, for sustainable agriculture (para 2.37); and
 - c. the National Rural Livelihoods Mission work closely with women and men farmers, banks and NABARD to significantly increase the acreage under sustainable and more remunerative farming (para 2.40).

Legislation relating to private moneylenders

27. The review of the actual implementation of moneylender related legislation in various states revealed that

- a. registration by moneylenders for the conduct of their business was the exception, rather than the rule;
- b. maximum interest rates chargeable by moneylenders, as fixed by state law or state governments, discouraged registration;
- c. there were few cases of conviction;
- d. some state governments were acting against exploitative non-banking finance companies (NBFCs) and other micro-finance institutions (MFIs) under the money lending law; and
- e. different courts had held different views on the application of the money lending laws on NBFCs - while one view was that as these were regulated by the Reserve Bank of India (RBI), they could not be covered by the money lending law, the other view was that NBFCs and their deposit taking activity were indeed to be regulated by the RBI, but their lending

activity was within the purview of the state laws relating to moneylenders, especially in the absence of any direction from the RBI on interest rates.

28. The Task Force is of the opinion that the reach of regulated financial markets is not deep enough in rural areas, to suggest that the moneylender was dispensable forthwith. What is needed is that exploitative actions of moneylenders be curbed. The Task Force observed that currently the moneylender came in many forms - as input supplier, commission agent, the buyer of produce, the NBFC and the traditional rural moneylender. The sheer numbers of moneylenders, easy access to them, and their intricate relationships with the borrowers coupled with limited access to formal institutions made it difficult for borrowers to complain against them.

29. Keeping these and other field insights in view, the Task Force recommends that changes in money lending laws could include the following, if the laws were to be more effective:

- a. severe deterrent/punishment for non-registration and for other violations of the law (para 5.12);
- b. widening of definition of 'moneylender' to include all forms of for-profit closely held financial organisations lending money (para 5.17);
- c. any other closely held entity whose lending rates are not subject to other laws, to be covered by the money lending law (para 5.17);
- d. initiation of action on the grievance of an aggrieved person and the constitution of a grievance redressal committee at the district or at appropriate lower level (para 5.13);
- e. appropriate, yet non exploitative increase in upper limit on interest rates, which can be benchmarked to the Bank Lending Rate (BLR) (para 5.17);
- f. confidentiality of transactions for registered moneylenders (para 5.22); and
- g. loan recovery mechanisms for registered moneylenders (para 5.13 and 5.22).

30. In particular, the Task Force recommends that land records be urgently computerised and updated, and be made accessible to farmers/lenders in a transparent manner and at the click of a button, so that small and marginal farmers have access to working and investment capital for their farms - state governments may need to be urged to undertake the computerisation of land records (para 5.28).

In conclusion

31. The Task Force, while taking note of the doubling of agricultural credit, observed that it did not reach large number of small and marginal farmers who form the bulk of the farming community and are a critical contributor to the food security of the nation. Substantial loan disbursement by commercial banks takes place in March each year. It appears necessary to take a closer look at what is being termed 'agricultural' credit, especially by commercial banks. Given, too, that rather large 'agricultural' loans were being disbursed in urban centres, a closer look at who is being termed 'farmer' is also needed. In the absence of a core banking solution (CBS) based robust MIS, banks must be directed to submit the Service Area Monitoring Information System (SAMIS) reports to RBI/NABARD to enable a rigorous monitoring of the flow of credit. State-wise data in terms of disbursement, outstanding and recovery regularly published by RBI will also contribute to better understanding of ground reality (para 2.19 and 2.15).

32. The Task Force believes that credit can indeed be an important contributor to increased agricultural production, but only if agricultural credit reaches the farmers, especially, the disadvantaged groups, and they are able to absorb it effectively. The recommendations in this report aim at ensuring increased and sustained access to credit by small and marginal farmers, including the most disadvantaged among them - not just for the benefit of the farmers themselves, but for increased agricultural production and increased contribution to the GDP.

Chapter 1

Introduction

Background

1.1 The Government of India (GOI), as a part of its policy package to address the prevailing agrarian crisis, announced the Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS) in 2008. The scheme primarily aimed at providing relief to small and marginal farmers indebted to formal agencies, by writing off their farm loans taken between 1 April 1997 and 31 March 2007, which were overdue as on 31 December 2007 and unpaid till 29 February 2008. The scheme also offered a one-time settlement (OTS) of the debt of other farmers with similar overdue loans, through a 25% relief on the outstanding amount if the farmer repaid 75% of the loan outstanding. The scheme, covering both the waiver and relief components, benefited an estimated 3.68 crore farmers, amounting to over Rs. 65,000 crore.

1.2 The ADWDRS was generally well received by the eligible farming community and several other groups. However, only a small proportion of farm households borrows from formal sources, and farm households indebted to informal sources such as moneylenders were excluded from the purview of the scheme. The Finance Minister, while presenting the 2009-10 union budget stated:

‘It is learnt that in some regions ..., a large number of farmers had taken loans from private moneylenders and the loan waiver scheme did not cover them. The matter requires special attention. To examine the matter in greater detail and suggest the future course of action, I propose to set up a Task Force.’

1.3 Pursuant to the Finance Minister’s announcement, the Ministry of Agriculture (MOA), GOI constituted a Task Force headed by the Chairman of

National Bank for Agriculture and Rural Development (NABARD) to look into the following:

- a. existing legislation in the states for regulating loans from private moneylenders in the country;
- b. existing policy measures for addressing the issue of indebtedness arising out of loans from private moneylenders and status of their implementation;
- c. the effectiveness of Kisan Credit Card (KCC) scheme;

and, thereby, suggest measures needed for

- d. covering all categories of farmers, more particularly small and marginal farmers, tenant farmers, share croppers and oral lessees, within the institutional credit fold to meet their credit requirements in order to reduce their dependence on informal sources;
- e. improving the functioning of KCC; and
- f. providing relief to farmers indebted to private moneylenders.

1.4 The order dated 6 October 2009 of the MOA constituting the Task Force is provided in Annex I. The term of the Task Force, which was to end on 31 March 2010, was extended up to 30 June 2010 by the order dated 1 April 2010 (Annex II).

Continued dependence on informal sources

1.5 As per the All-India Debt and Investment Survey (AIDIS), 2002, the share of non-institutional sources in the debt of cultivator households increased from 30.6% in 1991 to 38.6% in 2002, reversing some of the positive achievements made during 1980s (*Report of the Expert Group on Agricultural Indebtedness*, 2007). A more disquieting feature of the trend was the increase in the share of moneylenders in the total debt of cultivators from 17.5% to 26.8% during the same period. The report also observed that there was an inverse relationship

between land-size and the share of debt from informal sources. Moreover, a considerable proportion of the debt from informal sources was incurred at a fairly high rate of interest. About 36% of the debt of farmers from informal sources had interest ranging from 20 to 25%. Another 38% of loans had been borrowed at an even higher rate of 30% and above, indicating the excessive interest burden of such debt on small and marginal farmers.

1.6 The continued dependence of small and marginal farmers on informal sources of credit such as private moneylenders was attributed to constriction in the rural banking network and services arising out of financial sector reforms. Rigid procedures and systems of formal sources preventing easy access by small and marginal farmers, vied with the easy and more flexible methods of lending adopted by informal sources.

1.7 The widespread rural network of around 95,000 primary agricultural credit societies (PACS) across 6 lakh villages, could have reached out to tenant farmers, oral lessees, and small and marginal farmers. However, the functioning of PACS has been far from satisfactory, given their transformation from being member-controlled thrift and credit cooperatives to state dependent channels of subsidised credit. Where PACS perform well, they do reach out to those who need them the most.

Relief to farmers dependent on moneylenders

1.8 Operationally, providing relief to farmers indebted to private moneylenders is difficult. Such loans in most cases have no formal records. Identifying and authenticating the debt from moneylenders may lead to problems of moral hazard. There are not many instances or experiences of providing such relief on a large scale. In 1970s, state governments had enacted legislation to provide relief to bonded labourers and the rural poor indebted to moneylenders, either by imposing moratorium on repayment, or scaling down, or even discharging the debt incurred. There is, however, no evidence available on how

far these legal measures succeeded in redressing the burden of informal debt on a sustained basis. More recently, under the package of 'doubling agricultural credit' announced by GOI in 2004, commercial banks and cooperative banks were asked to take up redemption of debt incurred by small and marginal farmers with private moneylenders. In response to the announcement, some commercial banks and regional rural banks (RRBs) designed specific debt swap schemes and implemented them by taking the help of panchayats, non-government organisations (NGOs), self-help groups (SHGs) and farmers' clubs.

1.9 State governments such as those in Tamil Nadu (2003) and Karnataka (2004) introduced legislation to address the problem of interest burden, by prohibiting charging of exorbitant interest rates by moneylenders. The Kerala government constituted a debt relief commission to provide relief through negotiation and adjudication to households indebted to cooperatives and private moneylenders.

Regulating moneylenders

1.10 Regulating moneylenders has been attempted in the country through a two-pronged strategy. The first strategy was one of directly regulating the operations of moneylenders through legislation. Many states have enacted laws to regulate moneylenders through licensing and supervision of their activities including the fixing of rate of interest chargeable by them. The second strategy, known as institutionalising rural credit, aimed at eventually marginalising the moneylender through widening and deepening the services of formal rural credit institutions.

1.11 Based on a review of the existing laws on money lending in the country, The Technical Group to Review Legislation on Money Lending appointed by the Reserve Bank of India (RBI) observed in its report (2007),

‘in spite of there being a legislation, a large number of moneylenders continue to operate without licence, and even the registered moneylenders charge interest rates much higher than permitted by the legislation, apart from not complying with other provisions of the legislation. Signs of effective enforcement are absent’

and recommended legislative reforms to mainstream the activities of moneylenders through suitable mechanism of incentives and disincentives.

Improving access to credit

1.12 Small and marginal farmers who constitute the bulk of the farming community do not have adequate access to formal sources of credit. Despite several policy measures over the years, this problem persists. In the post-nationalisation period, the network of commercial banks expanded proactively to increase the outreach to all sections of rural households. Regional Rural Banks (RRBs) were created, exclusively to cater to the needs of the weaker sections. The physical outreach of formal institutions was to be reinforced with other policy measures such as priority sector lending targets, differential rate of interest scheme and implementation of Integrated Rural Development Programme (IRDP), Swarnjayanti Gram Swarozgar Yojana (SGSY) for effective coverage of small and marginal farmers.

1.13 There were 31,796 commercial bank branches (as on 30 June 2009) in rural areas spread across 6 lakh villages. While the total number of commercial bank offices has been on the increase since 1969, the number of rural offices, which reached its peak in 1990, has been on the decline since then. The population covered per bank office has virtually remained stagnant since 1985 (Table 1.1)

Table 1.1
Number of Offices of Scheduled Commercial Banks in India

| March | Rural | Semi-Urban | Urban | Metro-politan | Total | Population per office (in '000) |
|-------|--------|------------|--------|---------------|--------|---------------------------------|
| 1969 | 1,443 | 3,337 | 1,911 | 1,496 | 8,187 | 65 |
| 1970 | 4,817 | 4,401 | 2,504 | 1,900 | 13,622 | 41 |
| 1975 | 6,807 | 5,598 | 3,489 | 2,836 | 18,730 | 32 |
| 1980 | 15,105 | 8,122 | 5,178 | 4,014 | 32,419 | 20 |
| 1985 | 30,185 | 9,816 | 6,578 | 4,806 | 51,385 | 14 |
| 1990 | 34,791 | 11,324 | 8,042 | 5,595 | 59,752 | 14 |
| 1995 | 33,004 | 13,341 | 8,868 | 7,154 | 62,367 | 15 |
| 2000 | 32,734 | 14,407 | 10,052 | 8,219 | 65,412 | 15 |
| 2005 | 32,082 | 15,403 | 11,500 | 9,370 | 68,355 | 16 |
| 2007 | 30,551 | 16,361 | 12,970 | 11,957 | 71,839 | 15 |
| 2008 | 31,076 | 17,675 | 14,391 | 12,908 | 76,050 | 15 |

Note: Data for 1969 relate to end-June.

Source: *Report on Currency and Finance 2006-08*, RBI; for 2008 <http://rbi.org.in> (accessed on 22 June 2010).

1.14 Recent years have witnessed the introduction of a series of new measures to strengthen the institutional network and to help improve the access of weaker sections to credit. Some of these measures included provision of collateral free loans up to Rs. 50,000 (recently enhanced to Rs. 1 lakh by RBI), thrust on doubling agricultural credit, focus on financial inclusion, the revival package for cooperatives based on the recommendations in the *Report of the Task Force on Revival of Rural Cooperative Credit Institutions* (in the short-term cooperative credit structure), and ADWDRS. Simultaneously, to enable farmers to access hassle free credit with lower transaction cost, the Kisan Credit Card (KCC) scheme was introduced in 1998. The scheme was designed to help farmers get the required flexibility in accessing and using credit for production, investment and consumption needs.

Other issues before the Task Force

1.15 Credit needs of small and marginal farmers are not only growing but are getting diversified due to increasing commercialisation and modernisation of agriculture. Simultaneously, for a variety of other needs, farmers incur considerable expenditure, resulting in increased borrowings. Adequacy,

timeliness, affordability and convenience are factors that influence farmers, and for that matter, all borrowers, in their choice of creditors. Given that a single source may not be able to satisfy all their credit needs, many farmers approach both formal and informal sources. Invariably, those who cannot afford any collateral, such as tenants or farm labourers, are forced to borrow from informal sources.

1.16 Increasing debt is seen as a sign of modernisation and growth, but failure to ensure necessary conditions for its productive and prudent use and recycling may force farmers to get into vicious debt traps with debilitating consequences for their livelihood. The debt burden of farmers may also worsen under conditions such as growing uncertainty of returns, technological fatigue, declining environmental and land quality, and declining public support for agriculture. Credit for farmers, both in terms of inadequate access and debilitating effect due to poor absorption, have macro level ramifications for long-term growth and sustainability of agriculture.

1.17 Some of the recent assessments which looked at the farmers' crisis have identified that growing indebtedness of farmers is only a symptom of a much deeper agrarian crisis (*Report of the Working Group to Suggest Measures to Assist Distressed Farmers*, RBI, 2006; *Report of the Expert Group on Agricultural Indebtedness*, GOI, 2007). Interventions focusing solely on farmers' debts may not be adequate to address the crisis. Addressing the problem of indebtedness requires a holistic and an integrated approach. Such an approach, on the one hand may involve streamlining policies, institutions, systems and procedures pertaining to agricultural credit to improve farmer access to formal credit, and, on the other, promoting self-reliance among farmers to reduce the potential debt burden.

1.18 The presence of multiple sources of credit is expected to mitigate the failure of any particular type of institution and contribute to market efficiency. Commercial banks, with their vast capital resources, need to proactively expand

their rural network and clientele. Post-reorganisation, RRBs with their strengthened financial base and network can play a critical role in expanding rural credit in unreached areas. After the short-term cooperative credit reforms, cooperative banks can emerge as self-reliant institutions catering to the needs of farmers. The Task Force observed that in different regions different types of banks were better positioned to take the lead in making available farm credit to all the farmer households.

1.19 The business of farming is not just an issue of individual livelihood but is also critically related to the nation's food security, and, therefore, farmers must have access to credit. The Task Force saw in the small and marginal farmer, whether owning land or not, a risk-taking entrepreneur contributing to economic growth, and observed that the farmer is an important player in the financial, labour, inputs and commodity markets, who, because of the small size of transactions in the market place, gets marginalised. The experience of well functioning primary cooperatives and SHG federations suggests that alongside external agencies, women and men farmers' own institutions are needed to help aggregate the transactions and benefit from that.

1.20 Debt related problems could be addressed by promoting self-reliance in farmers in several ways. This will require encouraging thrift among farmers so that they build their own resources to help mitigate unforeseen risk and expenses. Livelihood diversification of farm households into allied and non-farm activities can regularise cash inflows, enhance farmers' income and net worth, potentially reducing the extent of dependence on debt. For instance, during 2008-09 the livestock sector contributed 3.2% of the gross domestic product (GDP) and 28% value of output from agriculture and allied activities.

1.21 The credit absorption capacity of farmers too needs to be enhanced. This requires increased public investment in agricultural infrastructure, research and extension services. Development of post-harvest technologies and marketing facilities can go a long way in reducing frequent risk and losses faced by farmers.

Investment in promotion and strengthening of autonomous cooperatives of farmers for financial services, inputs, and commodity processing will enhance the farmer's bargaining capacity and stimulate the local economy.

1.22 Risk mitigation mechanisms have to be built in an integrated way into the system. This may require a multi-pronged strategy to address both co-variate and idiosyncratic risks involving strengthening the macro level agricultural insurance system, encouraging local collective group insurance initiatives, streamlining small farm credit guarantee/insurance mechanisms, and adoption of flexible and cyclical credit systems in dry and calamity affected areas for ensuring continued credit access. Price support mechanisms and procurement may have to be widened to cover diverse crops spread over various agro-climatic regions.

1.23 Green revolution agriculture increased yields and returns in several pockets of the country. However, it resulted in growing debt burden due to increased cost of external inputs coupled with declining land quality/productivity. Alternative agriculture practices such as low external input sustainable agriculture (LEISA) could be encouraged wherever possible to reduce the use of external and chemical inputs, and to enhance farm viability and sustainability. Suitable fiscal and farm credit policy measures are needed for encouraging such farming practices.

Methodology

1.24 The Task Force held its first meeting on 17 December 2009 and subsequently met three times (Annex III). Given its time frame, it adopted a consultative methodology backed by desk research for working on its terms of reference (TOR). The Task Force, with the help of the secretariat, carried out a review of relevant literature covering official reports/studies, legislation and judicial pronouncements on the problem of indebtedness. The review helped the Task Force in getting an understanding of the policy context including strengths and limitations of the existing measures in addressing challenges.

1.25 For a wider consultation with relevant stakeholders, the Task Force chose to work in four sub-groups - one each for four broad geographical regions (north, west, south and east) of the country (Annex IV). The sub-groups visited 17 states for consultations at the state level. In addition, two of the sub-groups held regional level consultations, one covering northern states and another for eastern/north-eastern states (Annex V). The state/regional consultations were held with senior state government functionaries of agriculture, cooperation, revenue and planning departments, officials of commercial banks, RRBs, and cooperative banks, NABARD and RBI officials; representatives of State Level Bankers' Committee (SLBC), non-governmental organisations (NGOs), micro-finance institutions (MFIs) and community owned organisations (COOs); and farmers, academicians and policy advocates. Sub-groups visited 45 villages in various states to gain first hand insights into the current working of rural credit institutions/programmes (Annex VI). During these field visits, sub group members interacted with tenant farmers, oral lessees, share croppers, and other small and marginal farmers; members of self-help groups (SHGs), joint liability groups (JLGs), farmers' clubs, PACS and women's/men's thrift cooperatives (WTCs/MTCs); moneylenders and *arhathias* (commission agents)/traders' associations, and staff of local bank branches.

1.26 The sub-groups prepared state/regional level reports based on their consultation and field visits. The Task Force appointed a drafting committee (Annex VII), which presented the first draft to the Task Force on 19 May 2010. Based on feedback received, the draft was revised and sent to all members and to a few related institutions for further feedback. The report was finalised in its meeting on 30 June 2010.

Chapter Scheme

1.27 The report has five chapters, preceded by a summary of observations and recommendations. The constitution of the Task Force, the issues before it, the

methodology and the approach adopted are presented in the first chapter. The second chapter provides an overview of the current agricultural credit situation in the country with a focus on small and marginal farmers. A review of the various policies and schemes aimed at improving the access of small and marginal farmers to formal sources of credit is presented in the third chapter. The fourth chapter reviews the working of the KCC scheme. The last chapter provides an overview of existing laws related to money lending, and their effectiveness. An acknowledgement of the contributions made by various stakeholders is provided at the end.

Chapter 2

Agricultural Credit in Rural India

2.1 Adequate, timely and hassle free credit helps farmers in their agricultural and livelihood pursuits. The seasonal nature of cash outflows and inflows in agricultural production entails the need for finance to meet production and consumption requirements of farmers from one harvest to the next. Non-availability of finance from formal sources, especially in the case of small and marginal farmers, drives them to informal sources at a greater interest burden.

2.2 An objective of public policy has been 'to provide a positive institutional alternative to the moneylender himself, something which will compete with him, remove him from the forefront, and put him in his place' (*All-India Rural Credit Survey Committee*, Reserve Bank of India, 1954). Efforts in this direction, which included nationalisation of 14 major banks in 1969 and seven in 1980, establishing of regional rural banks (RRBs) in 1975 among other developments, led to a steady erosion of the moneylender's hold in the 1970s, which was maintained in the 1980s, but with changes in economic policies, led to its reversal in the 1990s.

2.3 There have been some new initiatives in 1990s, namely, the self-help group (SHG)-bank linkage of the National Bank for Agriculture and Rural Development (NABARD), other micro finance initiatives, and the emergence of thrift and credit cooperatives, which have been facilitated by the enactment of liberal cooperative laws (based on the Model Act recommended by the Choudhary Brahm Perkash Committee appointed by the Planning Commission) in nine states, as of date. The beginning of the 1990s also saw that capital-controlled businesses (companies) had the economy opened up for them, but user-controlled businesses (cooperatives) continued to be controlled and restricted by archaic state level cooperative laws. Even in the nine states, with liberal cooperative laws there appeared to be impediments for the setting up of new cooperatives, especially in rural areas. The Task Force hopes that this is a

transient phase, and sees potential in the new laws for the setting up of vibrant farmer organisations.

Sources of credit: formal and informal

2.4 Rural credit markets in India have been characterised by co-existence of formal and informal sources and the market is fragmented. Different groups can borrow from different providers. The important formal sources are commercial banks, cooperatives and RRBs. The major informal sources are moneylenders, input dealers and relatives/friends. In recent years, there also has been the emergence of micro finance institutions (MFIs).

2.5 Loans from formal sources are standardised through purpose (such as scale of finance for crop loans), duration (short/medium/long-term), and interest rates to be charged, though they may differ across regions and among providers. Informal sources, though carrying high interest rates, are personalised and have flexibility in terms of loan amount, purpose, interest rate, collateral and maturity. An important feature of an informal source is the minimum documentation, which under formal sources of finance is identified with substantial time and cost. There is a close (though unequal) contact between the moneylender and the borrower. The MFIs are also largely unregulated, but here a distinction has to be made between those owned by the users themselves, those that are owned by third parties for profit, and those owned by third parties but not for-profit. Members of the Task Force noticed during field visits that in some villages, multiple for-profit MFIs were operating and loans were provided at high rates of interest. This could lead to a spiralling of unserviceable debt and a problem in the foreseeable future. The Task Force recommends that user owned and not-for profit MFIs may be provided access to finance from banks. Bank finance to closely held for-profit MFIs ought not to be included as priority sector finance, as in this case it is difficult to ascertain that the loans indeed reached those it was meant to reach.

2.6 There are four issues that need to be addressed. First, loans from formal sources have implicit transaction costs and can be inadequate, untimely and cumbersome to avail of. Further, they may not be easily accessible to certain sections of the population such as tenant farmers without any title to land. Second, the informal sources offering credit at higher interest rate need regulation. However, the existing legislations, as will be discussed in Chapter 5, of registering and regulating them have not been effective. Third, the growth of MFIs as an alternative source of finance needs to be regulated. Nevertheless, care should be taken to ensure that such regulations do not increase the burden of such MFIs as are owned by users through increased transaction costs; profits earned by them are ploughed back. Fourth, in the case of both moneylenders and for-profit MFIs, the high interest rates charged, as also other hidden costs are a burden for an agrarian economy with poor and uncertain returns. The Task Force was concerned that such MFI loans were included under priority sector lending, defeating its very objective.

Institutional credit flow to agriculture

2.7 The agricultural census provides some information on credit from institutional sources for 2001-02 across size-class of farmer households. The share of holdings across size-class indicates that three-fifths are marginal and one-fifth small farmers; these also broadly match with other recent estimates. The proportion of farmers accessing institutional credit increases with size-class - it is the least for marginal at 14% and highest for medium at 33%. Across all size-class of farmers who have borrowed from institutional sources, nearly two-thirds have taken credit from primary agricultural credit societies (PACS), around one-tenth each from land development banks (LDBs - also known as state cooperative agriculture and rural development banks) and commercial banks and between one-sixth and one-fifth from RRBs. Across all sources, as size-class increases, the number of borrowers having more than one account rises; for marginal holdings (<1 hectare) there were 103 accounts which increased to 119

accounts for large holdings (10 hectares and above) per 100 borrowers (Table 2.1).

2.8 In terms of the amount of loan across size-class, the share is lower than the proportion of households for marginal holdings (compare corresponding figures in Tables 2.1 and 2.2). Compared to the distribution of accounts, the distribution of amount across source indicates that the share of PACS reduces and that of others increases; in particular, the increase can be observed in respect of commercial banks for semi-medium and RRBs for medium and large holdings.

Table 2.1
Percentage Distribution of Number of Accounts
from Institutional Sources across Size-Class, 2001-02

| Size-class of holdings (hectare) | Share of Hold- ings | Prop- ortion taking Insti- tutional credit | PACS | LDB | CB | RRB | All |
|-------------------------------------|------------------------------|---|-------|------|------|------|-------|
| Marginal, <1.00 | 60.6 | 14.0 | 67.1 | 8.2 | 10.8 | 16.8 | 102.8 |
| Small, 1.00-1.99 | 20.0 | 27.7 | 65.5 | 8.6 | 12.9 | 17.4 | 104.3 |
| Semi-Medium, 2.00-4.99 | 12.4 | 31.6 | 66.1 | 9.1 | 13.1 | 17.8 | 106.1 |
| Medium, 4.00-9.99 | 5.9 | 33.1 | 67.2 | 10.4 | 12.5 | 19.6 | 109.7 |
| Large, 10.00 & above | 1.1 | 29.4 | 69.3 | 13.6 | 13.1 | 22.4 | 118.5 |
| All Classes | 100.0 | 20.2 | 66.5 | 8.8 | 12.0 | 17.5 | 104.8 |
| (Numbers in lakh) | 1077.1 | 218.0 | 144.9 | 19.1 | 26.2 | 38.2 | 228.4 |

Note: PACS denotes Primary Agricultural Cooperative Society, LDB denotes Land Development Bank, CB denotes Commercial Bank, RRB denotes Regional Rural Bank. The% from all do not add up to 100 because some holdings have loans from multiple sources. Calculations are based on estimates of credit from Agricultural Census, 2001-02.

Source: *Agricultural Statistics at a Glance, 2009*, Ministry of Agriculture, Government of India.

Table 2.2
Percentage Distribution of Amount of Credit
from Institutional Sources across Size-Class, 2001-02

| Size-class of holdings (hectare) | Share across Size- class | PACS | LDB | CB | RRB | All |
|-------------------------------------|-----------------------------------|---------|--------|---------|---------|---------|
| Marginal, <1.00 | 17.6 | 54.5 | 12.7 | 9.6 | 23.2 | 100.0 |
| Small, 1.00-1.99 | 20.0 | 47.1 | 11.2 | 21.5 | 20.2 | 100.0 |
| Semi-Medium, 2.00-4.99 | 41.5 | 21.5 | 5.8 | 61.7 | 11.1 | 100.0 |
| Medium, 4.00-9.99 | 16.4 | 45.8 | 13.7 | 12.8 | 27.8 | 100.0 |
| Large, 10.00 & above | 4.4 | 42.0 | 12.2 | 12.8 | 33.0 | 100.0 |
| All Classes | 100.0 | 37.3 | 9.6 | 34.3 | 18.8 | 100.0 |
| (Amount in Rs. crore) | 54973.4 | 20529.8 | 5296.5 | 18828.6 | 10318.4 | 54973.4 |

Note and Source: As in Table 2.1.

2.9 While in terms of overall credit 41.5% of the total loan of Rs.54,973 crore (Table 2.2), that is, Rs.22,814 crore, went to semi-medium farmers, in terms of agricultural credit (Table 2.3), only 25.1% of Rs.41,979 crore, that is, Rs.10,537 crore went to them indicating that a substantial proportion of the loans to semi-medium farmers was for non-agricultural purposes. For short-term loans, the amount of usage for fertiliser and other inputs increases across size-class but that of cash reduces. The pattern for medium-term and long-term loan also increases across size-class. These show the relatively lower dependence on short-term institutional credit by marginal and small-sized holdings, which reduces further for medium-term and long-term loans.

Table 2.3
Percentage Distribution of Amount of Agricultural Credit
from Institutional Sources across Size-Class, 2001-02

| Size-class of holdings (hectare) | Share across Size- class | Short Term Loan | | | | Med- ium Term Loan | Long Term Loan | Total |
|-------------------------------------|-----------------------------------|-----------------|-----------------|---------|---------|-----------------------------|----------------------|---------|
| | | Ferti- liser | Other Inputs | Cash | Total | | | |
| Marginal, <1.00 | 23.6 | 12.6 | 2.7 | 53.9 | 69.1 | 16.4 | 14.5 | 100.0 |
| Small, 1.00-1.99 | 23.8 | 14.3 | 3.1 | 53.6 | 71.1 | 15.4 | 13.5 | 100.0 |
| Semi-Medium, 2.00-4.99 | 25.1 | 14.5 | 3.1 | 49.3 | 66.9 | 16.7 | 16.4 | 100.0 |
| Medium, 4.00-9.99 | 21.4 | 14.8 | 3.8 | 41.7 | 60.4 | 16.8 | 22.8 | 100.0 |
| Large, 10.00 & above | 6.0 | 15.2 | 3.3 | 34.0 | 52.5 | 20.1 | 27.4 | 100.0 |
| All Classes | 100.0 | 14.1 | 3.2 | 48.9 | 66.1 | 16.5 | 17.3 | 100.0 |
| (Amount in Rs. crore) | 41979.1 | 5924.0 | 1326.7 | 20518.4 | 27769.1 | 6946.3 | 7263.7 | 41979.1 |

Note: The total amount is lower compared to Table 2.2 as it excludes non-agricultural loans.

Source: As in Table 2.1.

2.10 After 2001-02, one of the major policy initiatives for agricultural credit has been the doubling of credit between 2004-05 and 2006-07. This is particularly evident in credit through commercial banks, which has intensified the structural shift in the source of ground level credit flow to agriculture that has been observed since 1990s. In fact, in 1991-92 the share of cooperatives in agricultural credit was more than 50% which declined to 13% by 2008-09. Concurrently, share of commercial banks increased and their share stood at 78% in 2008-09. The share of RRBs has been hovering around 10% in recent years (Table 2.4). Thus, the period of distress in agriculture is also identified with a relatively declining contribution of cooperatives in agricultural credit, and with RRBs not showing substantial increase, indicating the urgent need to ensure increased access to agricultural credit for small and marginal farmers.

Table 2.4
Agency-wise Ground level Credit Flow (Rs. crore)

| Year | Cooperatives | | RRBs | | Commercial Banks | | Total | |
|--------------------------|--------------|------|-------|------|------------------|------|--------|-------|
| 1991-92 | 5797 | (52) | 596 | (5) | 4806 | (43) | 11199 | (100) |
| 2001-02 | 23604 | (38) | 4854 | (8) | 33587 | (54) | 62045 | (100) |
| 2003-04 | 26959 | (31) | 7581 | (9) | 52441 | (60) | 86981 | (100) |
| 2004-05 | 31231 | (25) | 12404 | (10) | 81481 | (65) | 125477 | (100) |
| 2005-06 | 39404 | (22) | 15223 | (8) | 125859 | (70) | 180486 | (100) |
| 2006-07 | 42480 | (19) | 20435 | (9) | 166485 | (72) | 229400 | (100) |
| 2007-08 | 48258 | (19) | 25312 | (10) | 181088 | (71) | 254658 | (100) |
| 2008-09(P) | 36762 | (13) | 26724 | (9) | 223806 | (78) | 287292 | (100) |
| CAGR, 1991-92 to 2003-04 | 13.66 | | 23.61 | | 22.06 | | 18.63 | |
| CAGR, 2004-05 to 2006-07 | 16.63 | | 28.35 | | 42.94 | | 35.21 | |

Note: P denotes Provisional, CAGR denotes Compound Annual Growth Rate. Figures in parentheses are percentage to the total.

Source: Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD).

Coverage of small and marginal farmers - commercial banks

2.11 Between 1991-92 and 2003 the share of small and marginal farmers in the total operational holdings increased from 81% to 86% and correspondingly their share in the operated area increased from 34% to 44%. However, their share in the number of credit accounts decreased from 77% to 69% and in amount of credit disbursed decreased from 54% to 48%. In contrast, for semi-medium and above farmers the share of credit increased while their share of area declined (Table 2.5).

Table 2.5

| Land-size wise distribution of Agricultural Credit Flow - Scheduled Commercial Banks | | | | | | | | | | |
|--|-------------------------------|------|------------------------|------|---|---------|---------|--|---------|---------|
| Category | Share in operational holdings | | Share in operated area | | Share in number of agricultural credit accounts | | | Share in agricultural credit disbursed | | |
| | 1991-92 | 2003 | 1991-92 | 2003 | 1991-92 | 2002-03 | 2006-07 | 1991-92 | 2002-03 | 2006-07 |
| Marginal | 62.8 | 69.7 | 15.6 | 22.6 | 45.4 | 38.9 | 41.6 | 28.8 | 22.1 | 24.7 |
| Small | 17.8 | 16.3 | 18.7 | 20.9 | 31.4 | 30.2 | 27.9 | 24.9 | 25.5 | 22.9 |
| Semi+ | 19.4 | 14.1 | 65.7 | 56.5 | 23.2 | 30.9 | 30.5 | 46.3 | 52.4 | 52.4 |

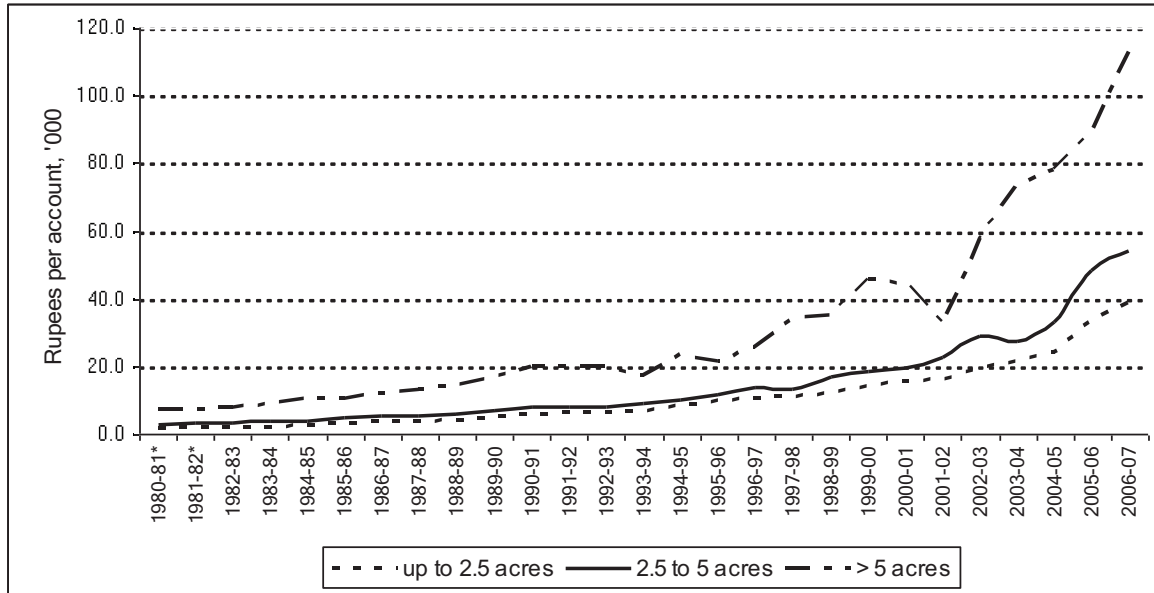
Note: Semi+ denotes Semi-medium and above. Land holding data are reported in hectares (ha) where Marginal (<1.00 ha), Small (1.00-1.99 ha) and Semi+ (2.00 and above). Credit data across land size given by land-size are up to 2.5 acres, 2.5-5.0 acres and above 5 acres, which approximately resemble Marginal, Small and Semi+ respectively.

Source: *Handbook of Statistics on the Indian Economy, 2008-09*, RBI; *Some Aspects of Operational Land Holdings in India*, National Sample Survey Organisation (NSSO), various rounds.

2.12 The per account credit disbursed across land holding size is increasingly getting skewed and the gap is widening between the marginal, small and semi-medium and above farmers (Figure 2.1). The doubling of agriculture credit period saw almost a vertical rise in the curve relating to more than five acres of farmers indicating the widening gap in the year 2006-07 (the latest year for which data is available), even though credit for farmers with less than five acres, too, had doubled; the semi-medium and above farmer per account credit disbursement stood at Rs.1,12,652 and the same for small and marginal farmers were Rs.53,862 and Rs.38,983, respectively.

Figure 2.1

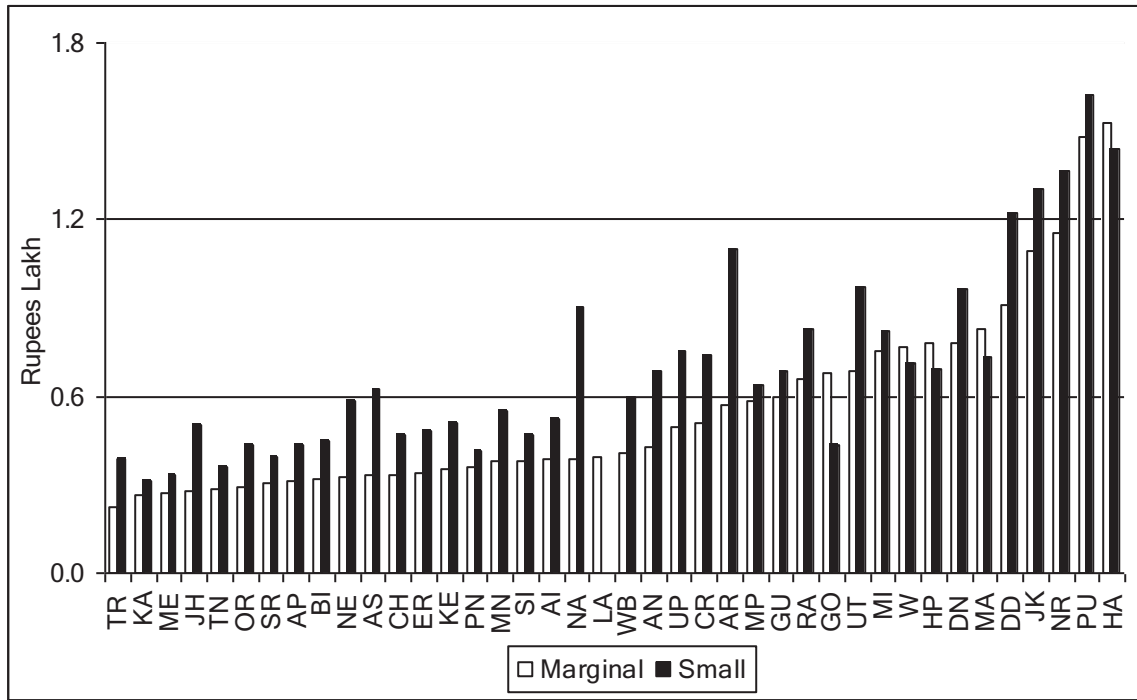
Land Size wise credit disbursed- per account by scheduled commercial banks



Note: * refers end-March and for others it is end-June.
 Source: Handbook of Statistics on Indian Economy, RBI, 2008-09.

2.13 Per account credit disbursed for size-class of farmers across states shows a lot of variation (Figure 2.2). For marginal farmers, it varies from Rs.22,382 in Tripura to Rs.8,07,833 in Delhi (Delhi as well as Chandigarh are not in figure 2.2 because of their large amounts). For small farmers, the variation is from Rs.31,029 in Karnataka to Rs.4,32,354 in Chandigarh. For semi-medium and above farmers (not in figure), the variation is from Rs.1,676 in Andaman and Nicobar Islands to Rs.21,25,076 in Delhi. The amounts include short term and long term loan, but the large per account credit for urban centres such as Chandigarh and Delhi, suggest that though this credit has been reported as direct finance, the inclusion of either indirect agricultural credit or some non-agricultural credit cannot be ruled out.

Figure 2.2
Per account credit disbursed for marginal and small farmers across states,
June 2008



Note: AI-All India, AN-Andaman & Nikobar Islands, AP-Andhra Pradesh, AR-Arunachal Pradesh, AS-Assam, BI-Bihar, CH-Chhattisgarh, CR-Central Region, DD-Daman & Diu, DN-Dadra & Nagar Haveli, ER-Eastern Region, GO-Goa, GU-Gujara, HA-Haryana, HP-Himachal Pradesh, JH-Jharkhand, JK-Jammu & Kashmir, KA-Karnataka, KE-Kerala, LA-Lakshadweep, MA-Maharashtra, ME-Meghalaya, MI-Mizoram, MN-Manipur, MP-Madhya Pradesh, NA-Nagaland, NE-North-Eastern Region, NR-Northern Region, OR-Orissa, PN-Pondicherry, PU-Punjab, RA-Rajasthan, SI-Sikkim, SR-Southern Region, TN-Tamil Nadu, TR-Tripura, UP-Uttar Pradesh, UT-Uttaranchal, WB-West Bengal, WR-Western Region. Chandigarh and Delhi are excluded from the figure because of their higher values that distort the visual impact. The amounts are based on short-term and long-term loans.

Source: RBI.

2.14 The region wise per account credit disbursed by commercial banks for different size-class of farmers is given in Table 2.6. In 2008, the amounts were relatively higher in northern and western regions. The poor credit disbursal in the north-eastern region was a matter of concern raised by state functionaries to the Task Force members during their visit to this region. The southern region had the lowest per account credit disbursed.

Table 2.6
Per Account Credit Disbursed by Scheduled Commercial Banks during
the Year (period ending last Friday of June 2008)

| Regions | (Rupees/Account) | | | |
|---------------|------------------|------------------|------------------|--------|
| | Up to 2.5acre | 2.5 to 5 acre | Above 5 acres | All |
| Northern | 115575 | 136550 | 250588 | 176179 |
| North-Eastern | 32930 | 58747 | 98474 | 46483 |
| Eastern | 34300 | 48551 | 216881 | 66812 |
| Central | 51247 | 74066 | 142872 | 86926 |
| Western | 76484 | 71268 | 147141 | 113387 |
| Southern | 30689 | 39292 | 59092 | 41331 |
| All India | 38386 | 52015 | 97597 | 60441 |

Source: RBI.

2.15 The region wise per account credit disbursed indicated wide variation for short-term and long-term loans by scheduled commercial banks. In both cases, across size-class, the disbursements were the highest in northern region, and the per account credit disbursed was lower than the all India average, for the southern region. Across regions, except for north and west, the per account term credit disbursed for all land sizes taken together, was almost three times the short term credit. In eastern, central and western regions, per account credit disbursed for short-term loan increased disproportionately for farmers with more than five acres of land (Table 2.7). The state wise short-term and long-term data are presented in Annex VIII. The Task Force is of the view that such state-wise data in terms of disbursement, outstanding and recovery should be regularly published by RBI.

Table 2.7
Per Account Credit Disbursed during the year (period ending last Friday of June 2008)
by Scheduled Commercial Banks (Short-term and Long-term)

| Regions | Short-term Loans | | | | Long-term Loans | | | |
|---------------|------------------|----------------|---------------|-----------|-----------------|----------------|---------------|-----------|
| | up to 2.5 acres | 2.5 to 5 acres | above 5 acres | all sizes | up to 2.5 acres | 2.5 to 5 acres | above 5 acres | all sizes |
| Northern | 115889 | 133421 | 245906 | 171273 | 114048 | 153633 | 266738 | 197424 |
| North-Eastern | 21101 | 51669 | 46729 | 30754 | 59650 | 68951 | 203335 | 77643 |
| Eastern | 28059 | 38543 | 129166 | 44607 | 63782 | 82642 | 409930 | 150355 |
| Central | 45784 | 66718 | 120677 | 74537 | 88986 | 120815 | 227153 | 154834 |
| Western | 65546 | 51335 | 187553 | 108869 | 111428 | 152013 | 117392 | 119846 |
| Southern | 26421 | 33528 | 52654 | 35165 | 84454 | 75897 | 80122 | 79971 |
| All India | 33077 | 45145 | 88033 | 51223 | 86730 | 92042 | 122467 | 106313 |

Source: RBI.

Number of agricultural accounts: trends and seasonality

2.16 The Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS), 2008 is likely to have benefited around 3.68 crore accounts making them eligible for fresh finance from formal institutions. At its best, this should have led to a significant increase in the number of accounts, but the less than five per cent annual growth in the number of accounts in 2008-09, and the provisional numbers for 2009-10 have been disappointing (Table 2.8).

Table 2.8
Trends in the Number of Accounts (in lakh) and Amount (in Rs. crore) in various years
for Ground Level Credit Flow under Agriculture- All India

| Agency | 2006-07 | | 2007-08 | | 2008-09 | | 2009-10(P) | |
|--------|--------------------------|-----------------------|--------------------------|-----------------------|--------------------------|-----------------------|--------------------------|-----------------------|
| | No of Accounts (in lakh) | Amount (Rs. in crore) | No of Accounts (in lakh) | Amount (Rs. in crore) | No of Accounts (in lakh) | Amount (Rs. in crore) | No of Accounts (in lakh) | Amount (Rs. in crore) |
| CB | 172 (40) | 1,66,485 (73) | 174.79 (40) | 1,81,087 (71) | 202.45 (44) | 2,28,951 (76) | 205.30 43 | 2,74,963 75 |
| Coop | 189 (46) | 42,480 (18) | 201.81 (46) | 48,258 (19) | 178.18 (39) | 45,965 (15) | 203.92 42 | 57,500 16 |
| RRBs | 62 (14) | 20,435 (9) | 62.74 (14) | 25,311 (10) | 75.47 (17) | 26,764 (9) | 73.08 15 | 34,456 9 |
| Total | 423 (100) | 2,29,400 (100) | 439.34 (100) | 2,54,657 (100) | 456.1 (100) | 3,01,908 (100) | 482.30 (100) | 3,66,919 (100) |

Notes: P denotes provisional, CB denotes commercial banks, Coop denotes cooperative banks and RRB denotes regional rural banks. Figures in parentheses are in percentages to the total for the respective years.

Source: NABARD.

2.17 The month-wise disbursement pattern of credit flow should have been in line with ground level requirements with June, July and perhaps September seeing peak *khariif* disbursements and December, January with peak *rabi* disbursements. A matter of serious concern is that one-fourth of the total disbursement is in March, which is not a critical month for agricultural production (Figure 2.3 and Table 2.9). This was also brought to the notice of Task Force members during their field visits, particularly in Vidarbha.

2.18 In the absence of data, some possible reasons for higher agricultural disbursements in March could be that:

- a. interest accrued on agricultural credit was added to the principal and shown as disbursement in March;
- b. large disbursements were made to institutions in March;
- c. there was window dressing by banks for meeting credit, deposit and recovery targets;
- d. significant portions of the large disbursements through urban branches such as those in Chandigarh and Delhi took place in March and booked as agricultural lending;
- e. there was purchasing of portfolios by sponsor banks from RRBs or from MFIs for meeting priority sector lending targets. This has the potential of resulting in double counting. The RBI has constituted a Working Group to examine the pros and cons of trading in priority sector lending certificates and make suitable recommendations on its introduction. The Group is expected to submit its report by end-June, 2010.

Table 2.9
Percentage Share of Month wise Agricultural Credit Disbursed,
April 2007 to March 2009 - All India - Agency-wise

| Period | 2007-08 | | | | 2008-09 | | | |
|-----------|---------|--------|--------|--------|---------|--------|--------|--------|
| | CB | Coop | RRB | All | CB | Coop | RRB | All |
| April | 2.08 | 6.59 | 4.45 | 3.17 | 1.17 | 7.99 | 7.71 | 2.79 |
| May | 4.19 | 6.58 | 7.59 | 4.98 | 2.50 | 5.95 | 0.56 | 2.85 |
| June | 10.38 | 14.10 | 10.86 | 11.13 | 5.37 | 6.18 | 6.73 | 5.61 |
| July | 3.60 | 18.61 | 9.04 | 6.99 | 6.34 | 7.87 | 7.78 | 6.69 |
| August | 9.55 | 5.55 | 8.39 | 8.68 | 4.63 | 9.45 | 11.59 | 5.98 |
| September | 3.76 | 6.01 | 9.18 | 4.73 | 9.33 | 5.43 | 8.58 | 8.67 |
| October | 8.31 | 4.39 | 7.38 | 7.48 | 5.84 | 4.94 | 5.76 | 5.69 |
| November | 7.15 | 6.69 | 6.03 | 6.95 | 7.02 | 6.84 | 6.68 | 6.96 |
| December | 10.86 | 6.06 | 9.30 | 9.79 | 11.69 | 7.72 | 10.94 | 11.01 |
| January | 4.07 | 3.62 | 5.36 | 4.11 | 10.97 | 6.44 | 10.23 | 10.21 |
| February | 7.01 | 8.44 | 10.24 | 7.60 | 11.75 | 5.90 | 7.29 | 10.45 |
| March | 29.04 | 13.36 | 12.19 | 24.39 | 23.38 | 25.28 | 16.14 | 23.09 |
| All | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

Note: CB denotes commercial banks, Coop denotes cooperative banks and RRB denotes regional rural banks.

Source: NABARD.

2.19 Under the doubling of agriculture credit, as already mentioned progress has been encouraging. Against a target of doubling of agriculture credit in three years, banks tripled it in four years, and it has been growing at the expected rate since then. For the year 2009-10, GOI had set a target of Rs.3,25,000 crore, and by March 2010 all banks put together had disbursed Rs.3,66,000 crore. The data, however, does not spell out how much of this was for direct and how much for indirect agriculture. As per RBI guidelines, 18% of adjusted net bank credit (ANBC) is meant for agriculture. Within this, 4.5% of ANBC can be towards indirect agriculture. Earlier, banks were submitting priority sector lending related information through lead bank returns. In its place, Service Area Monitoring Information System (SAMIS) was introduced in 1991. More recently, Indian Banks' Association (IBA) is expected to work on integrating core banking solution with priority sector lending information system. Pending, finalisation of the new system, the Task Force urges that banks be mandated to continue filing SAMIS with RBI/NABARD for detailed and correct information on agriculture lending.

Debt waiver

2.20 The per account debt waiver (from cooperatives and RRBs) in selected states ranged between Rs.6,391 in Manipur to Rs.81,652 in Delhi. The segregated figures for waiver and relief are presented in Table 2.10. The proportion of recipients of waiver/relief to operational holdings indicates that it ranges from less than one% in some states to 38% in Orissa. In Andhra Pradesh, where 30% of operational holdings received waiver/relief, those indebted farmers who did not benefit from the scheme got a relief from the state government of Rs.5000 or the loan amount (whichever was lower). In Kerala, there was a one-time settlement for cooperatives prior to ADWDR, 2008, and hence, the proportion of beneficiaries from the waiver was less.

2.21 The Task Force members were apprised of a number of situations on debt waiver during their field visits. Defaulters prior to April 1997 were not covered and there appeared to be a case for banks as well as PACS to write off such long-standing default and bring such farmers back into the institutional fold. There were instances where farmers, who were members of functional cooperatives that gave agricultural credit, did not benefit. On the one hand, there were farmers who obtained gold loan for agricultural purposes but did not benefit from the waiver as the loan was recorded under 'other' purposes. On the other hand there were non-farmers who had taken gold loan for non-agricultural purposes but benefited from the waiver, as the loan was recorded in the bank ledger as 'agricultural' to help it meet its priority sector target. The Task Force is of the opinion that detailed analysis of ADWDRS would have immense relevance for public policy.

Table 2.10
Number of Accounts (Cooperative Banks and RRBs) that Received Loan Waiver/Debt Relief as Proportion of Total Credit Accounts and Operational Holdings

| State | Number of account received loan waiver/debt relief (coop+ RRB), 2009 | Number of operational holdings (in '000) as of 2001-02, Agricultural Census | Number of accounts benefited as a proportion of operational holdings | Per account Debt Waiver | Per account Debt Relief | Per account (waiver plus relief) |
|-------------------|--|---|--|-------------------------|-------------------------|----------------------------------|
| Andaman Nicobar | 1220 | 11 | 11.09 | 14165 | 8050 | 11659 |
| Andhra Pradesh | 3443040 | 11532 | 29.86 | 16008 | 15062 | 15900 |
| Arunachal Pradesh | 4440 | 107 | 4.15 | 13933 | 74600 | 15846 |
| Assam | 84650 | 2712 | 3.12 | 15770 | 10583 | 15651 |
| Bihar | 818840 | 11574 | 7.07 | 18017 | 17257 | 17994 |
| Chhattisgarh | 462760 | 3255 | 14.22 | 9729 | 12628 | 10507 |
| Delhi | 600 | 28 | 2.14 | 81652 | 87350 | 82982 |
| Goa | 3410 | 64 | 5.33 | 17678 | 10625 | 16685 |
| Gujarat | 539260 | 4239 | 12.72 | 31345 | 35753 | 32959 |
| Haryana | 570620 | 1528 | 37.34 | 39018 | 24871 | 33013 |
| Himachal Pradesh | 67100 | 914 | 7.34 | 26732 | 38212 | 27177 |
| Jammu and Kashmir | 25620 | 1443 | 1.78 | 18470 | 11295 | 18170 |
| Jharkhand | 208590 | Na | na | 14547 | 15664 | 14563 |
| Karnataka | 683630 | 7079 | 9.66 | 23291 | 23398 | 23321 |
| Kerala | 747040 | 6657 | 11.22 | 20688 | 25668 | 20759 |
| Madhya Pradesh | 1571230 | 7360 | 21.35 | 15421 | 16639 | 15708 |
| Maharashtra | 3028950 | 12138 | 24.95 | 20394 | 22712 | 21018 |
| Manipur | 42940 | 149 | 28.82 | 6391 | 48493 | 6528 |
| Meghalaya | 10820 | 214 | 5.06 | 12622 | 16529 | 12648 |
| Mizoram | 7380 | 76 | 9.71 | 26104 | 14571 | 25619 |
| Nagaland | 8940 | 144 | 6.21 | 11547 | 23800 | 11588 |
| Orissa | 1528460 | 4067 | 37.58 | 13944 | 16387 | 14045 |
| Pondicherry | 8100 | 38 | 21.32 | 23313 | 14661 | 22320 |
| Punjab | 210910 | 997 | 21.15 | 34819 | 21745 | 29309 |
| Rajasthan | 1037890 | 5819 | 17.84 | 20228 | 17768 | 19262 |
| Sikkim | 530 | 67 | 0.79 | 16769 | 28000 | 16981 |
| Tamil Nadu | 165860 | 7859 | 2.11 | 18344 | 14042 | 17601 |
| Tripura | 26630 | 479 | 5.56 | 16524 | 17400 | 16526 |
| Uttar Pradesh | 2981430 | 21668 | 13.76 | 17318 | 20658 | 17552 |
| Uttaranchal | 90150 | 891 | 10.12 | 11054 | 8714 | 10956 |
| West Bengal | 877460 | 6790 | 12.92 | 12332 | 25215 | 12393 |

Note and Source: As the figures for different columns from different sources and for different years the proportions are indicative, but nevertheless, meaningful. Loan waiver/debt relief data by NABARD; Operational Holdings from *Agricultural Statistics at a Glance, 2009*, GOI.

Informal credit

2.22 The most recent information on this is from All-India Debt and Investment Survey (AIDIS) and the Situation Assessment Survey of Farmers (SAS) conducted by the NSSO during January-December 2003 in its 59th Round. These provide valuable insights into various aspects of farmer indebtedness in India. However, as earlier reports and scholars have adequately discussed them, the Task Force is highlighting important observations.

2.23 For the first time after independence, the dependence of cultivators on moneylenders increased from 18% in 1991 to 27% in 2002. As a consequence, the growth of non-institutional credit was much higher during this period.

2.24 Incidence of indebtedness by farmer household is the highest for southern region (nearly three-quarters) followed by western and northern regions (more than half), central and eastern region (around two-fifths) and the least for the north-eastern region (one-fifth). At the all India level, nearly 48% of farmer households are indebted, of whom around half are dependent on institutional sources. Dependence on institutional source is the highest (four-fifths) in the western region and the lowest (one-fifth) in the north-east.

2.25 In states such as Andhra Pradesh, Rajasthan, Assam, Bihar and Punjab the financing of debt was more by non-institutional sources. The share of moneylenders in the farmers' outstanding debt was high 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.

2.26 At the all India level, the share of cooperatives in the total outstanding debt of farmers was only 19.6%. However, in the five states of Gujarat, Haryana Kerala, Maharashtra and Tamil Nadu, cooperative credit societies were an important source of credit (shares being in the range of 23-49%). However, as in some cases

the credit lines were choked they could be reflecting old rather than current year loans.

2.27 The share of non-institutional agencies in the debt and incidence of indebtedness decreased with the size of land holding. The share of non-institutional agencies in the debt was 77% for the near landless (less than 0.01 hectares), 57% for the sub-marginal farmers (0.01-0.40 hectares), 47% for the upper marginal farmers (0.4-1.0 hectares), 42% for small farmers (1-2 hectares) and stood at a reduced, yet significant, 32% for large farmers (10 hectares and above). Though 80% of indebted farmer households were those from among small and marginal farmers, institutional agencies accounted for only half of their debt. Thus, as far as access to formal credit is concerned, small and marginal farmer households are at a disadvantage. Even large farmers take recourse to informal sources though they are better served by institutional agencies.

2.28 Most of the outstanding debts from formal sources (85%) have interest rates in the range of 12-20% per annum. In contrast, for outstanding debts from informal sources, more than one-third have interest rates in the range of 20-25% per annum and another nearly two-fifths have interest rates of more than 30% per annum. At the all India level the total debt of farmer households was estimated at Rs.1,12,000 crore in 2003. Of the total debt, Rs.48,000 crore was sourced from non-institutional agencies, of which Rs.18,000 crore of debt carried an interest rate greater than 30%. As already mentioned, in agriculture, where the returns are much lower, this is a matter of serious concern.

2.29 More than three-fifths of the outstanding debt (formal plus informal) of cultivators in 2002 was for productive purposes. It increased from 40% in 1961 to 72% in 1981 and then showed a decline to 63% in 2002.

2.30 The Task Force is of the view that surveys like AIDIS and SAS may be interspersed and done once every five years. It will help in understanding the state of informal sources of credit at closer intervals, and permit early corrective

action. The survey should also capture credit from Section 25 NBFCs and from all types of cooperatives and SHG federations under formal sources; and credit from closely held for profit NBFCs under informal sources. Further, these surveys should ascertain the reasons for households not availing of credit from any source for any purpose.

Micro finance scenario

2.31 The SHG-bank linkage model that was launched by NABARD in 1992 had, as on 31 March 2009, a total number of 42,24,338 SHGs having outstanding bank loan of Rs. 22,680 crore. In 2008-09 the number of SHGs financed was 16,09,586 and the amount disbursed was Rs. 12,254 crore. Additionally, under MFI-Bank linkage the amount disbursed was Rs. 3,732 crore. Together, Rs.15,986 crore had been disbursed in 2008-09, which is around 5.5% of the ground level credit flow. This has increased from around 1% in 2001-02. This is a very significant development.

2.32 Members of rural women's and men's thrift cooperatives (WTC/MTC) in Andhra Pradesh and of women's thrift cooperatives in Orissa and Karnataka conveyed to Task Force members that moneylender terms softened and dependence on moneylenders reduced significantly, with the progress of their own cooperatives. These cooperatives were primarily dependent on small regular monthly thrift contributions from their members (Rs.20 per month in WTCs and Rs 25-40 per month in MTCs). They inter-lend through their local federations, which also offer loan insurance services in the event of the death of a member. They are registered under liberal cooperative laws that respect the intelligence of members to manage their own affairs. From the figures provided in Table 2.11, it would appear that if more states liberalised their cooperative laws, and, if either PACS made member thrift central to their functioning, or, more thrift and credit cooperatives were promoted across the country under liberal cooperative laws, then the rural moneylender would become just another player in the local financial markets. PACS were initially formed on the basis of member thrift - over

the years, they were projected as and converted to channels for subsidised credit.

Table 2.11
Member-centric Thrift and Credit Cooperatives

| Particulars | PACS (as on 31.03.08) | MTC (as on 31.12.08) | WTC (as on 31.12.08) |
|---|--|--|---|
| 1 No. of institutions | 95,000 Across India | 175 in Warangal and Karimnagar districts of AP | 271 in Warangal and Karimnagar districts of AP |
| 2 Average age of institution in years (approximate) | 60 | 10 | 10 |
| 3 Average no. of villages per institution | 6.3 | 1 | 1 |
| 4 No. of members | 13,15,00,000 | 56,630 | 98,927 |
| 5 Average membership per institution | 1,384 | 323 | 365 |
| 6 Owned funds (Rs. crore) | 10,984 | 16 | 15 |
| 7 Per member own funds (Rs.) | 835 | 2,825 | 1,516 |
| 8 Thrift/deposits (Rs. crore) | 25,449 | 18 | 15 |
| 9 Thrift/deposit collection policy | From members, non-members, voluntary remittances | Rs 25-40 compulsory thrift per member per month; no non-member savings | Rs 20 compulsory thrift per member per month; no non-member savings |
| 10 Per member deposits (Rs) | 1,935 | 3,178 | 1,516 |
| 11 Loans outstanding (Rs. crore) | 65,666 | 29 | 26 |
| 12 Loan outstanding per member (Rs) | 4,993 | 5,120 | 2,628 |
| 13 External borrowing (Rs. crore , loans outstanding less owned funds and deposits) (PACS deposits have been taken as member deposits in this context) | From banks 29,233 | Interlending through federation 0 | Interlending through federation 0 |

Notes and Sources: PACS = Primary Agricultural Credit Society data from NABARD; MTC = Men's Thrift Cooperative (rural) and WTC = Women's Thrift Cooperative (rural) data are from *Performance of Swa-Krushi Thrift Cooperatives*, Cooperative Development Foundation on the basis of data published annually for 175 federations of MTCs and 271 federations of WTCs. Even though the formation of PACS began in 1904, average age has been taken as 60 years (post independence life).

2.33 A recent study on 786 MFIs indicates that their loans portfolio outstanding was Rs. 4,142 crore in March 2008, which is about 47% of the loans disbursed by SHG-bank linkage, Rs. 8,849 crore. From the 786 profiles studied, 57% were user-owned companies, 3% were for-profit non-banking finance companies (NBFCs) and the rest (40%) were not-for profit societies/trusts or section 25 NBFCs. However, their share in the portfolio of loan outstanding was 7%, 65% and 28%, respectively (Ramakrishna Regulagedda, *An Overview of MFOs in India: Consolidated result of 786 MFO Profile*, mimeo, 2009). The growing presence of for-profit NBFCs and the inclusion of their advances under priority sector require closer scrutiny, as has already been mentioned. The Task Force

suggests that MFIs, other than for-profit, be enabled to emerge as alternative channels of credit with suitable regulation.

Emergence of the new moneylender

2.34 The growing commercialisation of Indian agriculture has encouraged the rise of trader-moneylender, as the formal sector is inadequate to meet the growing credit requirements of agriculture. The traditional moneylender has adopted various roles wherein the principal activity is not money lending. There are also new players in the field of rural finance in the form of input dealers, finance companies including the for-profit MFIs, functionaries in village. The Task Force members came across situations where farmers were borrowing at the rate of five to ten per cent per month. The rural landscape has changed and there is a need for regulatory practices to also undergo a change and adapt to the new reality as many of these players are not included in the existing regulatory framework on money lending.

2.35 The term 'institutional finance' has meant different things to different people. The Task Force is of the view that 'institutional finance' should include the following: banks and other widely held financial institutions, whether they are public or private institutions; state owned financial institutions aimed at financing the less privileged; and user owned institutions such as SHGs and their federations and cooperatives - both PACS, as well as new generation thrift and credit cooperatives registered under more liberal cooperative laws.

Input-intensive versus low external input sustainable agriculture (LEISA)

2.36 The increasing credit requirement in external input-intensive cultivation has led to spiralling of costs. This has reduced net returns and has increased the risks and vulnerability of the farmer with serious credit implications.

2.37 Under input-intensive cultivation, the possibility of unserviceable debt or non-wilful default is likely to be higher in years of crisis. This should be addressed in a holistic manner through alternative cultivation practices, which reduce the cost of cultivation without compromising on technology. The Task Force is of the view that Indian Council of Agricultural Research (ICAR) and state agriculture universities should be required to undertake small farmer-centric research and extension projects to promote LEISA to benefit all farmers, and especially those in resource-fragile areas.

2.38 The Task Force suggests that governmental institutions such as seed corporations and state farms need to be encouraged to make a paradigm shift in their approach to agriculture based on LEISA. Adoption of LEISA can be promoted through measures such as enhancing the production and availability of green manure seeds and other low cost and locally available inputs. This will result in lower debt burden and risks to the farmer, and increase in farmer income and overall agricultural production. The Task Force in fact came across LEISA in various forms in Andhra Pradesh, Bihar, Karnataka, Maharashtra and Tamil Nadu. Besides reducing risk (Box 2.1), these have advantages from a credit perspective because more farmer households can be covered by the credit available, and their risk of default minimised.

Box 2.1
Input Intensive versus LEISA

In input-intensive farming, say, for one unit of input we get two units of output and net return is one unit and with a consumption of 0.65 units the farmer saves 0.35 units, which cumulates to 1.05 units at the end of three years. Now, if the fourth year happens to be one with drought then output is nil. The accumulated savings are just enough to pay for the input costs and the farmer household has to borrow, for LEISA, input cost is 0.25 and output is 1.25 with net return of one unit (likely to increase in subsequent years). In the drought year, the farmer can meet input costs and consumption from cumulative savings. Besides, LEISA gives some positive output even in a drought year. Further, as residents of Enabavi narrated to the Task Force, their farming practices have reduced their health expenditure and cost of cultivation, output was only lower than the input-intensive cultivation in the first two years and their produce has been fetching a better price in the local market.

| Method of Cultivation | Year | Input | Output | Net Return | Consumption | Cumulative Savings |
|-----------------------|------|-------|--------|------------|-------------|--------------------|
| Input Intensive | 1 | 1.00 | 2.00 | 1.00 | 0.65 | 0.35 |
| | 2 | 1.00 | 2.00 | 1.00 | 0.65 | 0.70 |
| | 3 | 1.00 | 2.00 | 1.00 | 0.65 | 1.05 |
| | 4 | 1.00 | 0.00 | -1.00 | 0.50 | -0.45 |
| LEISA | 1 | 0.25 | 1.25 | 1.00 | 0.65 | 0.35 |
| | 2 | 0.25 | 1.25 | 1.00 | 0.65 | 0.70 |
| | 3 | 0.25 | 1.25 | 1.00 | 0.65 | 1.05 |
| | 4 | 0.25 | 0.00 | -0.25 | 0.50 | 0.30 |

Source: Based on Srijit Mishra, 'Risks, Farmers' Suicides and Agrarian Crisis in India: Is There a Way Out?' Indian Journal of Agricultural Economics, Vol. 63, No. 1, pp.38-54, 2008; T. Vijay Kumar, D. V. Raidu, Jayaram Killi, Madhavi Pillai, Parmesh Shah, Vijaysekar Kalavakonda and Smriti Lakhey, 'Ecologically Sound, Economically Viable: Community Managed Sustainable Agriculture in Andhra Pradesh, The World Bank, Washington D. C., 2009; and visit by Task Force members to Enabavi.

In conclusion

2.39 The Task Force is of the view that there is a huge gap between demand for and availability of credit. For instance, there is a huge gap between the number of active Kisan Credit Cards and the number of operational holdings (see discussions in chapter 4 on KCC). The coverage of all categories of farmers (including tenants) is imperative.

2.40 A way forward for the farmer is to focus on sustainable agriculture along with other rural livelihoods and this has to go hand in hand by increasing farm credit absorption capacity of marginalised farmers in a mission mode through the use of joint liability groups (JLGs) and SHGs. The Task Force suggests that this

should be done in coordination with the National Rural Livelihood Mission (NRLM).

2.41 There is no alternative to strengthening formal institutions, but depending on the local situation, lead may be taken by cooperative banks, RRBs or commercial banks. These should be done hand in hand with the opening of bank branches where required, with banking correspondents offering banking services where a branch is not feasible, strengthening of PACS, promotion of thrift and credit cooperatives, and the strengthening of JLGs, SHGs and their federations.

Chapter 3

Existing Policies and Schemes Related to Indebtedness

3.1 In order to address the issue of farmer indebtedness arising out of loans from private moneylenders, the Task Force undertook a review of major policies and schemes and the status of their implementation. The focus of the review was primarily on those that aimed at improving the access of institutional credit to farmers and helped in reducing their dependence on moneylenders.

3.2 Policy measures to address the issues of farmer indebtedness as well as exclusion can be categorized broadly as follows:

- a. measures with two-fold objectives of strengthening institutional credit delivery system to enable easy access to farmers and of reducing cost of credit such as interest subvention, Kisan Credit Card (KCC) scheme, General Credit Card (GCC), strengthening of primary agricultural credit cooperatives (PACS), promotion and support of thrift and credit cooperatives, self help groups (SHGs), and joint liability groups (JLGs) among others;
- b. debt waiver, debt relief, one-time settlement (OTS) schemes with the objective of bringing back to the institutional fold, farmers in default to banks and, therefore, currently ineligible to avail institutional credit;
- c. policies and measures aimed at redemption from informal sources through debt swap schemes with the intent of taking over loans owed to moneylenders and making the farmer/village moneylender free;
- d. policies aimed at viability and sustainability of agriculture (technological and financial options), and livelihood programmes such that net income from agriculture increases, enhancing credit absorption capacity, reducing costs and increasing credit demand; and
- e. other important measures including regulation of money lending to prevent usury and use of coercive methods have been dealt with in Chapter 5.

Measures aimed at improving access to institutional credit

3.3 In order to increase credit to the agricultural sector in the 90s, the Government of India (GOI), the Reserve Bank of India (RBI), the National Bank for Agriculture and Rural Development (NABARD), and state governments have introduced a number of policies and schemes to widen and deepen coverage by formal credit institutions. Some of these are elaborated below.

3.4 The SHG bank linkage programme (SBLP) was launched by NABARD in 1992 to facilitate collective decision-making and provide 'door step' banking to the poor. With 79.5% and 85.4% of saving and credit linked SHGs being exclusive women SHGs, this movement addressed the gender bias in agricultural credit and brought in rural women into the credit network. The credit provided by SHG members from their own savings is estimated to be of a high order given that their savings lying in banks as on 31 March 2009 was Rs. 5,546 crore. The Task Force is of the view that internal savings and credit activity of SHGs need to be given due recognition, and duly documented to understand the total credit flow to rural families.

3.5 The concept of members being jointly and severally liable for loans was extended to farmers through formation of JLGs. The Task Force met members of JLGs during their field visits and observed that with nurturing, capacity building and appropriate impetus, this could be one successful mode for ensuring credit access to a large number of tenant farmers, sharecroppers and oral lessees. Farmers' clubs, SHGs and other grassroots level institutions may be used as banking facilitators for promoting JLGs. The Task Force recommends a mission mode approach to scale up operations on this front with suitable financial support from central and state governments and banks.

3.6 Landless farmers are not in a position to access bank credit although many banks offered security-free loans up to Rs. 50,000, as per the RBI circular dated 18 May 2004. The RBI raised the limit to Rs.1 lakh vide its circular dated 18

June 2010. The Task Force expects that the coverage of marginal and small farmers, including the tenant farmers, sharecroppers and oral lessees will improve their access to credit with the promotion of JLGs.

3.7 In order to provide adequate and timely credit support from the banking system to farmers for their cultivation needs, including purchase of all inputs, in a flexible and cost-effective manner, the KCC scheme was introduced in August 1998 and interest subvention from 2006-07. These are discussed in detail in Chapter 4.

3.8 The GCC scheme, with credit facility up to Rs. 25,000 based on the assessment of income and cash flow of each household, without insistence on security, purpose or end-use stipulations, aims at reaching and empowering vast sections of rural households. Fifty per cent of credit outstanding under the GCC scheme is treated as part of priority sector lending. The Task Force recommends that GCC limit be raised to Rs. 50,000 for deserving borrowers.

3.9 To promote financial inclusion, Reserve Bank of India (RBI) advised banks, in November 2005, to make available a basic banking 'no-frills' account with low or zero balance. All the related printed forms for use by retail customers were to be issued by banks in the regional language.

3.10 The short term cooperative credit structure with its wide network of 95,000 PACS has a substantial presence in the rural credit market. A major initiative of Government of India, through NABARD, in recent years has been the package for revival of short-term rural cooperative credit structure involving financial assistance of Rs.13,596 crore to strengthen the sector, increase credit flow, and make it self sustaining. Twenty-five states are in the process of implementing the legal, institutional and other reforms, covering 96% of the PACS and 96% of the Central Cooperative Banks (CCBs) in the country.

3.11 Nine states have passed liberal cooperative laws on the lines of the Model Act recommended by the Choudhary Brahm Perkash Committee enabling the emergence of co-operatives based on thrift and mutual help. These cooperatives enjoy the advantages of operational freedom and autonomy from state government while being required to be fully accountable to their members. Cooperatives registered under such laws cannot accept share capital from the state government. The Task Force visited thrift cooperatives, of both women and men (WTC/MTC) in Andhra Pradesh and Orissa and noted that these were self-reliant, vibrant and financially strong. Across the world such cooperatives, also known as credit unions, continue to play an important role in financial inclusion (Box 3.1). The Task Force recommends the promotion of such thrift and credit cooperatives in a mission mode.

Box 3.1

Cooperatives: Integral and Growing Part of Economies World over

The cooperative form of organisation has contributed immensely to the growth of the economy in all parts of the world, including the developed countries. This organisational form has been found to be suitable for small farmers and producers to access various markets and thereby benefit from overall growth in the economy. To illustrate, 40% of individuals in the United States are members of cooperatives. Approximately 30% of farm produce is marketed through 3,400 farmer owned cooperatives and nearly 10,000 credit unions have 84 million members and assets in excess of US \$ 600 billion. In Brazil, cooperatives are responsible for 72% of wheat production, 44% of barley, 39% of milk and 38% of cotton production. Similarly cooperative banks in Europe had over 150 million clients (one third of the EU population) in 2004. In Kenya, cooperatives have a share of 95% of the cotton market, 76% of the dairy market and contribute 45% to the GDP with 31% of national savings and deposits. Canada presents an interesting example where credit unions (which cater specifically to the financial needs of small farmers) have doubled their market share in farm debt outstanding over the last 15 years, from 5.3% in 1993 to 10.9% in 2008.

Source: <http://www.authorstream.com/Presentation/lacchi.maddala-238755-co-operative-socities-societies-education>, accessed on 13 May 2010.

3.12 The Task Force members during their visits to some states were apprised of the cost of documentation on account of stamp duty. They were also informed that Uttar Pradesh had waived stamp duty on agricultural credit up to Rs.5 lakh. The Task Force recommends that stamp duty be waived for loan agreements for agricultural purposes.

Debt waiver, debt relief, OTS schemes

3.13 Government implemented a rehabilitation package (Prime Minister's Relief Package) for farmers in 31 distressed districts in the states of Andhra Pradesh, Karnataka, Kerala and Maharashtra involving a financial outlay of Rs.16,979 crore. For the state of Kerala, separate packages for development of Kuttanad wetland eco-system and mitigation of agrarian distress in Idukki district with an outlay of Rs.1,841 crore and Rs. 764 crore respectively are being implemented.

3.14 The Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS), 2008, already referred to in Chapter 1 of this report aimed at bringing back into the institutional fold, farmers who had defaulted on their agricultural loans. State cooperative banks, state cooperative agriculture rural development banks and regional rural banks (RRBs) have reported disbursing loans of Rs. 11,851.73 crore to 0.55 crore newly eligible accounts for production and investment credit as on 31 March 2010. During its visit to Tripura, the Task Force was apprised of outstanding dues of farmer-members of PACS in respect of loans prior to 1 April 1997. The Task Force recommends that banks and PACS may, on their own, enable farmers with loans overdue taken prior to 1 April 1997, to access fresh farm loans.

3.15 Government of Tamil Nadu waived off all agricultural loans outstanding, as on 31 March 2006, payable by the farmers to cooperatives. This covered other special societies, which disbursed agricultural loans.

3.16 In 2007-08, the Government of Karnataka provided a loan waiver of Rs.25,000 on agricultural loans. The scheme was extended to fishermen and weavers as also for loans disbursed through KCC as well as PACS ceded to commercial banks. The Government of Maharashtra also provided debt waiver and debt relief of Rs. 20,000 to those persons who could not get benefit under the

ADWDRS, 2008. The state government scheme also covered loans disbursed by cooperative societies for lift irrigation, poultry, fishery and dairy development.

3.17 The Government of Kerala had implemented several schemes dealing with indebtedness to both formal institutions and to moneylenders. The Kerala Farmers' Debt Relief Commission had received around 4.5 lakh applications from farmers for waiver of farm and non-farm loans from cooperatives, non-banking finance companies (NBFCs) and moneylenders, and the 12 benches of the commission cleared about 300 cases each day. Where a district had been declared distressed, the Commission did not seek individual applications.

3.18 Kerala had implemented OTS scheme for agricultural loans. Many farmers had borrowed from various sources and repaid the cooperative loans and, therefore, did not qualify for the waiving off of the principal under ADWDRS.

Redemption from informal sources of credit

3.19 The Government of India thrust on doubling the flow of institutional credit to agriculture during the period 2004-05 to 2006-07 had a sub-component on redemption of informal credit by institutional agencies. The Union Finance Minister in his budget announcement for the year 2008-09 said,

'Banks will be encouraged to embrace the concept of Total Financial Inclusion. Government will request all scheduled commercial banks to follow the example set by some public sector banks and meet the entire credit requirements of SHG members, namely, (a) income generation activities, (b) social needs like housing, education, marriage, etc. and (c) debt swapping.'

3.20 In respect of loans taken by farmers from informal sources, measures have been taken for swapping the loan taken from moneylenders, for redemption of debt from informal sources/ private moneylenders, and for making the farmer/ village moneylender free. Commercial banks and RRBs offer schemes to finance farmers to pay off debts taken by them from non-institutional sources such as

moneylenders, pawnbrokers, dealers of fertilisers and dealers of farm inputs. In order to encourage banks, NABARD has developed Krishak Sathi Scheme (KSS), a debt refinance product.

3.21 A review of the debt swap schemes of banks has revealed that these schemes had limited success as farmers were reluctant to disclose the name of the money-lenders, were hesitant to make payment of existing debt to their lenders, apprehensive in disclosing debt and some had even repaid the existing debt out of their KCC limits. Even though the Task Force came across some good debt swap schemes (Box 3.2), bankers reported difficulty in taking these to scale and also reported that there was little guarantee that farmers would not ever again borrow from moneylenders, or that a village could remain moneylender free. The Task Force, therefore, recommends that a systematic study be taken by an independent agency to assess the impact of the scheme for further development as a financial product and upscaling.

Box 3.2

Debt Swap Scheme of North Malabar Gramin Bank and South Malabar Gramin Bank of Kerala

Comprehensive village survey (household survey) was conducted with the help of members of farmers clubs, SHGs and local NGOs. The survey revealed that the extent of indebtedness ranged from Rs. 15,000 to Rs. 25,000, the interest on borrowings ranged from 60% to 120% per annum, and purposes of loan included agriculture, marriage expenses, health, house repair. A screening committee of bank officials, representatives of panchayat, farmers' clubs, SHGs and NGOs interviewed the indebted villagers personally to confirm the findings of the survey and recommended to the concerned branches for disbursal of loans to the indebted persons. The loans were sanctioned directly to the borrowers under GCC, KCC, and through SHGs. The banks did not seek documentary proof for the debt owed by the borrower. No security was insisted upon. It was ensured that the loan was utilised by the borrowers to repay their debt to the moneylender. Bank officials encouraged formation of SHGs of individual borrowers to ensure prompt repayment. To augment the income of borrowers so as to not let them fall again into the clutches of moneylenders, the banks financed the SHGs for income generating activities.

Source: *Debt Swap Scheme of the Regional Rural Banks of Kerala*, Study Report 1, Regional Training Centre, NABARD, Mangalore, 2009.

Sustainable agriculture and livelihood programmes

3.22 Many schemes have been introduced by GOI to promote sustainable agriculture so that returns from agriculture are adequate for the farm household. Adequate returns increase credit absorption capacity and encourage further investment in agriculture.

3.23 GOI introduced the National Rural Employment Guarantee Scheme (NREGS) in 2006 (now known as Mahatma Gandhi NREGS) to supplement income of rural households through 100 days of assured employment in a financial year to one adult member in every household, who chooses to engage in unskilled manual work. The coverage of on-farm and other development works under the scheme can help in rural development and check migration. Farmers reported to the Task Force that works taken under NREGS during cultural operations adversely affected the availability of labour, thereby increasing wages and cost of cultivation.

3.24 Many state governments and NGOs have taken initiatives in order to enhance the income of farmers and make agriculture sustainable. As an illustration, the interventions of Society for Elimination of Rural Poverty (SERP) in Andhra Pradesh are given in Box 3.3. NABARD, in partnership with non-governmental organisations, is implementing watershed development, *wadi* project in tribal areas, and supporting innovations in agriculture and allied activities. The Task Force visited some such models and interacted with farmers in various states. The Task Force is of the view that these experiences have lessons for making agriculture sustainable and recommends that financing institutions should design and provide appropriate credit products for these labour intensive agricultural practices.

Box 3.3
CMSA Model - Andhra Pradesh

Community Managed Sustainable Agriculture (CMSA), promoted by Society for Elimination of Rural Poverty (SERP), is an alternative technology using non-pesticide management to reduce usage of input intensive cultivation, thereby reducing costs and risks. From 160 hectares in 2004-05, the coverage grew to 13.8 lakh hectares in 2008-09 and is likely to be further scaled to 100 lakh hectares, 40% of the state's gross cropped area, in another five years. Women farmers in SHGs have been at the centre of this spread with banks coming forward to provide the necessary credit.

Source: SERP, 2009.

3.25 The Task Force recommends that as a parallel to the subsidies available to those engaged in chemical input oriented farming, the Government of India devise ways to provide incentives to those choosing to engage in more sustainable farming, as a recognition of their contribution to larger social and environmental good, and as a means to tide over any initial losses arising from decreased production and/or lag in recognition of the produce as organic.

3.26 The Task Force visited a seed growers' cooperative in Andhra Pradesh, and had interactions with representatives of other similar cooperatives. These cooperatives are able to supply quality seeds to their own members and even though the seeds are offered as 'truthfully labelled' they are in great demand across the state. They had been unable to access bank finance for the first few years even though they were viable and vibrant businesses. More recently, banks have made available some credit to them. Such cooperatives need to be promoted, supported, and sustained to prevent spurious inputs and related risks, and banks need to be encouraged to provide finance to such cooperatives. Crop failure from the use of spurious seeds is an important contributor to farmer indebtedness to the moneylender and default to banks. The multiplication of foundation seed locally reduces costs significantly. The Task Force recommends that financing by banks to cooperatives engaged in seed production should be treated as 'direct finance' under priority sector lending, and banks be encouraged to lend to these and other agro processing cooperatives.

3.27 The National Agricultural Insurance Scheme (NAIS) is being implemented in 25 states and two union territories, as part of the strategy for risk management in agriculture with the intention of providing financial support to farmers in the event of crop failure, as a result of natural calamities, pests and diseases. It has covered 1,347 lakh farmers over an area of 2,109 lakh hectares, insuring a sum of Rs.1,48,250 crore during the period *rabi* 1999-2000 to *rabi* 2008-09. (*Economic Survey 2009-10*, GOI). However, the farmers with whom the Task Force interacted with expressed disappointment with the current design of the scheme; it did not do adequate justice to the loss suffered by some farmers but benefited some who did not suffer any loss. Farmers urged that the crop cutting experiments be conducted, at the least, at the panchayat level and that the insurance cover their loss of revenue and not their loan. The Task Force understands that a modified crop insurance scheme is under the active consideration of GOI. Pending a final decision, the Task Force recommends that satellite imagery backed by ground truths at panchayat level be undertaken on pilot basis in at least one district of each state to arrive at lessons for subsequent scaling up. The Task Force further recommends that insurance schemes be designed to provide cover to the farmer for the loss of revenue, and not as a cover for the bank loan.

3.28 The pilot weather based crop insurance scheme being implemented in 13 states has covered about 21.77 lakh farmers during five crop seasons (from *kharif* 2007 to *kharif* 2009), and claims to the tune of about Rs.388 crore have been paid against a premium of about Rs.444 crore (*Economic Survey 2009-10*, GOI). For scaling up such insurance, and also for cost-effective panchayat level crop cutting experiments, the Task Force recommends that these schemes be more urgently developed, budgetary support be provided, if needed, and farmer organisations and their federations be trained and involved in these activities.

In conclusion

3.29 The Task Force recognises that farming, as a business enterprise is exposed to myriad risks. Loan conversions/reschedulement, institutional debt waiver, debt relief, and OTS schemes announced by government and banks do help in providing relief in the short-term and make available fresh working capital for production, to farmers in distress, but long-term solutions would entail risk mitigation through suitable insurance cover, produce aggregation for market, increasing returns to the farmer through sustainable and viable agricultural practices, and diversifying into other livelihood opportunities.

Chapter 4

Kisan Credit Card Scheme

4.1 The introduction of the Kisan Credit Card (KCC) scheme in 1998-99 was a step to provide farmers with adequate and timely credit support from the banking system, for agriculture and allied activities, in a flexible and cost-effective manner. The scope of the scheme was enhanced in 2004-05 to include investment credit and some consumption requirement. The scheme was further extended in 2006-07 to the state cooperative agriculture and rural development banks (SCARDBs) so that all loan requirements for their borrowers could be covered under a single window.

4.2 The model scheme on KCC has been formulated by the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD) and circulated to scheduled commercial banks, regional rural banks (RRBs) and cooperative banks. To increase the flow of credit to agriculture, banks were advised to identify new and defaulting borrowers to bring them into the KCC fold. Banks route all crop loans through KCC mode only.

4.3 In order that a farmer has cheaper finance from the banking system, particularly, small and medium farmers with a production loan of up to Rs. 3 lakh, banks were instructed to charge an interest rate of 7% or less, with the Government of India (GOI) providing an interest subvention to public sector banks, regional rural banks (RRBs) and cooperative banks at the rate of 2% from 2006-07 onwards (it was 3% in 2008-09). With a view to inculcating the habit of prompt payment and to motivate those who repay before the due date, an incentive by way of refund of 1% from the interest charged on the loan account was also offered from the year 2009-10, which was further increased to 2% in 2010-11. Thus, the net interest cost to such borrowers will effectively be as low as 5% per annum. Many state governments have come forward to provide additional relief to the farmers on the interest paid on crop loans. The state government interest subvention/relief in Andhra Pradesh, Chhattisgarh,

Karnataka, Madhya Pradesh, Maharashtra, Orissa, Tamil Nadu and Uttarakhand have further reduced the rate of interest such that farmers effectively pay up to five per cent on crop loans. Gujarat provides subvention to cooperative banks. The Task Force recommends that interest subvention/refund be continued. Further, a portion of the anticipated interest subvention amount may be parked with banks at the beginning of the year (as in the case of subsidy oriented development schemes of GOI) and adjusted at the end of the year as an incentive for banks to reach out to more farmers with crop loans.

Salient features of the KCC scheme

- 4.4 The salient features of the KCC are as follows.
- a. Eligible farmers are provided with a KCC, which in effect is a credit limit reflected in a passbook or a card-cum-pass book.
 - b. Revolving cash credit facility involving any number of withdrawals and repayment within the sanctioned credit limit is available to the card holder.
 - c. Personal Accident Insurance Scheme (PAIS) providing cover to all KCC holders up to Rs. 50,000 to cover accidental death/permanent disability under a master policy at a nominal premium of Rs. 15 per annum or Rs. 45 for three-years is available to the cardholder. The financing bank bears two-thirds of the above premium amount.
 - d. Entire production credit requirements of the farmer for a full year plus credit needs for allied activities related to agriculture, as also consumption purposes, are incorporated in the same card.
 - e. Credit limit for production credit is fixed on the basis of operational land holding of card holder, cropping pattern followed by him/her and the scales of finance approved by a district level technical committee for cultivation of different crops, based on agricultural practices adopted in the area. Credit limit for term, and working capital limit for agriculture and allied activities, is fixed on the basis of cost of the assets proposed to be acquired by the farmer, the allied activities already being undertaken on the farm and the

- bank's judgment on his/her repayment capacity vis-à-vis total loan devolving on the farmer, including his/her existing loan obligations.
- f. Literate borrowers are issued cheque book for withdrawal of the loans; whereas non-literate borrowers can draw cash in person only, at the branch of a bank.
 - g. Entire credit limit can be disbursed in cash with discretion to farmers to purchase inputs of their choice from outlets of their choice; farmers can take advantage of market conditions.
 - h. The facility is sanctioned for requirements over a year with sub-limits for different cultivation seasons.
 - i. Some banks allow loan amounts in KCC, to be drawn through Automated Teller Machines (ATMs) obviating the need to draw the loan in lump sum.
 - j. KCC sanction is valid for 3/5 years subject to annual review by financing bank - even though the validity of KCC is up to 5 years, the renewal of KCC is done annually depending upon the operation of the account.
 - k. Each withdrawal made by the cardholder is to be repaid within 12 months.
 - l. Conversion/rescheduling of loan is permissible in case of damage to cultivated crops on account of natural calamities.
 - m. As an incentive for good performance, banks can enhance credit limits to take care of increase in costs, change in cropping pattern adopted by the farmer and other reasons.
 - n. RBI has stipulated uniform security and margin for loans for all cardholders.
 - o. Operations on the credit card account may be through card issuing branch or through other designated branches (at the discretion of financing bank).
 - p. Credit balances in the cash credit account as of now are not eligible for payment of interest by bank (as applicable to the savings account).
 - q. Withdrawals from accounts are permitted through withdrawal slips/cheques duly accompanied by card cum passbook.
 - r. Crop loans disbursed under KCC scheme for notified crops are covered under National Agriculture Insurance Scheme (NAIS), a crop insurance scheme introduced at the behest of GOI, to protect the interest of the

farmer against loss of crop yield caused by natural calamities and pest attacks.

Study of KCC scheme¹

4.5 The KCC scheme is being implemented by cooperative banks, commercial banks and RRBs. By the end of February 2010, a total number of 9.06 crore KCCs had been issued (Table 4.1).

Table 4.1:
Agency-wise and period-wise progress of KCC

| Year | Cooperatives | | RRBs | | Commercial Banks | | Overall | |
|------------|---------------------|-------------------|---------------------|-------------------|---------------------|-------------------|---------------------|-------------------|
| | No. of cards issued | Amount Sanctioned | No. of cards issued | Amount Sanctioned | No. of cards issued | Amount Sanctioned | No. of cards issued | Amount Sanctioned |
| 1998-1999 | 1.55 | 826 | 0.06 | 11 | 6.22 | 1473 | 7.83 | 2310 |
| 1999-2000 | 35.95 | 3606 | 1.73 | 405 | 13.66 | 3537 | 51.34 | 7548 |
| 2000-2001 | 56.14 | 9412 | 6.48 | 1400 | 23.90 | 5615 | 86.52 | 16427 |
| 2001-2002 | 54.36 | 15952 | 8.34 | 2382 | 30.71 | 7524 | 93.41 | 25858 |
| 2002-2003 | 45.79 | 15841 | 9.64 | 2955 | 27.00 | 7481 | 82.43 | 26277 |
| 2003-2004 | 48.78 | 9855 | 12.73 | 2599 | 30.94 | 9331 | 92.45 | 21785 |
| 2004-2005 | 35.56 | 15597 | 17.29 | 3833 | 43.96 | 14756 | 96.81 | 34186 |
| 2005-2006 | 25.98 | 20339 | 12.49 | 8483 | 41.65 | 18779 | 80.12 | 47601 |
| 2006-2007 | 22.98 | 13141 | 14.06 | 7373 | 48.08 | 26215 | 85.12 | 46729 |
| 2007-2008 | 20.91 | 20492 | 17.73 | 9074 | 46.06 | 20421 | 84.70 | 49987 |
| 2008-2009 | 13.44 | 13172 | 14.14 | 7632 | 58.34 | 25865 | 85.92 | 46669 |
| 2009-2010 | 16.15 | 7005 | 16.08 | 8231 | 27.47 | 19746 | 59.70 | 34982 |
| Cumulative | 377.59 | 145238 | 130.77 | 54378 | 397.99 | 160743 | 906.35 | 360359 |

Note: In 2009-2010, data are provisional and up to end-February 2010 for cooperatives and RRBs and up to end-June 2009 for commercial banks.

Source: NABARD.

4.6 The study (Samantara, 2010) clearly indicates that the management information system (MIS) for monitoring the progress of the scheme is fraught with shortcomings. The report identifies four types of shortcomings in the MIS on

¹ This section is based on Samir Samantara, 'Kisan Credit Card - A Study', Occasional Paper No. 52, NABARD, Mumbai, 2010 (hereafter, Samantra, 2010) and the perceptions gained by the Task Force members during their visits to various states.

KCC: (a) more than one family member having the same operational holding has been issued KCC, (b) the same person has been issued multiple KCC by various banks, (c) in certain cases, KCC lapsed after a period of three years, but such cards were still counted as active cards in the MIS and finally, (d) in certain cases, cards were renewed after a period of three years, but such cards were shown to be freshly issued. Adjustment for these distortions brought down the number of KCCs to 472.68 lakh, which constituted around 50.63% of the operational holding (Table 4.2). The states with highest coverage of KCCs (ratio of number of cards to operational holdings) were Punjab (77.53%), Haryana (74.21%), and the lowest were Himachal Pradesh (28%) and Assam (13.42%). Although the government is monitoring closely the flow of credit through credit disbursed, number of KCCs issued, and new farmers covered, perhaps the MIS is not correctly designed. The Task Force recommends a revamping of the MIS so that it reflects ground realities. It also recommends that the numbers need to be validated to avoid double counting by separately reporting the number of cards issued, details of renewals and fresh sanctions.

Table 4.2
Coverage of KCC

| States | No. of operational holdings (in lakh) | No. of cards issued (in lakh) | Percent operational holdings covered under KCC | Active KCC after adjusting for errors (in lakh) | Estimated operational holdings covered under Active KCC (%) |
|-----------------------------|---------------------------------------|-------------------------------|--|---|---|
| Orissa | 40.67 | 49.34 | 121.32 | 24.87 | 61.15 |
| West Bengal | 67.90 | 31.08 | 45.77 | 27.09 | 39.90 |
| <i>Eastern Region</i> | 108.57 | 80.42 | 74.07 | 51.96 | 47.86 |
| Maharashtra | 121.04 | 78.12 | 64.54 | 70.34 | 58.11 |
| Gujarat | 42.39 | 28.01 | 66.08 | 20.54 | 48.45 |
| <i>Western Region</i> | 163.43 | 106.13 | 64.94 | 90.88 | 55.61 |
| Rajasthan | 58.19 | 47.57 | 81.75 | 37.77 | 64.91 |
| Madhya Pradesh | 73.56 | 50.68 | 68.90 | 42.57 | 57.87 |
| <i>Central Region</i> | 131.75 | 98.25 | 74.57 | 80.34 | 60.98 |
| Punjab | 9.97 | 22.30 | 223.67 | 7.73 | 77.53 |
| Haryana | 15.28 | 23.48 | 153.66 | 11.34 | 74.21 |
| Uttar Pradesh | 216.68 | 154.23 | 71.18 | 76.89 | 35.49 |
| Himachal Pradesh | 9.14 | 3.25 | 35.56 | 2.64 | 28.88 |
| <i>Northern Region</i> | 251.07 | 203.26 | 80.96 | 98.60 | 39.27 |
| Andhra Pradesh | 115.32 | 144.32 | 125.15 | 74.26 | 64.39 |
| Karnataka | 70.65 | 49.78 | 70.46 | 44.56 | 63.07 |
| Kerala | 65.75 | 30.54 | 46.45 | 28.44 | 43.25 |
| <i>Southern Region</i> | 251.72 | 224.64 | 89.24 | 147.26 | 58.50 |
| Assam | 27.12 | 4.81 | 17.74 | 3.64 | 13.42 |
| <i>North-eastern Region</i> | 27.12 | 4.81 | 17.74 | 3.64 | 13.42 |
| Total | 933.66 | 717.51 | 76.85 | 472.68 | 50.63 |

Source: Samir Samantara, 'Kisan Credit Card - A Study', Occasional Paper No. 52, NABARD, Mumbai, 2010

4.7 Internal district reports of NABARD also bring out the weaknesses in the implementation of the scheme in terms of not providing cheque book withdrawal facility to KCC-holders, restrictions on number of transactions, fixing low credit limit by some bank branches and significant differences in service as well as inspection charges levied by banks. Such weaknesses in implementation arise from a lack of understanding of the spirit of the scheme by the bank branch officials. The Task Force recommends that a systematic program of creating awareness amongst bank officials be undertaken through district level consultative committees (DLCCs) in consultation with RBI and NABARD. The financial literacy campaign of the RBI and banks must be broad based to include

the concept and objectives of KCC, and financial counselling especially of distressed farmers. The Task Force recommends that banks use farmers' cooperatives, and SHG federations as banking correspondents to increase outreach.

4.8 The study by NABARD revealed that 48% of the total sample KCC holders covered during field visits felt that the credit limits sanctioned to them under KCC were not adequate. Source wise, percentage of farmers who were dissatisfied was: cooperative banks (60.4%), RRB (44.3%), and commercial banks (33.8%). The Task Force recommends that this issue be addressed by making the process participatory by consulting the farmer while fixing the terms of the limit and withdrawal, as well as repayment, if the objective is to prevent the farmers going to private moneylenders, for the purpose of their production and consumption needs.

4.9 The target prescribed for covering new farmers under KCC during the doubling of agricultural credit (2004-05 to 2006-07) did result in the issuing of cards to new farmers. This has to be further widened through covering new farmers in existing command areas of bank branches, in addition to newer areas through better publicity campaign and interaction at the grassroots. The Task Force recommends that this be ensured through meaningful and purposeful conduct of gram sabhas and kisan credit camps at regular intervals.

Operations in KCC accounts

4.10 In formulating the scheme, it was envisaged that KCC would provide not only adequate credit to meet all needs but also provide flexibility to draw and repay as and when needed, depending on the farmer's cash flow. Frequent transactions would effectively reduce the outstanding loans, thereby, lowering the interest burden. Interactions with bankers/KCC holders during the study indicated that drawals under KCC were either pre-determined by the banker, or tended to be single drawals for the entire limit. Farmers who had surplus amount did not

deposit it in the KCC account as they were under the impression that they would not get any reduction in interest for the credits into the account. It was also observed that bankers perhaps did not create awareness among farmers as credit balance in the account meant frequent visits and transactions by the farmer, resulting in additional transaction cost to the bankers. Some farmers reported to Task Force members during their visits that they were made to withdraw the entire KCC loan amount and deposit either a part or all of it in a savings account, which would anyhow have resulted in frequent withdrawals, but was probably in the interest of banks as the entire limit was treated as disbursed.

4.11 The Task Force is of the view that technology enabled mechanism will obviate such a situation and the Financial Inclusion Technology Fund with NABARD should be enlarged to facilitate this. All the KCCs should be smart card based with access to ATMs, kiosks and points of sale (POS) machines so that the farmer can deposit into and withdraw at his/her convenience. The Task Force urges the coverage of core banking solution in all rural bank branches at the earliest to enable effective use of the smart card.

4.12 The Task Force recommends that the KCC limit be fixed for five years, based on the banker's assessment of total credit needs of a farmer for a full year, and that the limit be operated by the borrower as and when needed, with no sub limits for *khariif* and *rabi*, or for stages of cultivation. Once issued, review by bank may be only for purpose of cancellation of the card. Besides, each withdrawal under KCC be allowed to be liquidated in twelve months without the need to bring the debit balances in the account to zero at any point of time. In order to overcome cumbersome documentation at every renewal, the Task Force also recommends that only when there is an upward revision in the quantum of credit, at the request of the farmer, should a farmer be required to apply, and the banks required to review/renew and seek fresh documentation from the borrower. The Task Force further recommends that the limit be inflation adjusted and automatically renewed without the farmer having to visit the branch, as credits

into the account would extend the limitation period for enforceability of the loan documents.

4.13 Banks should develop a system of giving interest credit to farmers with credit balances in KCCs to encourage them to remit farm sale proceeds into the KCC account. This would also reduce multiple accounts of a farmer in the bank.

4.14 The Task Force considered various points of view and perspectives in the coverage of farmers under the scheme and has come to the view that the institutional coverage of needy farmers is inadequate owing to limited presence of banking in the interior, less developed, tribal and hilly regions. The government's drive at financial inclusion, opening banking facilities through a bank branch or through a business correspondent/facilitator, in all unbanked blocks and similar extension of banking services in all villages with population in excess of 2000 as per 2001 census, could bring about considerable improvement in this regard.

4.15 The present system of reporting under the scheme does not provide for disaggregate data for women cardholders. Financial empowerment of women is an important policy instrument and the Task Force recommends that cards issued to women farmers be reported separately, and that women members of SHGs as well as of thrift and credit cooperatives with a good savings history be provided with specially designed credit cards by banks, with limits linked to the value of their unpaid labour on their own farms or on farms of relatives.

4.16 Many banks offer security-free loans up to Rs. 50,000. Even as the Task Force was deliberating on the issue of recommending an increase in the limits for security-free loans, the RBI raised the limit to Rs. 1 lakh vide its circular dated 18 June 2010.

4.17 Simple undertakings by the cultivator, coupled with supportive certificates and declarations, should be sufficient for getting credit from the banking system.

Insistence of no due certificate from a multitude of banks in the area is another hurdle in accessing farm credit from banks. The Task Force was informed that the RBI had advised banks (including RRBs) in August 2008 that, where there were difficulties in getting certification from local administration/panchayati raj institutions regarding the cultivation of crops, banks could accept an affidavit submitted by landless labourers, share croppers and oral lessees giving occupational status (i.e., details of land tilled/crops grown) for loans up to Rs.50,000. Banks could also encourage the joint liability group (JLG)/SHG mode of lending to such persons.

4.18 The Task Force recommends that a farm credit rating institution (FCRI) be established in a decentralised manner with help from gram sabhas or cooperatives for recording credit history of farmer borrowers from banks. The charges paid by the farmer for such a service would be far less than the opportunity cost in arranging the no due certificate from all bank branches in the area. At any rate the cost of credit rating by Credit Information Bureau (India) Ltd (CIBIL) is met by banks and in the case of the proposed FCRI, too, banks should meet the costs.

Stressed situations and restructuring

4.19 Short-term cash credit loan for agriculture gets converted into a medium-term loan in case of natural calamities, and fresh credit is extended for further operations. This benefit is applicable where the effects of calamity or drought conditions are felt throughout the district and requires issuance of *annewari* certificate by the revenue authorities or a decision of the DLCC. Farmers are left to the discretion of the branch officials of banks for a favourable dispensation, when the failure of crops is due to reasons other than natural calamities. Such loans are not extended at concessional terms, which result in increased burden in the next harvest season. The Task Force recommends that such loans be given at the same rate of interest, as fresh cash credit loan and interest subvention be made available by GOI.

4.20 While KCC is primarily meant to finance farm operations, the farmer should also have recourse to risk reduction and income generating activities such as non-farm/off-farm operations. In view of this, the Task Force recommends that banks consider offering insurance and other products as an add-on service to the KCC without further burdening the farmer. The Task Force further recommends that banks should adopt a portfolio approach and assess the overall funds requirement of a farmer over a year when fixing credit limit.

In conclusion

4.21 The Task Force concluded after its field visits and interactions with various stakeholders that while the farming community did appreciate the usefulness of the KCC for their operations, and in meeting the consumption requirements of their households, changes are needed in the operational guidelines issued by RBI/NABARD and in comprehension and implementation by bank staff. The recommendations made by the Task Force in the reporting system and operations of the KCC are by way of addressing these issues, and to improve the coverage of women in rural areas.

Chapter 5

Legislation Relating to Money Lending

Background

5.1 The Task Force noted the deep-rooted presence of moneylenders in the rural credit delivery mechanism. Farmers approach moneylenders for their credit and consumption needs, not by choice, but by compulsion. On the one hand, farmers' knowledge of money lending laws is poor. On the other hand, money lending laws have not been implemented in true spirit and contain provisions that have become archaic. Easy access to farm credit remains a challenging task for policy makers.

5.2 The Task Force interacted with groups of farmers and were informed of the ease with which they could access credit from the moneylender but with high rates of interest, and about the facility of servicing the debt with regular payment of interest over lengths of time. Farmers were reticent in providing detailed information about moneylenders, but made generalised statements. The Task Force noted that the moneylender today comes in many forms - as an outright lender, as a supplier of inputs/consumer goods, as a for-profit non-banking finance companies (NBFCs), as a buyer of produce, and as an owner of the land on which the farmer is dependent.

Money lending laws

5.3 The Constitution of India lays down that the legislative competence of the Union and States shall be in accordance with the Lists contained in the Seventh Schedule. By virtue of Entry 30, List II (State List), money lending is within the exclusive legislative competence of the States.

5.4 Twenty-two states, National Capital Territory of Delhi and Puducherry have each enacted a separate money lending law to regulate the business of money lending and to protect borrowers from malpractices of moneylenders

(Annex IX).² In Andhra Pradesh there are two laws governing money lending; one for Telangana Area and another for Scheduled Areas of Andhra region. Orissa too has two laws; one for Scheduled Areas of the state and another for the rest of the state.

5.5 Uttar Pradesh government amended the UP Regulation of Money Lending Act in 2008 to protect debtors by requiring the money lender to issue prior notice to the debtor before initiating proceedings for recovery of loans and enhanced punishments for molestation and non-furnishing of accounts. Andhra Pradesh government is proposing a single money lending law for its applicability in the entire state to replace licensing with registration, prevention of molestation, interest rate regulation and for accrediting loan providers. Kerala government is currently reviewing the money lending law. Madhya Pradesh government has set up a committee to go into the existing money lending law. Rajasthan government is proposing to take a comprehensive view of the money lending law along with the need to regulate the micro finance sector.

5.6 Apart from the money lending laws in operation in the respective states, Tamil Nadu and Karnataka have each enacted a separate law to prohibit the charging of exorbitant interest by any person. Under these laws, notwithstanding anything contained in the respective money lending law, whoever charges interest at a rate more than that fixed by the state government under the money lending law, or molests or abets the molestation of any debtor for recovery of any loan, is punishable with imprisonment up to three years and fine up to Rs.30,000.

General features of money lending laws

5.7 The general features of money lending laws across the states are:

² In this chapter, the section refers to provisions of the money lending law of the respective states, unless otherwise mentioned (Annex IX).

- a. registration/licence is required for carrying on money lending business and penalty is imposed for carrying out the business without registration certificate/licence (imprisonment/fine/both);
- b. the term 'loan' includes advance in cash or in kind, at interest;
- c. moneylenders are required to maintain and provide statement of accounts to debtors;
- d. interest rate chargeable by moneylenders is either fixed in the law itself or is required to be fixed by the state government; and
- e. exemption of a class of entities such as banks from the operation of the law or loans given by a class of entities kept out of the purview of the law.

Specific features of money lending laws

5.8 The definition of the term 'loan' in money lending laws of many states includes the advance of both money and material. In Scheduled Areas of Andhra Region, a 'loan' is defined as an advance of money or articles, goods or materials for interest and includes any transaction, which the Court finds in substance to amount to such an advance [section 2(10)]. Loans from one trader to another (trade credit) have been exempted, expressly in the money lending Acts of Telangana Area [section 2(4)(g)], Gujarat [section 2(9)(g)(i)], Himachal Pradesh [section 2(8)(f)], Karnataka [section 2(9)((h)(i)], in areas other than Scheduled Areas of Orissa [section 2(i) – Explanation (2)(ii)], Punjab [section 2(8)(vi)] and Rajasthan [section 2(9)(j)(i)].

5.9 In Uttar Pradesh, the sale of goods by dealers in such goods on credit and hire purchase are not covered [section 3(5)]. In Goa [section 2(k)(xii)], Kerala [section 2(5)(vi)], , Maharashtra [section 2(9)(f2)], Nagaland [section 2 (9)(iv)] and Tamil Nadu [section 2(6)(v)], an advance made in the regular course of business by any person carrying on any business, whose primary object is not the lending of money, has been exempted from the definition of 'loan'. In Gujarat [section 2(9)(g)(iii)], Karnataka [section 2(9)((h)(iii)], and Maharashtra [section 2(9)(g)(iii)], loans from a landlord to a tenant for financing of crops or seasonal finance of not

more than fifty rupees per acre of land held by the tenant have been exempted from the definition of the term 'loan'. In case of Goa, the limit is five rupees per acre [section 2((k)(xiii)]. Under the Orissa Money-Lenders' Act, 1939, supply of goods (i) on *khata* carrying simple interest up to six and a quarter per cent per annum,³ and (ii) on credit, is not treated as loan (section 2(i) - Explanation 2). In West Bengal, a commercial loan is not covered under money lending Act [section 2(12)(f)]. In Tamil Nadu [section 2(ix)], an advance made by an agriculturist to his tenant has been exempted from the definition of the term 'loan'. In Goa [section 2(k)(xiii)], Gujarat [section 2(9)(g)(iv)] and Maharashtra [section 2(9)(g)(iv)], a loan advanced to an agricultural labourer by his employer has been exempted from the definition of the term 'loan'.

5.10 Money lending laws of Karnataka (section 7A) and Kerala [section 4(2A)] require registered moneylenders to keep security deposits with the government. The law provides a detailed table specifying the amount to be deposited by a moneylender, and it is linked to the amount of money lent in a year. The security deposit specified in Karnataka ranges from a minimum of Rs.5,000 to a maximum of Rs.50,000, and in Kerala it ranges from a minimum of Rs.5,000 to a maximum of Rs.2,00,000.

5.11 Money lending laws of Scheduled Areas of Andhra Region (section 20), Telangana Area (section 13), Goa (section 42), Gujarat (section 33), Karnataka (section 38), Kerala (section 13), Maharashtra (section 33), Nagaland (section 20) Scheduled Areas of Orissa (section 20), Rajasthan (section 39), Tamil Nadu (section 13), Uttar Pradesh (section 23) and West Bengal (section 41) provide for 'molestation' as an offence and prescribe penalty for the commission or abetment to commit the same. A person is deemed to 'molest' another if he (a) obstructs, or uses violence or intimidates, such other person, or (b) interferes with any property owned or used by him or deprives him of, or hinders him in the use of any such property, or (c) does any act calculated to annoy or intimidate the

³ *Khata* means 'on-account'.

members of the family or such other person; Even where the money lending law does not make molestation punishable, the same becomes punishable under Indian Penal Code (IPC) for offences such as abetment to suicide (section 306), hurt (section 319), grievous hurt (section 320), voluntarily causing grievous hurt to extort property, or to constrain to an illegal act (section 329), wrongful restraint (section 339), wrongful confinement (section 340), assault or criminal force with intent to dishonour a person otherwise than on grave provocation (section 355), abduction (section 362), unlawful compulsory labour (section 374), extortion (section 383), cheating (section 415), criminal trespass (section 441), making a false document (section 464), defamation (section 499), criminal intimidation (section 503), and word, gesture or act intended to insult the modesty of a woman (section 509).⁴ The Task Force observed that there is ample scope to punish a moneylender for some of the wrongdoings under the provisions of the IPC.

5.12 The punishment provided in most state laws for errant behaviour on the part of moneylenders was, at any rate, not a deterrent for the breaking of the law. Money lending laws of Gujarat (section 35B), Maharashtra (section 35B), Rajasthan (section 42) and Uttar Pradesh [section 22(3)] require previous sanction of the Registrar for filing complaints for violation of the provisions of the Act. The money lending law in Tamil Nadu (section 12) requires the prescribed authority to file a complaint for violation of the provisions of the Act. Money lending laws of Scheduled Areas of Andhra Region (section 12 read with section 17), Nagaland (section 12 with section 17) and Scheduled Areas of Orissa (section 15 read with section 23) empowers the government or any authority or officer empowered by them to appoint inspectors, and complaints are required to be filed by them. Money lending Acts of Gujarat (section 35C), Rajasthan (section 43) and Uttar Pradesh (section 25) even provide for compounding of offences (violations condoned by payment of meagre amounts as fine). In Assam (section 12A), the aggrieved party can file a complaint for violations of the provisions of

⁴ In this paragraph the section when referred to offences relates to provisions of IPC; in all other cases, as indicated earlier, section refers to provisions of the money lending law of the respective states.

the Act. The Task Force is of the view that unless the law specifically provides for an aggrieved debtor to complain against a moneylender, and unless such a complaint can be made in an easily accessible and aggrieved-friendly place and manner (as in the case of domestic violence), the likelihood of convictions under these laws will remain negligible. Further, unless the penalty is commensurate with the offence, operating without licence/registration, harassing the borrower, refusing to give receipts, and other flouting of law will remain prevalent.

5.13 In order to enable farmers indebted to moneylenders to seek suitable relief/redressal of any debt related grievance, the Task Force recommends the creation of a quasi-judicial authority for quick redressal. The authority may be constituted at the district or appropriate lower, easily accessible to the aggrieved farmer. In case of loans from unregistered moneylenders, the farmer could produce an affidavit or self declaration for making the complaint. The authority could also look into the claims of the registered moneylender against a borrower, which might act as an incentive for registration and compliance.

5.14 The Task Force met several farmers who spoke of usurious rates of interest being charged by for-profit NBFCs and other moneylenders. In 2007, Reserve Bank of India (RBI) advised all NBFCs, *inter-alia*, that the rates of interest beyond a certain level may be seen to be excessive and can neither be sustainable nor be conforming to normal financial practice. Boards of NBFCs were, therefore, advised to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges.⁵

5.15 In 2009, RBI issued the following directions to NBFCs:⁶

- a. The Board of each NBFC shall adopt an interest rate model taking into account relevant factors such as, cost of funds, margin and risk premium, and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale

⁵ Circular DNBS.PD/ CC. No. 95 /03.05.002 /2006-07 dated May 24, 2007

⁶ Notification No. DNBS. 204 / CGM(ASR)-2009 dated January 2, 2009

- for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.
- b. The rates of interest and the approach for gradation of risks shall also be made available on the web-site of the companies or published in the relevant newspapers. The information published on the website or otherwise published should be updated whenever there is a change in the rates of interest.
 - c. The rate of interest should be annualised so that the borrower is aware of the exact rates that would be charged to the account.

5.16 All state laws have provided for the fixing of an upper limit on loan interest rates. Money lending laws of Assam (section 9), Bihar (section 11), Chhattisgarh (section 9), Goa (section 29), Gujarat (section 23), Karnataka (section 26), Madhya Pradesh (section 10), Maharashtra (section 23), Scheduled Areas of Orissa (section 7 proviso), and other areas of Orissa (section 7C), Rajasthan (section 27), Tamil Nadu (section 20A), and West Bengal (section 30) contain a provision providing for the maximum amount of interest recoverable on loans made by moneylenders, incorporating the rule of *damdupat* that the amount of interest recoverable at any time cannot exceed the principal. In money lending laws of Kerala (section 7), Nagaland [section 7(1)], Tamil Nadu (section 7) and Uttar Pradesh (section 12), the interest rate which a moneylender can charge is correlated to current bank rates of lending.

5.17 The Task Force recommends that state governments undertake a comprehensive review of the existing money lending laws and widen the definition of 'moneylender' to cover within its ambit NBFCs and other closely held, for-profit entities. Instead of the law specifying the rate of interest, it could provide for the rate to be fixed from time to time based on prevailing bank rates.

Court interpretation of money lending laws

5.18 High courts have applied the money lending law to NBFCs differently. While the Kerala High Court after examining the definition of 'moneylender' under Kerala Money-Lenders Act, 1958 held that the Act does apply to NBFCs,⁷ the Gujarat High Court, after examining the definition of 'moneylender' under Bombay Money-Lenders Act, 1946, held that it does not apply to NBFCs.⁸ The Kerala High Court held that while the deposit taking activity of NBFCs is to be regulated by the RBI, the lending activity of NBFCs could be subject to conditions laid by the money lending law.

5.19 The Task Force examined the implications and interpretation of various judgments of the Supreme Court and High Courts which have a bearing on money lending laws. The implications of the judgments are:

- a. chit business is not in the nature of money lending business (Shriram Chits and Investment (P) Ltd. v. Union of India reported in 1993 Supp(4) SCC 226);
- b. a businessman who advanced money to his supplier for a regular supply of goods cannot be said to be a moneylender as the principal object of such advance is to ensure the regular supply of material, and the charging of interest is not the principal object (P. Vaikunta Shenoy and Company v. P Hari Sharma reported in (2007) 14 SCC 297);
- c. a few disconnected and isolated loan transactions cannot be deemed to make a person a moneylender (Ka Icilda Wallang v. U. Lokendra Suam reported in AIR 1987 SC 2047);
- d. a bank is not a moneylender and is, therefore, not required to take a licence under the money lending law to carry out its activities (Associated

⁷ Judgment dated 18 November 2009 in WA 540 of 2007 (Sundaram Finance Limited v. State of Kerala and others) and Batch (unreported)

⁸ Judgment dated 13 January 2010 in SCA 13163 of 2008 (Sundaram Finance Limited v. Asst Registrar) (unreported)

- Timber Industries v. Central Bank of India reported in (2000) 7 SCC 93);
- e. a provision in Kerala Money-Lenders Act, 1958 was declared as arbitrary, for providing for forfeiture of security deposit for non compliance of conditions of licence, holding that there are adequate provisions in the Act to ensure compliance with the conditions of licence (State of Kerala v. Monarch Investments reported in 1992 Supp (3) SCC 208);
 - f. the Supreme Court on 3 February 2009 in Hongkong and Shanghai Banking Corporation Limited (HSBC) case (Civil Appeal 5273 of 2008) stayed an order of the National Consumer Disputes Redressal Commission (NCDRC) which had restrained banks from charging interest rates in excess of 30% per annum from credit card holders for their failure to make full payment on due date (order dated 24 October 2007 of NCDRC in Consumer Complaint 51 of 2007);
 - g. a person does not become a moneylender only by reason of advancing occasional loans to his relations, friends, or acquaintances, nor does he become a moneylender merely because on one or several isolated occasions, he may have had to lend money with interest to strangers [Shobhita Rani Kaushal v. Ketty & Another reported in AIR 2009 (NOC) 903 (Bom)];
 - h. a person casually advancing a loan, once or even more than once cannot be regarded as a moneylender; such person must be shown to have been advancing loans in the regular course of business [Bijoy Sankar Roy and others v. Sujit Agarwalla, reported in AIR 2007 (NOC) 1151 (Gau)]; and
 - i. a case questioning the constitutional validity of Maharashtra Debt Relief Act, 1975 giving relief from indebtedness to certain farmers, rural artisans, rural labourers and workers, as affecting money lending was dismissed (Fatehchand Himmatlal and others v. State of Maharashtra reported in (1977) 2 SCC 670).

Reasons for operating without registration/licence

5.20 The Task Force met several farmers who had borrowed from several types of moneylenders. Despite state laws requiring licensing/registration of moneylenders, the number of licensed registered moneylenders appeared to be well below the actual number of moneylenders active across the states.

5.21 Moneylenders appeared to be operating without registration/licence for the following reasons:

- a. inappropriate ceiling on the interest rate on lending;
- b. cumbersome process of registration: fear of disclosure of unaccounted money, fear of penalties and audit;
- c. need to compulsorily submit statements/returns at periodic intervals; and
- d. no strict implementation of law for compliance.

5.22 The Task Force was informed in most states that the sheer numbers of moneylenders in the state made it difficult to (a) ensure that all were indeed registered and (b) monitor their activities and business to ensure that it was not extortionist. The numbers of complaints received had been negligible except where the campaign mode was adopted by a state government. Convictions were exceptions. In order to encourage moneylenders to register their business, those that do register could be provided with loan recovery mechanism under the law, and they could be assured of confidentiality of their transactions.

Land tenure in India

5.23 In the course of interactions with farmers, the Task Force also realised that even though this was not included in its terms of reference, the impact of tenancy and land reform laws, too, were closely linked with the role that the moneylender played in agricultural credit. The Task Force observed that a Committee on State Agrarian Relations and the Unfinished Task in Land Reforms, constituted by Government of India under the chairmanship of the Minister for Rural Development

had recently submitted its report. The Task Force used the findings of that report as well as learning from its own field visits, to arrive at a cursory analysis of the situation.

5.24 The existing laws affecting holding of lands and status of land records across the country prevents farmers, especially tenant farmers, oral lessees and sharecroppers from obtaining hassle free credit from the formal banking channel. Being unable to mortgage their interest in the land, they are forced to borrow from moneylenders.

5.25 The Constitution of India lays down the power of the Union and the States to legislate. By virtue of Entry 18, List II (State List), 'Land, that is to say, rights in or over land, land tenures including the relation of landlord and tenant, and the collection of rents; transfer and alienation of agricultural land; land improvement and agricultural loans; colonization,' is within the exclusive legislative competence of the states.

5.26 Article 39 of the Indian Constitution expects that the State will direct its policy towards securing that all citizens have the right to adequate means of livelihood, and that the ownership and control of the material resources of the community are so distributed as best to subserve the common good. Land reform is carried out under this directive. Land reform laws in India cover tenancy reforms, abolition of intermediaries, land ceiling, and land consolidation. Zamindari Abolition Acts, Tenancy Acts, Land Reforms Acts and Land Ceiling Acts of various states were placed in Ninth Schedule to the Constitution of India due to which, they cannot be held to be void on the ground of contravention of any fundamental right. The Constitution of India has been amended a number of times to remove legal obstacles to land reforms. Tenancy reforms imposed regulations that attempted to improve the contractual terms faced by tenants, including crop shares and security of tenure. In spite of laws either prohibiting or restricting leasing of agricultural lands, it is still prevalent, and the Task Force

recommends that states recognise that tenancy exists, and work towards solving related problems.

Need for updating land records

5.27 The Task Force met several tenant farmers, and farmers who had inherited land, but were yet to get the land deeds in their names. Many of them complained that because they had no records or agreements in their possession, they were unable to access institutional finance. Their only regular and reliable source was the moneylender.

5.28 In a security oriented lending approach, applicant's ownership/interest over the land is an integral part of credit appraisal system. It is, therefore, necessary that appropriate arrangements be made to enable institutional credit agencies to get adequate and dependable information about the ownership and interest in the land of a prospective borrower. Incomplete and non-updating of land records periodically and delays in mutation in many places, act as deterrent to access institutional credit. In many states, computerisation of land records has taken place with varying extent. The Task Force recommends that state governments take a proactive role in ensuring full computerisation of land records and provide easy access to citizens to access such information.

In conclusion

5.29 After a review of the existing laws regulating the moneylender and the effectiveness of their implementation in various states, the Task Force is of the view that these laws have become archaic and their implementation ineffective. With the emergence of new players in providing financial services in the informal sector, there is need to comprehensively review and make appropriate laws. In order to regulate those who exploit the poor and the distressed with usurious rates of interest and on exploitative terms, the setting up of a grievance redressal mechanism becomes imperative.

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The Kerala Debt Relief Commission, the Society for Elimination of Rural Poverty in Andhra Pradesh and the State Planning Board in Kerala, provided valuable information to Task Force members.

Several banks assisted the sub-groups in their field visits and arranged for interactions with farmers, with joint liability groups of tenant farmers, oral lessees and share croppers, with members of self-help groups and their federations, in various villages.

Among civil society organisations that helped arrange for educative interactions with large numbers of farmers were Centre for Sustainable Agriculture and Cooperative Development Foundation (Andhra Pradesh); Paliganj Vitarani Jeevika and Krushak Samiti (Bihar); Adhikar, Dahikai Jubak Sangh and Srabani (Orissa); Prodigal Home (Nagaland) and National Agro Foundation and Centre for Indigenous Knowledge Systems (Tamil Nadu), and they made available considerable literature which contributed to the work of the Task Force.

The regional offices of NABARD coordinated with stakeholders in each state to ensure maximum exposure and meaningful discourse. Background papers were prepared for each state visit as an aid to the work of the Task Force. The

secretariat at NABARD head office assisted the Task Force ably in its desk research, and with its vast knowledge of ground realities.

Hundreds of women and men farmers met Task Force members at consultations held across the country, and shared with them the issues that they face in accessing credit, the options before them, and their recommendations for not being as deeply indebted to moneylenders as they currently are.

The Task Force is deeply indebted to each of these contributors to this report and trusts that this report will result in a series of measures that will make institutional credit more easily available to the tenant farmer, the oral lessee, the sharecropper, and other small and marginal farmers.

Annexes

Annex I

F.NO.01/11/2009-Credit-I
Ministry of Agriculture
Government of India
Department of Agriculture and Cooperation
Krishi Bhavan, New Delhi
Dated 06th October 2009

ORDER

In pursuance of the announcement made by the Hon'ble Union Finance Minister in Para 29 of the Budget speech for 2009-2010, the Government has decided to constitute a Task Force to look into the issue of a large number of farmers, who had taken loans from private moneylenders, not being covered under the loan waiver scheme. The composition and terms of reference of the Task Force will be as follows:

A. COMPOSITION

- (i) Chairman, National Bank for Agriculture and Rural Development (NABARD), Chairman.
- (ii) Joint Secretary (Banking), Ministry of Finance, Department of Financial Services - Member.
- (iii) Adviser (Agriculture), Planning Commission - Member.
- (iv) Joint Secretary (Credit), Department of Agriculture and Cooperation, Ministry of Agriculture - Member.
- (v) Principal Secretary (Agriculture), Maharashtra - Member.
- (vi) Principal Secretary (Agriculture), Andhra Pradesh - Member.
- (vii) Principal Secretary (Agriculture), Punjab - Member.
- (viii) Principal Secretary (Agriculture), U.P. - Member.
- (ix) Principal Secretary (Agriculture), Bihar - Member.
- (x) Managing Director, State Bank of India or his nominee not below the rank of Deputy managing Director - Member.
- (xi) Chairman-cum-Managing Director, Punjab National Bank or his nominee not below the rank of General Manager - Member.
- (xii) Executive Director in-charge of RPCD, Reserve Bank of India - Member.
- (xiii) Mrs. Sashi R Rajgopalan, Member, Board of Director, NABARD - Member.
- (xiv) Dr. Shailendra, Associate Professor, Institute of Rural Management, Anand - Member.
- (xv) Dr. Srijit Mishra, Associate Professor, Indira Gandhi Institute of Development Research, Mumbai - Member.
- (xvi) Executive Director, NABARD - Convener and Member Secretary.

B. TERMS OF REFERENCE

- (i) Overview of the existing legislation in the states for regulating loans from private moneylenders in the country.

- (ii) Review of existing policy measures for addressing the issue of indebtedness arising out of loans from private moneylenders and status of its implementation.
- (iii) To suggest measures for covering all categories of farmers more particularly small and marginal farmers, tenant farmers, share croppers and oral lessees with the institutional credit fold to meet their credit requirements in order to reduce their dependence on informal sources.
- (iv) To examine and suggest measures for improving effectiveness of Kisan Credit Card (KCC) scheme including revised operational guidelines for distribution and sanction of KCC credit limits.
- (v) To suggest measures for providing relief to farmers indebted to private moneylenders.
- 4. The Task Force may co-opt any other official / non-official experts / representatives of any organisations as member(s) , if required.
- 5. The Task Force will be provided secretarial assistance by the NABARD. TA/DA and sitting fee for non-official members of the members of the Task Force (as per the rate applicable to non-official members of the Board of Director of NABARD) shall be borne by NABARD.
- 6. The Task Force will submit its report by 31 March 2010.

SD/-
(D.N.Thakur)
Director (Credit)
Telfax : 011-23381809
E-mail : dnthakur.krishi@nic.in

Annex II

F.No.01/11/2009-Credit-I
Ministry of Agriculture
Government of India
Department of Agriculture and Cooperation

Krishi Bhavan, New Delhi
Dated: 1st April 2010

ORDER

Vide this Department's Order No. 1/11/2009 dated 6.10.2009, a Task Force has been constituted to look into the issue of a large number of farmers, who had taken loans from private moneylenders, not covered under the Loan Waiver Scheme. The Task Force was required to submit its report by 31.3.2010. The Competent Authority has considered the request of the Chairman of the Task Force and has granted three months extension of time i.e. upto 30.6.2010 for submission of final report of the Task Force to the Government.

(D.N. Thakur)
Director (Credit)
Tefax: 011-23381809
E-mail: dnthakur.krishi@nic.in

To
The Chairman
National Bank for Agriculture and Rural Development
Bandra-Kurla Complex, Bandra
Mumbai - 51

Annex III

Meetings of the Task Force

| Meeting | Venue | Date |
|----------------|--------------|------------------|
| First | New Delhi | 17 December 2009 |
| Second | Bengaluru | 3 February 2010 |
| Third* | New Delhi | 19 May 2010 |
| Final | New Delhi | 30 June 2010 |

* Shri. Amitabh Verma, IAS, Principal Secretary, Cooperation, Government of Bihar attended the meeting as a special invitee.

Annex IV

Composition of the Sub-groups of the Task Force

In the first Meeting of the Task Force held on 17 December 2009 in New Delhi, the Chairman had constituted four Sub-Groups to visit the states, hold meetings with the stake holders and undertake field visits to gain regional and field level perspectives.

Sub-group - North

Chairman: Shri KV Eapen, IAS

Members: Shri NS Kang, IAS
Shri Kapil Deo, IAS (earlier Shri D.S. Mishra, IAS, Shri. Rohit Nandan, IAS)
Shri Daljeet Singh
Shri Gobinda Banerjee,

States: Haryana, Himachal Pradesh, Jammu & Kashmir, Punjab, Uttar Pradesh and Uttarakhand

Sub-group - East

Chairman: Shri RK Tiwari, IAS

Members: Shri AK Sinha, IAS (Earlier Shri KC Saha IAS)
Dr Srijit Mishra

States: Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Jharkhand, Manipur, Meghalaya, Mizoram, Nagaland, Tripura and West Bengal

Sub-group - West

Chairman: Shri NB Patil, IAS

Members: Shri VK Sharma
Shri Niranjana Parsha

States: Gujarat, Madhya Pradesh, Maharashtra and Rajasthan

Sub-group - South

Chairperson: Smt Shashi R Rajagopalan

Members: Smt Rachel Chatterjee, IAS
Dr HS Shylendra,

States: Andhra Pradesh, Karnataka, Kerala, Orissa and Tamil Nadu

Annex V

Consultations and Meetings held by Sub-Groups of Task Force with Stakeholders

A. State level consultative meets

| Sub-group | Venue/State | Date | State Government officials | RBI officials | Bankers | NABARD officials | Academicians | Farmers | NGOs | Total |
|--------------|---------------------------|------------|----------------------------|---------------|------------|------------------|--------------|-----------|-----------|------------|
| North | Lucknow, Uttar Pradesh | 19.02.2010 | 4 | | 19 | 5 | | | | 28 |
| South | Trivandrum, Kerala | 21.01.2010 | 4 | 2 | 8 | 3 | | 2 | 20 | 39 |
| | Bengaluru, Karnataka | 03.02.2010 | 3 | 2 | 11 | 4 | 2 | | 7 | 29 |
| | Hyderabad, Andhra Pradesh | 26.02.2010 | 6 | 2 | 9 | 3 | 1 | 14 | | 35 |
| | Chennai, Tamil Nadu | 12.03.2010 | 1 | 1 | 10 | 5 | | 9 | | 26 |
| | Bhubaneshwar, Orissa | 29.12.2009 | 5 | | 12 | 21 | | 12 | 8 | 58 |
| | | 09.04.2010 | | | | | | | | |
| East | Patna, Bihar | 17.02.2010 | | | 15 | 14 | | | | 29 |
| | Agartala, Tripura | 20.05.2010 | 7 | | 8 | 2 | | 20 | | 37 |
| | Guwahati, Assam | 21.05.2010 | 5 | | 5 | 7 | | | 1 | 18 |
| | Dimapur, Nagaland | 22.05.2010 | 1 | | 10 | 3 | | 5 | 3 | 22 |
| | Shillong, Meghalaya | 24.05.2010 | 3 | | 5 | 3 | | 4 | 3 | 18 |
| West | Jaipur, Rajasthan | 19.01.2010 | 5 | | 10 | 4 | 2 | | | 21 |
| | Bhopal, Madhya Pradesh | 28.01.2010 | 7 | 2 | 9 | 14 | | | 2 | 34 |
| | Pune, Maharashtra | 18.02.2010 | 2 | | 5 | 4 | | | | 11 |
| Total | | | 53 | 9 | 136 | 92 | 5 | 66 | 44 | 405 |

B. Regional level consultative meets

| Sub-group | Venue (states participated) | Date | Government officials | Bankers | NABARD | Academicians | Farmers' Commission | NGOs | Arhatiya Assoc. | Total |
|--------------|---|------------|----------------------|-----------|-----------|--------------|---------------------|-----------|-----------------|-----------|
| North | Chandigarh (Haryana, Himachal Pradesh, Jammu & Kashmir and Punjab) | 22.01.2010 | 8 | 12 | 8 | 1 | 1 | | 2 | 32 |
| East | Kolkata (Assam, Bihar, Chattisgarh, Jharkhand and West Bengal) | 23.03.2010 | 11 | 15 | 10 | 1 | | 11 | 1 | 49 |
| Total | | | 19 | 27 | 18 | 2 | 1 | 11 | 3 | 81 |

C. Consultation meetings of sub-groups of the Task Force with senior officials/academicians/policy advocates

| | |
|------------------------------|---|
| <u>Andhra Pradesh</u> | Chief Commissioner Land Administration & Special Chief Secretary to Government of Andhra Pradesh Principal Secretary, Revenue, Government of Andhra Pradesh Chief Executive Officer, Society for Elimination of Rural Poverty |
| <u>Assam</u> | Joint Secretary, Finance, Government of Assam Secretary, Cooperation Department, Government of Assam and Chief Executive Officer, Assam State Cooperative Agriculture and Rural Development Bank, |
| <u>Bihar</u> | Director, AN Sinha Institute Director, Agriculture, Government of Bihar |
| <u>Kerala</u> | Minister for Finance, Government of Kerala Chairman, Kerala Debt Relief Commission Vice Chairman, Kerala State Planning Board Executive Director, Kerala Statistical Institute, Thiruvananthapuram |
| <u>Madhya Pradesh</u> | Principal Secretary, Cooperation, Government of Madhya Pradesh Secretary, Revenue, Government of Madhya Pradesh Secretary, Tribal Development, Government of Madhya Pradesh |
| <u>Meghalaya</u> | Principal Secretary, Finance, Government of Meghalaya Principal Secretary, Agriculture, Government of Meghalaya Registrar, Cooperative Societies, Government of Meghalaya |
| <u>Mumbai</u> | Deputy Governor, RBI, Mumbai |
| <u>Nagaland</u> | Officer on Special Duty, Finance, Government of Nagaland |
| <u>Orissa</u> | Excise Commissioner (Former Registrar Cooperative Societies), Government of Orissa |
| <u>Rajasthan</u> | Member, Economic Advisory Council to the Prime Minister, Deputy Chairman, State Planning Board, Rajasthan Executive Director (Retired), NABARD |
| <u>Tamil Nadu</u> | Principal Secretary, Cooperation, Food & Consumer Protection, Government of Tamil Nadu Principal Secretary, Commissioner, Revenue, Government of Tamil Nadu Secretary, Agriculture, Government of Tamil Nadu |
| <u>Tripura</u> | Minister, Agriculture, Government of Tripura Principal Secretary to Chief Minister and Agriculture, Government of Tripura |
| <u>West Bengal</u> | Principal Secretary, Agriculture, Government of West Bengal Chairman, West Bengal State Cooperative Bank |

Annex VI**Field visits - district and village level**

| Sub-Group | Places/offices visited | Date | Govt. | Ban- kers | Nabard | NGO | Farmers | ML | Total | |
|---|--|--|-----------|--------------|-----------|-----------|-------------|-----------|-------------|-----|
| North | Haryana Gramin Bank, Ambala branch and Ambala DCCB in district Ambala (Haryana) | 23.01.2010 | 4 | 15 | 6 | | 4 | 1 | 30 | |
| | State Bank of Patiala and Patiala DCCB in Patiala district (Punjab) | 23.01.2010 | 3 | 12 | 6 | 2 | 20 | 8 | 51 | |
| | Gadiya village and Aryavart Gramin Bank Regional Office in Barabanki district (Uttar Pradesh) | 20.02.2010 | | 20 | 3 | 8 | 62 | 11 | 104 | |
| South | State Bank of Travancore, Nedumangad branch, South Malabar Gramin Bank, Peerorkada branch, Aanad PACS and Mudila village in Thiruvananthapuram district (Kerala) | 21.01.2010 | 2 | 10 | | 24 | 120 | | 156 | |
| | Gramin Mahila Okkuta, Pathanilavanky and Tavarekere villages in Kolar district (Karnataka) | 02.02.2010 | | 5 | 5 | | 450 | | 460 | |
| | Enabavi and Chagallu villages, men and women thrift cooperatives, women's dairy cooperative and Seed Growers Cooperatives at Dharmarajupalli village in Karimnagar district, meeting with representatives of cooperatives at Cooperative Development Foundation in Warangal district, Nomula, Malkichguda, Thippaiguda in Rangareddy district (Andhra Pradesh) | 26.02.2010 27.02.2010 02.03.2010 | | | 3 | 4 | 5 | 330 | | 342 |
| | Thonnadu PACS, Centre for Indian Knowledge Systems, Sukkan Kollai village, National Agro Foundation in Illedu in Kancheepuram district (Tamil Nadu) | 12.03.2010 13.03.2010 | | | | 4 | 6 | 70 | | 80 |
| | Satyavadi branch of Puri DCCB, Sakhigopal in Puri, Khurda, Talabasta, Narasimhapur and Ragda villages in Cuttack, Akhandeswar PACS, Mantri Sahi village in Banki district, Rampada-Bahapur in Nayagarh (Orissa) | 26.12.2009 28.12.2009 09.04.2010 10.04.2010 | | | 2 | | | 150 | 1 | 153 |
| | Paliganj Vaitarni Krishak Samiti, Milky village in Patna district, Lakarkola, Reha-Tand, Goraiya Tenghara, Haweli- Kharagpur, Farad, Amarpur villages in Munger, Manika, Bisunpur-Chand, Rajila-Chatti villages and Chhajan Harishankar Purbi PACS in Muzzafarpur (Bihar) | 18.02.2010 21.02.2010 | | | 7 | 1 | | 50 | | 58 |
| | Assam Gramin Vikash Bank, Dharapur (Assam) | 21.05.2010 | | | | | | 8 | | 8 |
| Dhansaripur (Nagaland) | 22.05.2010 | | | | | | 20 | | 20 | |
| Mawkriah Service Cooperative Society in Lait bynther, Myllem villages, Lad Mawreng Mawkriah Service Cooperative Society, Rangksheng Service Cooperative Society in Lad Mawreng village in East Khasi Hill districts (Meghalaya) | 24.05.2010 | | | | | | 10 | | 10 | |
| West | Jahota branch of Jaipur Thar Gramin Bank & PACS in Rampura- Dabdi village Chomu block(Rajasthan) | 19.01.2010 20.01.2010 | | | | | 105 | | 105 | |
| | Pappiankala & Nipania village in Sehore district (Madhya Pradesh) | 28.01.2010 29.01.2010 | 15 | 20 | 15 | 3 | 160 | 4 | 217 | |
| | Amravati (Maharashtra) | 25.02.2010 | 31 | 16 | 6 | 10 | | | 63 | |
| | Total | | 55 | 110 | 50 | 58 | 1559 | 25 | 1857 | |

Annex VII

Composition of Drafting Committee

Smt Shashi R Rajagopalan
Dr Srijit Mishra
Dr HS Shylendra
Shri Niranjana Parsha
Shri B Jayaraman, General Manager, NABARD from the Secretariat of the Task Force

Meetings of Drafting Committee

16 April 2010, NABARD, Mumbai
20 April 2010, NABARD, Mumbai
12-14 May 2010, NABARD, Mumbai
24-26 May 2010, NABARD, Mumbai
31 May-2 June 2010, NABARD, Mumbai
9-11 June 2010, NABARD, Mumbai
21 June 2010, NABARD, Mumbai
23-24 June 2010, NABARD, Mumbai
26 June 2010, IGIDR, Mumbai
28 June 2010, NABARD, Mumbai

The Drafting Committee places on record the help in compiling data and its analysis, in researching the relevant information and in editing received from Shri Nirupam Mehrotra, Shri K Badri Narayana, and Smt Shaily Jamuar, Assistant General Managers in NABARD. Smt Jamuar and Shri Mehrotra also looked into the logistics and support for the field visits and coordinated the meetings. The Drafting Committee also acknowledges the facilities provided by IGIDR, Mumbai for one of its meetings.

Annex VIII

**State wise Per Account Credit Disbursed during the year(period ending last Friday of June 2008)
by Scheduled Commercial Banks (Short term and Long term)**

| States | Short term loans | | | | Long term loans | | | |
|----------------------|-----------------------|-------------------------------------|------------------|-----------|-----------------------|-------------------------------------|------------------|-----------|
| | Up to 2.5 acres | Above 2.5 acres to 5 acres | Above 5 Acres | All Sizes | Up to 2.5 acres | Above 2.5 Acres to 5 Acres | Above 5 Acres | All Sizes |
| Andaman & Nicobar | 42,411 | 33,895 | 828 | 25,121 | 47,603 | 81,569 | 43,500 | 60,224 |
| Andhra Pradesh | 25,681 | 37,244 | 56,206 | 36,975 | 85,183 | 70,835 | 46,970 | 59,124 |
| Arunachal Pradesh | 42,748 | 60,722 | 32,393 | 44,679 | 1,29,567 | 1,44,432 | 1,29,507 | 1,32,715 |
| Assam | 18,076 | 61,379 | 56,652 | 32,202 | 61,644 | 63,845 | 3,05,419 | 81,281 |
| Bihar | 28,619 | 34,168 | 72,175 | 35,143 | 57,725 | 95,286 | 1,82,553 | 87,471 |
| Chandigarh | 3,45,619 | 4,37,428 | 1,79,3586 | 7,10,226 | 3,37,105 | 4,10,728 | 15,19,319 | 7,85,431 |
| Chhattisgarh | 38,851 | 41,064 | 1,82,360 | 1,00,796 | 26,382 | 61,002 | 1,77,074 | 1,09,877 |
| Dadra & Nagar Haveli | 67,786 | 71,167 | 2057 | 2,488 | 88,643 | 1,33,080 | 13,55,500 | 2,67,597 |
| Daman & Diu | 1,35,901 | 1,70,977 | 10,227 | 44,877 | 32,648 | 77,383 | 71,376 | 62,762 |
| Delhi | 8,20,438 | 83,131 | 2,78,8640 | 16,33,398 | 6,54,527 | 53,696 | 12,28,216 | 1,08,3442 |
| Goa | 60,211 | 37,432 | 52,015 | 53,818 | 1,33,123 | 66,080 | 2,62,493 | 1,50,646 |
| Gujarat | 47,469 | 49,862 | 1,03,243 | 77,143 | 1,18,182 | 1,73,890 | 3,61,566 | 2,52,383 |
| Haryana | 1,61,512 | 1,37,860 | 2,86,607 | 2,07,836 | 1,17,586 | 1,68,661 | 3,35,849 | 2,20,399 |
| Himachal Pradesh | 83,858 | 71,906 | 93,118 | 82,525 | 59,793 | 60,338 | 1,32,762 | 66,791 |
| Jammu & Kashmir | 1,22,914 | 1,93,102 | 1,44,197 | 1,45,007 | 96,791 | 59,652 | 1,21,880 | 90,862 |
| Jharkhand | 21,414 | 40,215 | 43,029 | 28,537 | 50,748 | 68,937 | 1,49,240 | 69,309 |
| Karnataka | 23,115 | 22,628 | 35,786 | 28,663 | 63,629 | 91,772 | 1,44,362 | 1,11,614 |
| Kerala | 33,972 | 47,815 | 1,47,710 | 43,395 | 47,933 | 82,786 | 2,94,010 | 79,310 |
| Lakshadweep | 47,076 | 0 | 0 | 47,076 | 33,608 | 0 | 0 | 33,608 |
| Madhya Pradesh | 52,506 | 60,507 | 1,27,658 | 98,064 | 91,752 | 79,003 | 2,74,056 | 1,92,293 |
| Maharashtra | 73,221 | 52,600 | 3,57,384 | 1,40,534 | 1,09,569 | 1,43,651 | 96,575 | 1,01,901 |
| Manipur | 27,407 | 38,047 | 26,753 | 30,075 | 66,635 | 99,326 | 1,05,938 | 82,985 |
| Meghalaya | 21,628 | 24,466 | 42,373 | 24,752 | 46,895 | 81,053 | 54,923 | 55,549 |
| Mizoram | 68,667 | 68,224 | 52,541 | 65,763 | 85,888 | 1,27,336 | 1,13,333 | 98,042 |
| Nagaland | 32,558 | 1,24,125 | 13,917 | 33,746 | 42,867 | 84,047 | 71,667 | 46,906 |
| Orissa | 23,534 | 38,485 | 38,687 | 31,235 | 45,462 | 56,898 | 1,37,036 | 73,287 |
| Pondicherry | 35,341 | 36,946 | 37,324 | 36,286 | 49,345 | 76,914 | 1,20,003 | 1,00,104 |
| Punjab | 1,48,797 | 1,62,232 | 2,28,468 | 1,88,360 | 1,45,388 | 1,64,436 | 2,51,484 | 2,10,227 |
| Rajasthan | 57,956 | 70,965 | 97,571 | 74,713 | 1,21,199 | 1,53,601 | 1,50,302 | 1,43,744 |
| Sikkim | 30,370 | 41,193 | 3,74,800 | 33,709 | 1,07,679 | 67,656 | 31,143 | 89,996 |
| Tamil Nadu | 23,768 | 32,156 | 55,805 | 34,137 | 1,37,752 | 77,695 | 1,20,973 | 1,13,122 |
| Tripura | 18,312 | 36,484 | 23,998 | 22,476 | 49,541 | 52,432 | 53,770 | 51,014 |
| Uttar Pradesh | 43,786 | 66,940 | 1,05,652 | 64,040 | 97,745 | 1,44,287 | 1,91,799 | 1,44,331 |
| Uttaranchal | 61,045 | 94,047 | 1,12,181 | 84,196 | 97,667 | 1,11,537 | 2,83,645 | 1,53,292 |
| West Bengal | 31,207 | 44,679 | 4,07,315 | 69,389 | 88,451 | 1,22,112 | 7,90,928 | 3,01,175 |

Source: Rural Planning and Credit Department, RBI.

Annex IX
List of Money Lending Laws In India

| No. | State | Legislation |
|-----|------------------|---|
| 1 | Andhra Pradesh | (i) Andhra Pradesh (Telangana Area) Money-Lenders Act, 1349 F (ii) Andhra Pradesh (Andhra Region Scheduled Areas) Money-Lenders Regulation, 1960 |
| 2 | Assam | The Assam Money-Lenders Act, 1934 |
| 3 | Bihar | Bihar Money-Lenders Act, 1974 |
| 4 | Chhattisgarh | Chhattisgarh Money-Lenders Act, 1934 |
| 5 | Goa | Goa Money-Lenders Act, 2001 |
| 6 | Gujarat | Adapted and modified Bombay Money-Lenders Act, 1946 by the Gujarat Adaption of Laws (State and Concurrent Subjects) Order, 1960 |
| 7 | Haryana | Adapted Punjab Registration of Money-Lenders Act, 1938 vide Haryana Adaptation of Laws Order, 1968 |
| 8 | Himachal Pradesh | Himachal Pradesh Registration of Money Lenders Act, 1976 |
| 9 | Karnataka | Karnataka Money Lenders Act, 1961 |
| 10 | Kerala | Kerala Money Lenders Act, 1958 |
| 11 | Maharashtra | Bombay Money- Lenders Act, 1946 |
| 12 | Madhya Pradesh | Madhya Pradesh Money Lenders Act, 1934 |
| 13 | Meghalaya | Adopted the Assam Legislation |
| 14 | Nagaland | Nagaland Money Lenders Act, 2005 |
| 15 | Orissa | (i) Orissa Money Lenders Act, 1939 (ii) The Orissa (Scheduled Areas) Money-Lenders' Regulation, 1967 |
| 16 | Punjab | The Punjab Registration of Money-Lenders Act, 1938 |
| 17 | Rajasthan | Rajasthan Money Lenders Act, 1963 |
| 18 | Tamil Nadu | Tamil Nadu Money Lenders Act, 1957 |
| 19 | Tripura | Adopted Bombay Money-Lenders Act, 1946 |
| 20 | Uttar Pradesh | Uttar Pradesh Regulation of Money Lending Act, 1976 |
| 21 | Uttarakhand | Same as Uttar Pradesh |
| 22 | West Bengal | Bengal Money-Lenders Act, 1940 |
| 23 | NCT Delhi | Adopted the Punjab Legislation |
| 24 | Puducherry | The Pondicherry Money-Lenders Act, 1970 |