



An Analysis of Issues and Challenges having an Effect on Rural Credit Productivity

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Abstract Credit has been the driving force behind policy interventions in agriculture. This is even more obvious in light of previous state interventions, like the package offered for struggling farmers, which included increasing agricultural lending, providing subsidies, and capping interest rates on agricultural loans. We make the case that it is difficult to demonstrate a clear causal relationship between higher loan utilisation and improved agricultural output using the available literature and data. We contend that a fundamental shift is taking place in Indian agriculture, as farmers are losing control over technology and inputs in favour of outside vendors. Over time, this might have led to the de-skilling of farmers, and the absence of sufficient public investments in support services and suitable risk-mitigation tools has led to a near-crisis in agriculture. Therefore, we contend that patient and comprehensive policy measures are essential. Using some primary data and a focus on the rural financial markets, we make the case that it is crucial to comprehend these markets from the demand side. In order to avoid being too narrowly focused on agriculture, we suggest several possible avenues for the policy intervention in the final section of the paper.

Keywords Credit, policy measures, financial markets, public investments

Introduction

The overall thrust of the current policy system recognizes that credit is an important input affecting agricultural/rural productivity and that credit is important enough to be effective with productivity. A brief review of the state's recent policy directives recognizes the need to freeze credit for agriculture. The policy response to farmer suicides, including the emphasis on doubling agricultural credit in three years through the banking channel, the revival of the cooperative credit structure through the package recommended by the Vedyanathan Committee, and the Vidarbha package, have been heavily geared towards intervention in agricultural activities. There is a tilt. Committees have also been constituted by the State and/or the Reserve Bank of India to look into aspects of credit intervention such as financial inclusion, farmer indebtedness, integration of moneylenders with the mainstream market and distress of farmers.

In addition to the above, some policy interventions with implications at the operational level include setting interest rates for agriculture that yield risk-adjusted returns that are less than the weighted average cost of funds. State governments have gone a step further and are announcing interest subsidies above the unrealistic levels set by the Union. All these are one-sided in making credit available and affordable for agriculture.

All these initiatives give special importance to rural credit and look at rural credit from the supply side as well. In this paper we try to deconstruct the problem and examine the components to see if we can get a better understanding of the rural situation. However, it is difficult to establish a causal relationship to show that increased credit supply and administered prices will help increase agricultural production and farmers' welfare. Why establishing such a relationship is difficult is explained below.



Credit is a subset of total investment in agriculture. Investments come from a basket of sources – non-monetized inputs such as farmer labour, saved seeds, using local resources for pest control and fertiliser; and monetized investment that includes both farmer savings and credit. Borrowing can actually occur from many sources in the formal and informal space. We consider one part of this subcomponent—borrowing through formal means—to establish causality. With limited data available from formal sources of credit distribution and indicators of decline in formal credit as a proportion of total indebtedness, the mysterious cause becomes more difficult to establish.

Some Recent Literature

As we look at the productivity of agriculture and rural credit, it may be appropriate to review some recent papers on the subject.

An important paper examining the potential relationship uses panel data on rural poverty and bank branch expansion to argue that increased access to credit has helped reduce rural poverty. They conclude that the fact that opening bank branches makes formal credit accessible has a positive effect on poverty in the long run (Burgess and Pandey, 2003). To illustrate his argument, he compared the poverty rate between the period before and after liberalization [a situation characterized by the opening of more branches in unbanked areas]. In establishing his argument, he also cites others (Eastwood and Kohli, 1999) who argue that branch expansion actually increased lending to the rural small-scale sector where growth was faster. Thus, it is possible to take these independent results together to indicate that the positive impact on poverty may have come from the non-agricultural sector. Indeed, the authors argue that market forces cannot possibly take care of poor and marginalized areas by providing a counterexample to microfinance, which has largely developed without strong geographic targeting by the state. They testify that microfinance has not been able to reach the backward areas. Thus, Burgess and Pandey emphasize that formal banking outlets are essential for poverty alleviation. However, the impact on poverty comes from non-primary sectors such as enterprise and the resulting wage employment generated by these enterprises. They also argue that because banks provide a complete set of financial products – including savings – they are more efficient than pure microcredit institutions. However, this paper does not provide evidence of a relationship between credit and agriculture.

Another paper examines the overall development of agriculture and the role of credit (Rakesh Mohan 2006). While acknowledging that the aggregate supply of agricultural credit as a percentage of the total distribution of agricultural credit is declining, they argue that this should not be a cause for concern as the share of formal credit in agricultural GDP is increasing. However, here too one is unable to establish a link between increased credit supply and productivity. If we look at Table 1, we find that the relationship between the value of inputs and the value of agricultural output has been in the same band over the last decade, with output being about five times the value of input. The figures are stated at current prices, and if we adjust for inflation, we find that the value of production has not increased dramatically over the past decade. This clearly proves that though credit is increasing, it has not actually affected the value of production figures. This is not a strong way of establishing causation, but indicates credit limits.

It is important to note that even at the highest levels of production, credit accounts for about 5 percent of the total cost of production. Thus it cannot be expected that something which has such a small contribution to the output value will have a significant effect on the output/productivity values. However, the data cited relates to agricultural credit from formal sources and given that short-term credit is increasing as a percentage of inputs, it may actually replace informal credit. Thus there may still be some scope for increasing the availability of credit through formal channels, with the clear intention of shifting consumers from informal to formal sources rather than increasing income or farm productivity.

Statistics show that agriculture itself is not very profitable and varies widely across states and regions. For example, NSSO, 2003 59th cycle data shows that in 2002-03, the net income from agriculture for each household across the country was around Rs 969 per month. These figures vary widely and account for less than 50 percent of total household income sources. Interestingly, in some states like Jharkhand, Kerala, Rajasthan, Tamil Nadu and West Bengal, the income from wages is higher than the income from agriculture (NSSO, 2005:14). When we look at the total cost of cultivation, we find that the interest expense on farm loans averages



about 1 percent of the total cost of cultivation, never exceeding 3 percent of the cost of cultivation. Is. The most important inputs to cultivation are labor and fertilizer (NSSO, 2005:19).

Table 1: Gross Value of Output, Value of Input and Short-Term Credit

(Rs crore at current prices)

Year	Gross Value of Output	Value of Input	Short Term Credit	Short Term Credit as a percentage of		Value of input as a percentage of Outputs
				Inputs	Outputs	
2015-2016	271839	55401	5424	9.79	2.00	20%
2016-2017	488731	93416	10821	11.58	2.21	19%
2017-2018	514718	103170	12610	12.22	2.45	20%
2018-19	518693	107020	15442	14.43	2.98	21%
2019-20	562024	112194	18882	16.83	3.36	20%
2020-21	557035	114613	23324	20.35	4.19	21%
2021-22	635104	127365	31972	25.10	5.03	20%

Source: National Account Statistics 2022, .

Key inputs in percentage terms are labor [22 percent], lease rental [5 percent] and other costs [15 percent] – more investment in these inputs will not increase the primary productivity of the land. Inputs that establish causation are seed [16 percent of input cost], irrigation [12 percent] and fertilizer [23 percent]. Thus if we attribute the credit contingency, we have to look at the increased output due to the investment in these inputs, which is about 50 percent of the cost, and see whether the external Investments will make a difference.

The NSSO figures do not reflect the importance of credit in overall agricultural production. It also highlights the fact that rural income is increasingly dependent on alternative and diversified sources.

With this information, we can assess whether there is scope for formal sources of credit to change current financing patterns. An increase in agricultural finance can partially fill this headroom. Even if this headroom fills up, it will only reduce a farmer's borrowing costs to a limited extent without significantly affecting productivity. Credit-linked productivity growth can occur through technological innovations that make agriculture more capital intensive with dramatically increased input-output multipliers.

Apart from the above, very little evidence, we could not establish any causality between increased availability of credit and agricultural productivity. We may be able to examine this in some detail if data on input costs, credit components [both formal and informal], crop yield and production are available at the district level from time to time. However, comprehensive data is difficult to obtain.

Combined with the indications from other literature and our own study in three districts, it appears that in general the supply side policy seems to be chasing targets of a sector that has a mix of both subsistence level activity and commercial activity. The subsistence level activity would not produce enough cash flows to service the loans, unless the household has supplementary income from other sources. However these households continue to operate in agriculture for reasons for basic food security and cultural aspects pertaining to ownership of land, even if it were not productive. We thus argue that possibly a good part of the “production” loans for agriculture could actually be “food security” loans. If one were to seriously analyse the productivity of agricultural credit, it might be a good idea to focus on the larger farm sizes and on clusters that have commercial agriculture where credit might make a difference.

Addressing the Issue of Non-Agricultural Rural Credit

In addition to the issue of agriculture, it is important to look at the other sectors. The rural economy is not homogeneous to be amenable to schematic lending. Indeed our data from three states indicates that it might be appropriate to look at credit as a part of a basket of financial services. However, across regions we the following characterize rural transactions:

- The exchanges have a large non-monetised element. While exchanges are on the basis of rupee value, transactions do not get settled frequently. For instance one might agree on a daily wage rate, but ultimate settlement takes place through a few cash exchanges in a season, beyond a minimum daily subsistence that might be settled in kind. The cash exchanges are less. We find this practice prevalent



with migrant workers and their *Mukaddams*; The sources of cash flows in the local economy are not diversified. In agrarian economies we have heightened economic activities around harvest time. Thus we find even the other services getting settled around that time. For instance we found in Khammam District that a local cable television operator had his monthly subscriptions paid up regularly, his income from new subscriptions would spurt during the harvest time. Traditionally we know that even service providers like the *dhobi*, and barber were paid in kind around harvest time, in addition to the minimal payments they received through the year.

- The income diversification of individual households is limited, with most households depending on one or two significant streams of income.
- The exposure to risk is higher. We find rural activities are outside the organised “formal” entities. Thus they cannot cover the downside risk. The entrepreneur and the enterprise are seamless, unlike in the urban settings, and any business failure [including agriculture] affects the personal finances. The formal business on the other hand can be insulated through the limited liability clause. The general usage of cash is on an inflow-outflow basis rather than an income-expense basis. Thus any formal insurance is seen as a continuous outflow with no perceivable inflows. In some of the rare cases where they see the merit of the risk cover, the settlement process does not give them confidence to continue an ongoing relationship.
- Because of the above, the rural households are vulnerable. It is argued that people moving out of poverty slip back to poverty due to pressure points (Krishna 2003). If we were able to formulate policies that prevent people from slipping back into poverty, the net poverty reduction figures could show a remarkable progress.

Therefore, when we look at the rural markets from the demand side, it is possible for us to offer an array of need based interventions that would make an impact on the cash flows, increase monetisation and the participation of the formal sector, making exchanges discover market mechanisms.

Non- Agricultural Rural Credit: Supply induced interventions

Even in the non-farm sector, major interventions have been supply induced.

Table 2 presents the classification of Workers for the nation as a whole.

Table 2: Distribution of Workers by category – Total and for Rural Areas

Detail	Cultivators	Agricultural Labourers	Household Industry workers	Other Workers	Total workers (Main+ Marginal)
Total					
Persons	127,628,287	107,447,725	16,395,870	151,040,308	402,512,190
	32%	27%	4%	38%	
Males	86,328,447	57,354,281	8,312,191	123,468,817	275,463,736
	31%	21%	3%	45%	
Females	41,299,840	50,093,444	8,083,679	27,571,491	127,048,454
	33%	39%	6%	22%	
Rural					
Persons	124,682,055	103,122,189	11,709,533	71,141,562	310,655,339
	40%	33%	4%	23%	
Males	84,046,644	54,749,291	5,642,112	54,761,555	199,199,602
	42%	27%	3%	27%	
Females	40,635,411	48,372,898	6,067,421	16,380,007	111,455,737
	36%	43%	5%	15%	

Source: Primary Census Abstract, Census of India, Ministry of Home Affairs, Government of India.



Most of the schemes like the IRDP, SGSY or any schematic lending programmes have looked at lending to the poor for self-employment purposes. There is an inherent flaw in this design because it assumes all people not involved in cultivation want to be self-employed. Looking at the pattern of engagement of the rural people for earning incomes, it is evident that a significant proportion of the rural population is wage-employed.

From Table 2 we see that a third of the population work as agriculture labour, and a significant number work outside of agriculture. While it is sharper in the national statistics, we see that even the number of people outside of cultivation is significant. Even people involved in agriculture seem to be employed part time on somebody else's plot as wage earners.

Our Durgapur data indicates that around 40 percent of the persons available for employment worked for wages, and around 5 percent of the employable persons migrated. In Dharmapuri district around 28 percent of the people available for employment [514/1813] worked for wages. In West Godavari around 62 percent of the persons fit for employment worked for wages [1022/1675]. A significant number of people are actually working outside of agriculture. Thus any programme that depends on the enterprise of the people – other than agriculture – addresses the needs of a small percentage of the population. Our data indicated that the most significant number [18 percent of the employable population] were in self-employment in Dharmapuri, while the corresponding figures were 3 percent and 2 percent respectively for West Godavari and Durgapur districts. Thus supply induced self-employment schemes could be addressing only a small part of the issue.

However, it would not be appropriate to say that all supply induced programmes have not worked. We argue that even microfinance programmes by and large are supply side offerings. Microfinance places several constraints on the borrower by its design. While there might not be a project by project evaluation, it directs investments in certain types of activities because of the design constraint. All microfinance programmes have non-negotiables. These pertain to the discipline. The design of microfinance programmes expect a regular contact with the members and all loans to be repaid with a certain frequency. This is a supply [design] induced constraint. This forces the borrowers to either look for enterprises that provide such a frequent cash flow or service the new loan from an extant cash flow. For an economy that is largely oriented towards constrained by seasonal income, the requirement of generating cash flows to service the loan and also to save significantly changes the rules of the game. This change is sharper in Grameen groups, because the frequency of contact is weekly with no scope for default. Thus people in these programmes are forced to look activities that yield frequent cash flows.

This strategy may induce livelihood diversification, without actually stating so. In our data a reason for Dharmapuri district having a large percentage of people involved in enterprise may be due to microfinance programmes that were operating for more than two decades. MYRADA – and organisation that pioneered the self-help group movement did its early work in Dharmapuri district. Not only are the figures of self-employment distinct in Dharmapuri district, we found that the groups financed wide ranging activities in the district. In our study we found that SHGs in Dharmapuri had a significant role in meeting the financial needs [savings as well as loans] of the respondents. The supply side constraints of microfinance initiatives pertain to design of the programme and not to the design and delivery of financial products.

Non Agricultural Rural Credit: Demand Induced Opportunities

When we look at the need for rural credit beyond agriculture the demand side indicates some market opportunities. The needs of the rural households are no different from the urban counterparts. However, the products offered need to be structured properly in order to make them meaningful for the rural areas. One compelling need is that of smoothening the seasonality of cash flows. The formal institutions do not really operate in this space. The Self Help Groups [SHGs] do not seem to see consumption loans as a taboo. The rice credit line experiment in Andhra Pradesh demonstrates how food security can intervene in reducing vulnerability. The scheme had dual purpose of cost savings – as rice is purchased in bulk for the collective – and providing food security for the households. It is argued that food stocks helped the poor to bargain for better wages as they did not have an immediate need not work out of desperation.⁸ If this is indeed the case, it



increases the financial yield for the wage earners and demonstrates that credit has made a difference. The experiment recognises that there are large numbers of wage earners and the human body is the most productive asset owned by them. This scheme, operated through SHGs, can be easily linked with the formal institutions.

The other demand induced needs for can follow the employment pattern in the rural areas. Microfinance deals with income diversification in a limited way, but does not address livelihood issues contributing diversification of income streams. Seasonal migration is a case in point. Seasonal migrants work through a set of contractors called *Mukaddams*. We undertook a study in Ahmedabad and Hyderabad cities focussing on seasonal migrants in the construction sector. The study shows intricate relationships between the *Mukaddams* and the workers similar to the relation the farmers have with their input suppliers – a web of interlinked transactions, where the workers are given advances, taken for work, supported for bare subsistence and later given a lump sum wage. It is however not clear how vulnerable the migrants are. However as final wage settlements happen at the end of the season, it is likely that they are dependent on the *Mukaddam* to realise the current income, and to seek future employment opportunities. There are opportunities for providing an initial loan to reduce the financial dependence on the *Mukaddam*, and scope of providing for cash conservation at the destination and services of remittances. This is complex as the economic activities are happening at two stations – the base of the household and the changing destinations from where they are working.

The other demand induced loan that is widely documented is for emergency purposes, for which the dependence on informal systems is imperative. While some microfinance initiatives address this by retaining a cash balance, or refinance a bridge loan from the informal sources, it is not widely prevalent. Structuring this from the formal source is a challenge.

The current needs of the households come from complex web of relationships. It might not be possible to address every need from the formal sources. It needs re-engineering of the current products to address the spectrum of needs. Formal sources may not want to address all the needs. From the view of productivity, we have illustrated how consumption loans on the lines of rice credit line actually may add to productivity, while the other loans are more in the nature of vulnerability reduction. A Study indicates that indicates that reducing vulnerability in itself could be a laudable goal (Maheshwari, 2004). She compares the pattern of borrowings of members of 2 year old SHGs as against members of 8 year old SHGs and concludes that the cost of borrowing is not different between the two groups. At the initial stages, while the SHG members are heavily dependent on the money lender, they also manage their finances by borrowing informally from their friends and relatives who lend at near zero costs. As the SHG grows, their dependence on money lender gradually reduces, and concurrently the access to informal finance from networked relationships also reduces. This does not affect the cost of borrowing significantly, but makes the households less dependent on the moneylender. The argument is similar vulnerability argument extended in the rice credit line scheme.

In addition there are needs pertaining to asset creation. Some assets lead to augmentation of income sources, some lead to better quality of life. However, we cannot ignore the economic activities that relate to asset creation. Our data from the three districts show the absence of formal sources even in planned events like housing because the design of products is contextually inappropriate. Addressing these needs possibly reduce the dependence on one source and thus make the households less vulnerable. This in itself could have positive multiplier effects on income yields and productivity.

General Issues pertaining to Rural Credit: Influence of multiple sources

It is evident that the needs of rural credit are not being met by a single agency. The nature of relationships is quite diverse as described below:

- Borrowing from social networks based on reciprocity; there is no appraisal, paper work or collateral. Several times these loans are interest free. This is works on unorganised social capital.
- Forming SHGS and carrying out financial intermediation through them, disproves the notion that the poor cannot save. The paperwork is minimal, collateral is absent and interest margins remain



within the community. This works on the organised and formalised social capital.

- Borrowing from informal money-lenders happens when the amount is larger than what social networks can offer. This attracts a high interest, but is timely, quick and flexible. Collateral is negotiated. This disproves the notion that the poor cannot service a high interest rate loan.
- Tied Credit – loans tied to complementary non-financial transactions in land, labour and commodities. The lender deals with the borrower in a ‘non-lending’ capacity as well, the terms are opaque and tend to be exploitative, even though the transactions costs of borrowing are low.
- Formal financial institutions on the semi-regulated space like companies, chit funds, microfinance institutions

Formal financial institutions with state support and patronage in the regulated space like co-operatives and banks. The question is whether it is desirable to have one dominant source of credit for the rural areas. While it might be desirable to move the financial transactions from the informal [and possibly exploitative] sources to the formal space, the argument that it should be from a single source needs to be examined. It might not be practically possible for a single source to finance the diverse needs of the rural population. Based on our study in the three states we were able to map out the purpose of borrowing [or withdrawal of savings] and the source from which the households borrowed [or withdrew savings] as indicated by our data. The mapping is reproduced below:

Chart 1: Pecking Order of Savings/Loan Outlets and Purpose of Savings/Borrowings

Informal Cash Stashed/ Informal	Semi Formal – Money Lenders Traders	SHGs/ formal	Semi Neighbourhood institutions – Co- ops/ Post offices	Formal “Outsiders” – Banks, companies, chit funds, NBFCs
Emergency and health needs	Consumption, social consumption, asset purchase	Consumption, social consumption, asset purchase, Education	Withdrawal for social consumption, borrowing for Working capital, asset purchase	Largely asset purchase, including assets that result in private capital formation

The chart indicates a pattern on how the rural population manage their finances. There are emergency needs at one end and asset purchase at the other. The households straddle between multiple sources for different purposes. Moneylenders seem to be cutting all across the segments, because they are accessible.

The question is whether financial services should be available from diverse sources or limited sources. From the point of view of the customer, it is desirable to have multiple sources offering the services, so that the customer has choices. For the providers it might be good to be a single provider so that any adverse usage and excessive borrowing can be avoided. Ultimately the formal sector will have to find mechanisms of occupying a significant place in each of the need segments. For that, it is extremely important to understand the product attributes of the demand side, so that credit becomes efficient adds value.

Desirable Policy Interventions

Our policy interventions look for a quickfix solution. The interventions are finance led. We have to start recognising that there are no easy solutions; no short term solutions. We need to understand the changing face of Indian agriculture. The provision of financial services is one small part of the issue. The policy has to recognise the fact that rural lending is inherently risky because of the volatility of the underlying economy and there is far less potential for institutions to cover costs. The institutions have to maintain a balance between defaults and administrative/collection costs. Banks do not seem to have a clear idea on what it costs to lend in the rural areas, therefore it might be desirable to institute segmented costing systems where product-wise profitability could be arrived at. If the state still has to make an intervention, it could be used as a basis to target interest subsidies if they are absolutely necessary.



Our argument would be against any interventions in the interest rate space. Instead of controlling at the supply level, it might be a good idea to make rural lending attractive, by removing formal and informal interest rate ceilings. We have seen the microfinance market flourish because the commercial decisions such as interest rates were left to the local conditions. We also see diversity in interest rates applied in the microfinance sphere depending on the situation, but that it is making access friendlier and has had an impact is beyond doubt. Banking needs to be unshackled at this stage.

Our data from the field [1616 households] indicated that a large portion of the respondents had borrowed from moneylenders, while a smaller portion had borrowed from SHGs and Banks. We are not reporting the data from other sources [like friends, chitfunds, companies] here as the numbers are small and do not add significantly to the discussion. If we look at the data carefully, we can find that when it comes to the formal sources like the banks, more people think that the loan being cheaper [cost] is an important attribute than access. It is the opposite in case of moneylender. While this data indicates that people might not be extremely happy with the cost of borrowing from the moneylender, they are quite happy with the fact that it is easily accessible. The microfinance/SHG loans are somewhere in between, ranked high on access and also indicating that the low cost of loan is important to the borrowers. Given that microfinance groups charge higher than the banks it clearly shows that if we crack the issue of access, there is certainly more headroom to increase the yields to the banking sector and people would be quite happy to bear the increased premium.

Table 3: Preference of Households on Attributes of Loan Products

Attributes for various agencies	Scores for attributes: 1= Very Important, 5= Irrelevant					Total
	1	2	3	4	5	
Banks/Co-operatives						
Easy Access	153	43	29	14	4	243
Cost of loan	157	64	12	5	5	243
SHG						
Easy Access	283	58	4	3	4	352
Cost of loan	227	91	19	11	4	352
Moneylender						
Easy Access	393	189	152	64	37	835
Cost of loan	156	153	224	187	115	835

We have to recognise that any intervention in rural areas has to have a large non- agricultural element to it. This is the only way we can recognise the seasonality of agriculture. It is absolutely essential to ensure that there are diversified livelihood opportunities across the country. This could happen through dovetailing the livelihood opportunities with other schemes of the government like the rural employment guarantee scheme. It may be also useful to look at migration in a constructive sense and possibly facilitate benign migration in seasons from areas that are poorly endowed with natural resources. Unless the economy is lubricated with constant flow of cash from diverse activities, the vulnerability is only going to increase. In addition there are the usual sore points that have been discussed in literature ad-nauseum – issues like recognition of tenancy rights; bringing the land records up to date; providing forward/backward linkages; setting up of warehouses and cold chains and clearing the infrastructure bottlenecks.

The issues such as re-negotiations, re-scheduling and re-packaging of loans should be commercial decisions left to the financial institutions. While this flexibility is given to banks for their general portfolio, agriculture suffers from announcements of areawise waiver/repackaging. When this happens in areas that do not have a calamity it amounts to interfering with the commercial terms of the contracts. This aspect is best left to the discretion of the lender. While targets have to be set aggressively on priority sector, agriculture and credit-deposit ratios monitored – these targets could even be taken to the branch level – it might be best to avoid directed credit on “schemes”.

When we rely heavily on supply led strategy, the entire plan could get derailed. This approach not only hampers the normal lender-borrower relationship that the bank and its client could have, but also is



detrimental to the health of the banking system in the long run. The supply side approach actually lends itself more to state-capture because they are loaded with disbursement related targets.

Conclusions

The basic thrust of this paper has been that

- It is extremely difficult to establish the credit-agricultural productivity causality. There are too many intervening variables
- Our policy for rural credit has largely run on unifocus on agriculture and small supply induced non-farm credit
- The demand side indicates a diverse market.
- Rural people understand the trade offs between access to financial services and the costs [in terms of access]. Therefore the first problem to be addressed by the state is that of access. Market forces will eventually take care of costs.
- It is best to have policy interventions in the areas of target setting and branch licencing, while leaving the specifics of individual transactions including write offs and settlements to the commercial acumen of the field functionaries of the institutions.

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