Andhra Pradesh is the State with higher incidence of tenancy in the country with almost one-third of operational holdings under tenancy. Most of the tenants are either landless or marginal/ small farmers. The credit worthiness of these farmers is usually low which is restricting their access to sources of credit, both institutional and non-institutional. Most of the tenancy is unwritten and thereby depriving the tenants access to institutional credit and benefits of government schemes. The tenants are not able to adopt advanced technologies for want of funds. Due to increase in prices of chemical fertilizers and pesticides, the application of these inputs was low resulting in low output. The tenants are not making capital investment in agriculture due to uncertain tenure period. The efforts of the State in ensuring institutional credit through loan eligibility cards (LECs) has also received set back due to problems in renewal of LECs and Bankers reluctance to finance tenants. These factors would affect the future growth prospects of agriculture in the State.

Policy Context

The tenancy market is likely to grow mainly due to two reasons. The agriculture in the state is less remunerative and subjected to severe weather and market risks. Growing absentee land owners and inadequate incomes of small holders will enhance the supply of land while low levels of labour absorption in agriculture and constraints to non-agricultural avocations will increase the demand for land leasing. To make crop husbandry more profitable, quality credit flow to tenants should be enhanced at fair terms.

Evidences

Out of an estimated 42.43 cultivator households in the State, pure tenant (PT) cultivator households accounted for 7.56 lakh and owner-cum-tenant cultivator (OCT) households constituted 24.37 lakh in 2012-13. The incidence of indebtedness (IOI) and average outstanding debt (AOD) of cultivator households was 93 percent and Rs. 1.23 lakh. These are well above the average all-
India figures of 52 percent and Rs. 47,000 respectively. The corresponding values for pure tenants, owner cum-tenants and pure land owners (PO) across the three geographical regions of the State of Andhra Pradesh are presented in Figure 1.

The incidence of debt on pure tenants and on owner-cum-tenants and average outstanding debt is more a sign of distress rather than their credit worthiness. Almost half of the outstanding debt (cumulative value over a number of years) was on account of non-productive activities such as housing loans, loans towards health and education expenditure and

"Over 45 percent of the outstanding debt of tenants was from non-institutional sources"
consumption loans. Over 45 percent of the outstanding debt of tenants was from non-institutional sources and in particular the money lenders. However, these informal agencies are disinclined to finance capital expenditure of pure tenants unless they have other reliable sources of income. Tenants generally borrow from non-institutional agencies, mostly money lenders and input dealers at 24 per cent per annum. However, the interest charged by these dealers ends up at a rate 30-36 per cent by the time loan repayment is due after the sale of the crop. Hence, providing short-term loans to tenant farmers should be a priority. In 2013, among cultivator households, pure tenants had the lowest outstanding debt per household followed by owner cum tenants. This may also indicate the failure of the banks to reach out to tenants.

The data on average outstanding debt per hectare across these farmer categories (Figure 2) confirm the relative disadvantage of pure tenants and owner-cum-tenants in backward regions of the state such as North Coastal Andhra. The owner-cum-tenants of Rayalaseema were also deprived of access to credit for productive purposes.

The purpose-wise analysis of outstanding debt of cultivator households for farm business (Figures 3 and 4) reveal that:

- Incidence of indebtedness on account of capital expenditure in farm business was low among all category of farmers and more so for pure tenants. The average amount of debt on capital expenditure per pure tenant cultivator household was strikingly low in all the three regions. The private capital formation in farm business was very low in the State;

- In regard to debt due to cur-

![Figure 3: Average Debt per Cultivator Household--Current Expenditure on Farm Business](source: Same as Figure 1)
Banks are not enthusiastic about extending credit to JLG farmers without security.

Current expenditure, the incidence as well as magnitude of debt was lower in backward North Coastal Andhra for all categories of farmers; and

- Average production debt per cultivator household was higher among owner-cum-tenants of South Coastal Andhra and Rayalaseema.

Agency wise credit delivery highlights (Figure 5) importance of money lender as a source of funding farm business activity across regions and farm categories. Given the high rates of interests, the effect of this dependency on net farm business income can be visualized. The cooperatives compared to commercial banks have provided more credit towards capital expenditure while the converse is true with respect to current expenditure. There are significant regional variations of these two agencies.
The outreach of cooperatives to pure tenants was low in North Coastal districts (Rs. neg. per household) while they have served better this category in drought prone Rayalaseema (Rs. 32,800 per household). Banks have fared well in prosperous South coastal region (Rs. 22,500 per household) followed by commercial agriculture of Rayalaseema (Rs. 20200 per household) and backward North coastal region (Rs. 5600 per household).

Past Experiences and Policy Alternatives

The problem of credit to tenant farmers is mostly a problem of short term finance in irrigated areas, while it is more a problem of long term finance in dry areas where the necessary infrastructure has not been developed through public investments. Tenant farmers also need long term finance for land development activities and even in areas newly brought under irrigation through public investment.

The short term leases and the uncertainty of its renewal are the main reasons why tenant farmers are unable to access institutional credit or make long term investments in agriculture. The production credit needs of farmers are substantial in the case of commercial crops like cotton, chilli, tobacco, bengal gram and other pulses. However, it has been observed that crop loans are not sanctioned for dry crops grown in rain-fed areas by poor farmers. Tenants do not venture to make long-term investments in these areas given the uncertainty of tenure. However, tenants can venture to buy farm equipment, including tractors, pump sets and oil engines. Credit for such equipment can be extended by financial institutions on the equipment hypothecation.

The Indian Bankers Association (IBA) Sub-Committee (2010) made several valuable recommendations on the flow of credit to agriculture with special reference to tenant farmers. It stressed the need to create proper documentation of tenancy records by recording the names of tenant farmers in the revenue records. It recommended that data on tenant farmers should be developed at the district level. District Consultative Committee needs to be set up to facilitate the easy identification/preparation and review of tenant farmers in the district. It also recommended the formation of Joint Liability Groups (JLGs) for tenant farmers. The lead banks should devise a separate scale of finance to tenant farmers in which an assessment based on crop production, consumption and lease amount in the case of fixed lease contracts with advance payment of the lease amount. The lead bank should promote the diversification of income generating activities to mitigate risk arising out of periodic losses in agriculture.

Banks are not enthusiastic about extending credit to JLG farmers without security. There are also problems in giving repeat finance. Out of 49,846 JLGs financed in the State, only 11,458 JLGs received repeat finance.

The Land Committee also recommended the issue of Loan Eligibility Cards on self-
declaration by the tenants to enable them to access institutional loans (Land Committee, 2006). Loan Eligibility Cards (LECs) are to be issued to the tenants for raising crops with the explicit or implicit permission of the landowner but have no record of ownership title. It entitles the cardholders to access credit from public financial institutions and to claim benefits of input subsidies, crop insurance, compensation for damage to crops and related matters without affecting the rights of owners. The progress of the scheme during the past five years shows that the proportion of applicants was much smaller than the estimated number of tenants.

Balancing the Interests of Tenants and Owners

For many of these suggestions on credit flow, tenancy agreements should be equitable and fair, promote sustainable rural livelihoods and more equitable access to resources. They should also be transparent, preserve the legal interests of both parties, simple and involve low transaction costs. State regulation and intervention should be at a minimum in order to promote flexibility in the leasing market (F.A.O. Good Practices). Controversial issues viz., period of tenure, compensation for land use and renewals should be left to the mutual consent of the parties. Counseling of both tenants and landowners to create awareness about the rationale behind liberalization of tenancy and to remove the apprehensions of both parties goes a long way in evolving a conducive atmosphere for the adoption of liberalized tenancy practices. In effecting this transaction, enlisting NGOs for this work may be more appropriate than making it an official ritual.

Measures for Enhancing Credit Delivery

The Andhra Pradesh Agricultural Commission has examined the issues in delivery of credit services to the tenant farmers in the State and the some good practices in other states. A number of suggestions have been made to overcome the problems of formal financial institutions in lending money to tenants for farm business purpose. These may be considered for implementation by the key stakeholders viz., State, Financial Institutions, tenant farmer SHG federations and others.

- The State may amend the tenancy Act with a view to remove all restrictions on leasing land. It should put in place efficient machinery for adjudication. To make LECs work successfully in the transition period, awareness must be created among all stakeholders through wide publicity.

- The tenants have to be organised into self help groups / ‘Kauludar Mitra Groups (KMGs) and federate at various levels. This would give recognition and credibility. These KMGs
should function under the overall guidance of the Andhra Pradesh Society for Sustainable Agriculture and Farmers Empowerment (APSAFE), which is a recommended institution for promoting agriculture and farmers' well-being by the Andhra Pradesh Agricultural Commission. The KMGs can act as pressure groups in loan recovery.

- State should permit registration of tenancy by Panchayat or Revenue Official or APSAFE and financial agencies should recognise the certificate issued by them for providing production as well as investment loans.

- The tenants could be identified in the Gram Sabha in the presence of representatives of APSAFE, Gram Panchayat and Financial agencies. The list along with the details of their holdings under tenancy with the crop may be prepared by SHGs/KMGs federations under the guidance of APSAFE. The latter should negotiate with panchayat institutions to issue land lease agreements. Transparency could be ensured in lease arrangements through such an intervention. Tenancy agreements should be prepared well ahead of the crop season and sent to the revenue department, banks, and panchayat departments.

- The Vikas Jana Shakti type of model of lending launched by Karnataka Grameen Vikas Bank to meet the credit needs of the vulnerable groups/marginal sections can be adopted for reaching out to tenant farmers.

- The State should create a land bank for small, marginal and tenant farmers. It should acquire land through the market process and sell the same to small, marginal farmers and tenants on easy terms. Credit agencies should be persuaded to extend long term loans to such tenant and small farmers who aspire to purchase land. To incentivize this process, the State may exempt the land purchase transactions of such farmers from registration fees and stamp duties.

- The land banks promoted by the State should encourage the large farmers and absentee land owners to lease out land to the bank with an assurance to restore the land to the owners after the lease period. The land bank in turn can lease out the land for the potential tenants.

- The lead banks should devise a separate scale of finance to tenant farmers in which an assessment based on crop production, consumption and lease amount in the case of fixed lease contracts with advance payment of the lease amount. The lead bank should promote the diversification of income generating activities to mitigate risk arising out of periodic losses in agriculture.

- Income opportunities in allied agricultural activities such as dairy, poultry, sheep and goat rearing and rural non-farm activities should be
developed so as to ease the pressure on land. Similarly, tenant farmers should be incentivised through skill development, institutional credit and entrepreneurial guidance to explore and take up micro enterprises such as agro-processing in supply chains, on an individual or group approach. The banks should be directed to provide credit to tenants under the interest subvention scheme to enable them to take up these allied and non-farm activities. This strategy may lead to the diversification of the household income of tenants which can provide some income security and enhance their bargaining power in the tenancy market. In the long run, the bargaining position of the tenants depends on the supply and demand forces in the lease market. The State should create a policy environment in which land leasing is market driven and where the tenants have State incentives and support and the landowners can freely negotiate on mutually agreeable terms.

- Credit Guarantee Risk Fund through contributions from all stakeholders, namely the central and state governments, NABARD and commercial banks would help to create confidence among bankers to play a proactive role in lending to tenant farmers.

(Based on the Report of the Commission on Inclusive and Sustainable Agricultural Development of Andhra Pradesh)

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