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## Performance of pledge loan scheme for agricultural commodities in North Karnataka

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### Abstract

The pledge loan scheme of the State Governments implemented through the regulated market committees works out to be very economical for the farming community as the rate of interest charged on such loans is less compared to the one charged by the commercial banks for the same kind of loan. The Karnataka Agricultural Produce Marketing (Regulation) Act provides for sanction of such short-term advances by the market committee to the producer- cum-seller against the pledge of their produce during the times of low market prices. The scheme is in force since 15-8-1995 in the regulated markets of the state. The results of the present study conducted to analyse the performance of pledge loan scheme in North Karnataka suggested that a vast number of farmers are ignorant about the scheme. The other problems in the implementation of the scheme include non-availability of adequate scientific storage facility, which is a pre-condition for the implementation of the scheme, and inadequate quantum of pledge loan available from the market committees.

**Keywords:** Pledge loan scheme, market, short-term loan, collateral and warehouse

### Introduction

Indian farming is dominated by small and marginal farmers. These farmers with low or no withholding capacity of produce are forced to sell it immediately after harvest to meet their immediate family commitments and square off their debts. It is a well-known fact that when such farmers bring their produce to the market yard in large numbers after the harvesting period, a glut is created causing a sharp fall in prices. This type of forced sale often at a loss is popularly known as distress sale. Thus, there is a need to provide some immediate financial relief to the farmers for helping them to avoid the forced sale when prices are running low. One simple way to help farmers with some short term and immediate financial relief without the hassles of complicated security requirements is to advance them loans against the security of their agricultural produce. This kind of arrangement for advancing loan against the security of agricultural produce stored in a scientific manner is called pledge loan. Initially, pledge loan scheme was extended by the financing banks against the State and Central Warehousing Corporations' warehouse receipts to facilitate the farmers with short term credit, when the prices of agricultural commodities were low. Subsequently, the Agricultural Marketing Departments/Boards of various states started implementing the pledge loan scheme through their APMCs. However, due to distantly located APMCs, limited storage infrastructure available with APMCs and dependence on distant SWC/CWC godowns, not many farmers could be benefitted through the pledge loan schemes of the Agricultural Marketing Departments/Boards.

The Karnataka Agricultural Produce Marketing (Regulation) Act provides for sanction of such short-term advances by the market committees to the producers cum seller against the pledge of their produce with the market committee. This scheme is in force since 15-8-1995 in the regulated markets of the state. Loans up to a maximum of Rs. 2 lakhs or 60 per cent of the value of the agricultural produce, whichever is less, may be advanced to the farmers against the pledge of their commodities for a maximum of 180 days. No interest is charged for the first 90 days. Beyond 90 days, interest is charged at four per cent for amount up to Rs. 25,000; six per cent for amount between Rs.25,000 and Rs. 50,000; eight per cent for the amount between Rs.50,000 and Rs. one lakh and ten per cent, if the loan is between Rs. one lakh and two lakhs. Farmers can avail the pledge loan during the times of low prices and sell the produce, when the prices improve and clear the loan. Similar pledge loan facility is also available from the commercial banks against the produce stored in the warehouses of State Warehousing Corporation (SWC) and Central Warehousing Corporation (CWC).

However, the banks extending pledge finance were facing the problems of assessment of the quality of agricultural produce and security of the stored produce.

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This gave rise to the emergence of Collateral Management Service providers like National Collateral Management Services Ltd. (NCMSL), National Bulk Handling Corporation Ltd. (NBHC) etc., which assay the quality of the produce, maintain and manage the produce even at farmers sites, issue warehousing receipts and offer collateral security of the stored produce. The banks extend pledge finance based on the warehouse receipts issued by such Collateral Management Service providers.

In general, the pledge loan scheme of the State Governments implemented through the regulated market committees work out to be more economical for the farming community as the rate of interest charged on such loans is less compared to the one charged by the commercial banks. However, this scheme at the regulated markets has been unable to catch the attention of a large number of farmers, who have remained ignorant and continue to sell the produce at low prices without using the mechanism of pledge loan. In addition, there are other problems such as non-availability of adequate scientific storage facility and inadequate quantum of pledge loan available from the market committees. Thus, there is a need to analyze the performance of pledge loan through the markets. The present study is an effort in this regard.

### Methodology

The present study was undertaken with respect to the jurisdiction of UAS, Dharwad, which covered seven districts, namely, Dharwad, Gadag, Haveri, Bagalkote, Vijayapur, Belagavi and Uttar Kannada. The secondary data on area and production of major crops in the respective districts were collected from various sources from 2005-06 to 2014-15. Based on the highest area, four important crops were selected from each district except Uttar Kannada district, where only two crops were selected. This resulted in the selection of a total of ten crops under the entire UAS, Dharwad jurisdiction. For each crop identified in each district, one major market was selected based on the quantum of market transactions. This resulted in the selection of a total of 16 markets under UAS, Dharwad jurisdiction.

Further, a random sample of 280 farmers was selected @ 40 farmers from each of seven districts to ascertain the extent of awareness about pledge loan scheme. In addition, to ascertain the problems encountered by the farmers and officials in availing benefits under pledge loan scheme, 35 pledge loan farmers and 16 APMC secretaries were interviewed.

### Results and Discussion

The important findings of the present study are presented hereunder. Table 1 presents the details of major crops grown, State Warehousing Corporation (SWC) godowns and Central Warehousing Corporation (CWC) godowns in different districts under UAS, Dharwad jurisdiction. As can be seen from the table, the number of SWC godowns in Bagalkote, Belagavi, Dharwad, Gadag, Haveri, Uttar Kannada and Vijayapura districts was 4, 6, 6, 6, 9, 2 and 6 respectively. However, four of the seven districts did not have any CWC godowns, while Belagavi, Dharwad and Gadag districts had two of them each.

Table 2 reveals some interesting issues about pledge loan operation in the study markets. As shown by the table, as many as eight out of sixteen selected markets did not advance any pledge loan. Of the eight markets that advanced pledge loan, Vijayapura market had the least number of pledge loan borrowers that is, just four. Given that the pledge loan scheme was started by the Government way back in 1995, the

observations that eight markets did not advance pledge loan and that Vijayapura market had just four borrowers since beginning pointed the dismal performance of this scheme. As the table also shows, it was Dharwad market, where the number of pledge loan borrowers since beginning was maximum at 250. As in 2016, the average number of pledge loan borrowers across eight lending markets was just 58. With regards to the total amount of pledge loan advance since beginning, Hubballi market had the least amount of advances (Rs. 4,16,000) and Dharwad market had the maximum amount (Rs. 1,99,28,600). Across the eight lending APMCs, the average amount of pledge loan advance per market was just Rs. 17,10,000.

Table 3 shows the performance of pledge loan scheme as on March, 2016 in each of the 16 sample markets. As revealed by the table, the markets that never advanced any pledge loan included Bagalkote, Badami, Belagavi, Nandagadh, Savadatti, Gadag, Ranebennur and Mundagod markets. In Dharwad market, which advanced the maximum amount of pledge loan of Rs.1,99,28,600/-, pledge loan was first advanced in 2002-03, and continued to be advanced every year till March, 2017. The loan was advanced for a total of 9 crops and the total number of borrowers was 250. In Hubballi market, where the amount of pledge advance was the least at Rs. 4, 16,000/-, the scheme was first implemented during 2001-02. However, during a period of 16 years after the first pledge advance, loans were sanctioned only during three years, and as such, the number of borrowers was just six. Pledge loans were advanced in this market for three crops. Pledge loans were first advanced in Bailahongal, Naragund, Haveri, Hanagal, Sirsi and Vijayapura markets during 2010-11, 2010-11, 2001-02, 2003-04, 2014-15 and 2012-13 respectively. In the above order, the total number of borrowers since beginning was 19, 13, 12, 71, 91 and 4.

Table 4 presents gain in the value of crops, which were stored as security for the pledge loan and disposed when the prices were considered favourable. It may be noted that the gain was calculated as percentage increase in the value of the produce at the time of storage after deducting the interest paid by pledge loan borrowers. As can be seen from the table, the number of pledge loan crops ranged from one in Haveri and Sirsi markets to nine in Dharwad market. The number of Borrowers right from the inception of the scheme ranged from four in Vijayapura market to 250 in Dharwad market. The table also shows the average period of pledge loan per borrower across 8 markets. It can be made out from the table that average period of pledge loan per borrower was maximum at 124 days in Bailahongal market, where a total of 19 borrowers borrowed pledge loan against a total of 4 crops namely, Bengal gram, Soybean, Maize and Jowar. The average period was least at 53 days in Haveri market, where a total of 12 farmers borrowed pledge loan against the security of just one crop i.e. Maize. The table also provides information on the gain in the value of the produce (after recovering the interest paid to the market committee), when it was taken out of the storage and sold to repay the pledge loan. It may be noted that these gains were calculated as the percentage of the value of the produce at the time of its storage as collateral security. Further, it is also to be noted that these gains were calculated after deducting only the interest paid to the market committee and not the storage charges. The percentage gain presented in table 1 ranged on an average from 5 per cent in Hubballi market to around 18 per cent in Naragund market.

Table 5 highlights the utility of pledge loan for the farmers in terms of net benefit after taking into account all types of costs associated with the loan. This analysis was conducted by using the primary data collected from 35 farmers who availed pledge finance during the year 2016 and repaid it. The sample size for this purpose was only 35 because the idea was to collect the information only from such farmers, who borrowed pledge loan in most recent times as it would facilitate gathering accurate information from them. It may be noted that the net benefits calculated both as rupees per quintal and as percentage of the price that prevailed in the market at the time of storage of produce as collateral security took into account all costs such as interest paid to the market committee, cost of storage, etc. It is also to be noted that storage cost was calculated including the opportunity cost of money that the borrower would have got earlier had he decided to dispose of the produce instead of storing it for pledge loan. As revealed by the table, the net gain per borrower was found to be negative in three out of 12 cases considered. The net gain was highest at 61.26 per cent of the market price that was ruling at the time of availing pledge loan in respect of Vijayapura market for Bengal gram. It was followed by Jowar (39.56%) and Green gram (22.35%) in Dharwad market. As mentioned above, three out of 12 cases indicated net losses from pledge loan and these were the cases of Kempagotu Arecanut (-18.55%) and Rashi Arecanut (-18.45%) in Sirsi market and Tur (-4.62%) in Vijayapura market. Overall, as one can infer from table 1, pledge loan yielded positive net benefits in a large majority of the cases.

Table 6 presents the poor state of awareness among the farmers about pledge loan scheme being operated at APMCs as well as commercial banks. Out of randomly selected 280 farmers, only around 22 per cent had the knowledge about

pledge loan scheme being implemented by the regulated markets. The situation was worse with respect to pledge loan scheme in commercial banks as a mere 7 per cent of the respondents were aware of the scheme. The analysis pertaining to the source of information for the farmers about pledge loan indicated that a large number of farmers (43.21%) happened to know about pledge loan for farm produce from APMC officials. This was followed by SWC / CWC officials (30.86%), sources including Gram Panchayat, Farmers Trainings etc. (18.52%), Raitha Sampark Kendra (12.35%), Fellow Farmers (12.35%), Farm Universities (12.35%) and Mass Media (6.17%).

Table 7 lists various problems that a farmer has to face according to the ones, who had availed loan from APMCs. According to these 35 farmers, the first and foremost problem in pledge loan system was lack of awareness among farmers about the pledge loan itself. While fear of quality determination during storage was the second most important problem, fear of price fall in future was the third severe problem. These were followed by the problems of insufficient amount of pledge loan, lack of nearby godowns, high transportation cost, the fear of becoming defaulter and poor response from APMC officials.

Table 8 presents the problems faced by APMC officials in pledge loan system. According to these officials, the number one problem was lack of knowledge among farmers about pledge loan scheme. Lack of demand by the farmers for pledge loan was the second most severe problem according to these officials. The problem of unfit produce being brought for storage at SWC / CWC ranked third among the problems. The fourth and fifth problems indicated by them were lack of scientific storage facility at APMC and lack of adequate staff.

**Table 1:** Major Crops Grown and SWC and CWC Units under UAS, Dharwad Jurisdiction

District	Major crops	SWC Units	CWCs Units
Bagalkote	Jowar, Maize, Sunflower, Groundnut, Wheat and Bajra	Bagalkote, Badami, Mudhol and Jamakhandi	Nil
Belagavi	Jowar, Maize, Soyabean, Paddy, Wheat and Groundnut	Belagavi, Gokak, Kudchi, Sankeshwar, Ramdurga and Bailahongal	Belagavi and Savadatti
Dharwad	Bengalgram, Jowar, Groundnut, Soyabean, Paddy and Wheat	Dharwad, Hubballi, Amargol, Annigeri, Navalgund and Rayapur	Dharwad and Hubballi
Gadag	Greengram, Bengalgram, Maize, Groundnut, Jowar and Sunflower	Gadag, Laxmeshwar, Nargund, Ron, Mundargi and Gajendraghata	Gadag and Nargund
Haveri	Maize, Paddy, Jowar, Groundnut and Soyabean	Haveri, Hirekerur, Ranebennur (2 Units), Hanagal, Akkialur, Savanur, Shigavi and Byadagi	Nil
Uttar Kannada	Paddy, Arecanut, Groundnut, Black pepper and Cardamom	Karwar and Haliyala	Nil
Vijayapura	Jowar, Bengalgram, Tur, Maize, Wheat and Sunflower	Vijayapura (3 Units), Indi, Sindagi and Muddebihal	Nil

**Note:** The crops shown in bold were selected for the study based on maximum area

**Table 2:** Abstract of Pledge Loan Performance in Sample APMCs since its Launch (as on March, 2017)

Particulars	Details
Number of markets with no pledge loan advances	8
Market with least number of pledge loan borrowers	Vijayapura (4 no.)
Market with maximum number of pledge loan borrowers	Dharwad (250 no.)
Average number of pledge loan borrowers Per market	58
Market with least amount of pledge loan advance	Hubballi (Rs. 4,16,000)
Market with maximum amount of pledge loan advances	Dharwad (Rs. 1,99,28,600)
Average amount of pledge loan advance per market	Rs. 17,10,182
Market with least number of pledge loan crops	Sirsi and Haveri (1 no.)
Market with maximum number of pledge loan crops	Dharwad (9 no.)
Average number of pledge loan crops per market	3 (no.)

**Table 3:** Market Wise Performance of Pledge Loan in Sample APMCs (as on March, 2017)

APMC	Start of pledge loan	Years of advances	No. of pledge loan crops	No. of borrowers	Total Pledge loan
Bagalkote	No operation of pledge loan				
Badami	No operation of pledge loan				
Belagavi	No operation of pledge loan				
Bailahongal	2010-11	5/7*	4	19	26,66,601
Nadagad	No operation of pledge loan				
Savadatti	No operation of pledge loan				
Dharwad	2002-03	15/15	9	250	1,99,28,600
Hubballi	2001-02	3/16	3	6	4,16,000
Gadag	No operation of pledge loan				
Naragund	2010-11	6/7	4	13	18,99,000
Haveri	2001-02	4/16	1	12	4,31,500
Ranibennur	No operation of pledge loan				
Hanagal	2003-04	11/14	2	71	76,64,358
Sirsi	2014-15	3/3	1	91	1,37,22,221
Mundagod	No operation of pledge loan				
Vijayapura	2012-13	3/5	2	4	6,04,000
Percentage of sample APMC's operating pledge loan = 50 %					

\*pledge loan was advanced in five of the seven years since the first implementation of the scheme. Other numbers also have to be interpreted similarly.

**Table 4:** Gain in the value of crops due to pledge loan after covering interest

Market	Pledge Loan Crops	No. of borrowers	Average period of loan / borrower (days)	Gain in value / borrower after deducting interest (%)
Bailahongal	4 (Bengalgram, Soyabean, Maize and Jowar)	19	124	12.45
Dharwad	9 (Jowar, Wheat, Maize, Soyabean, Groundnut, Bengalgram, Greengram, Blackgram and Tur)	250	122	11.71
Hubballi	3 (Wheat, Jowar and Groundnut)	6	66	4.99
Nargund	4 (Maize, Wheat, Greengram and Bengalgram)	13	86	17.89
Haveri	1 (Maize)	12	53	13.70
Hanagal	2 (Maize and Paddy)	71	113	6.12
Sirsi	1 (Arecanut (Kempugoto, Chali and Rashi))	91	63	11.37
Vijayapura	2 (Tur and Bengalgram)	4	90	6.99

**Table 5:** Net benefit enjoyed by pledge loan borrowers (n = 35)

APMC	Crops	Duration per farmer (Days)	Average initial Price (Rs./qtl)	Average Sale Price (Rs./qtl)	Average interest paid (Rs./qtl)	Average* Cost of storage (Rs./qtl)	Net gain per borrower due to pledge loan	
							(Rs./qtl)	%
Dharwad	Jowar	120	2100	3000	8.98	60.31	830.71	39.56
	Greengram	81	4820	5990	0.00	92.95	1077.05	22.35
Hubli	Ground Nut	84	2420	2851	0.00	30.28	400.72	16.56
Bailahongal	Jowar	80	2000	2300	0.00	27.53	272.47	13.62
	Soyabean	238	2985	3544	63.86	141.79	352.35	11.80
Vijayapura	Bengalgram	90	4000	6500	0.00	49.45	2450.55	61.26
	Tur	86	6400	6200	0.00	95.50	-295.50	-4.62
Naragund	Greengram	73	4874	5036	0.00	78.73	82.99	1.70
Sirsi	Rashi	79	23043	19000	0.00	209.50	-4252.50	-18.45
	Kempgotu	60	28000	23000	0.00	194.11	-5194.11	-18.55
	Chali	54	20388.8	21300	0.00	166.13	745.07	3.65
Nandagad	Paddy	111	1538.4	1636	11.22	37.73	48.65	3.16

**Table 6:** Extent of awareness about the Pledge Loan Scheme in Sample APMCs (n=280)

Sl. No.	Particulars	Percentage
1.	Awareness about the scheme operating at APMC	22.14
2.	Awareness about the scheme operating at Bank	6.79
<b>Source of Information</b>		
1	RaithaSampark Kendra	12.35
2	APMC officials	43.21
3	Fellow farmers	12.35
4	Mass media	6.17
5	SWC/CWC officials	30.86
6	Farm Universities	12.35
7	Any Other (Gram Panchayat, Farmers Trainings, etc.)	18.52

**Table 7:** Problems in pledge loan system according to farmers (n=35)

Sl. No.	Problems	Rank
1	Lack of awareness among farmers about pledge loan	1
2	Fear of quality deterioration during storage	2
3	Fear of price fall in future	3
4	Insufficient amount of pledge loan	4
5	Lack of nearby godowns	5
6	High transportation cost	6
7	Fear of becoming defaulters	7
8	Poor response from APMC officials	8

**Table 8:** Problems faced by the APMC officials in pledge loan scheme

Sl. No.	Problems	Rank
1.	Lack of knowledge among farmers about pledge loan scheme	I
2.	Lack of demand by farmers	II
3.	Unfit produce brought for storage at SWC/CWC	III
4.	Lack of scientific storage facility at APMC	IV
5.	Lack of adequate staff	V

### Important Findings

1. Of the 16 APMCs studied, only 8 were found to be advancing pledge loan. Many of them started advances several years after introduction of the pledge loan scheme in 1995. Even after the first advance, some markets were found not to be advancing it on regular basis. The total number of borrowers of pledge loan right from the year of the first implementation across the markets has been very small. The number was as small as 4 borrowers during 5 years of advance in Vijayapura market. The maximum number was 250 borrowers during the last 15 years in Dharwad market.
2. In general, pledge loan was found to be beneficial for the farmers. Out of 12 cases examined, there were positive net gains due to pledge loan in 9 cases after accounting for all costs associated with pledge loan system such as interest paid to the committee, storage charges paid to SWC / CWC godowns, opportunity cost of money that would have been obtained if farmers had sold earlier without going for pledge loan (opportunity cost in this context refers to the interest foregone).
3. The extent of awareness among the farmers about pledge loan schemes of APMCs as well as commercial banks was very meagre. While it was around 22% in the case of market committee pledge loans, it was just around 7% in the case of commercial bank pledge loans.
4. The major source of information to the farmers about pledge loan was APMC officials (43.21%) followed by SWC /CWC officials (30.86%). As indicated by the results, only around 6% of the interviewed farmers gained awareness about the programme from mass media. This indicates the opportunity for exploiting the potential of mass media to reach out to the grass root level in this regard.
5. The first and foremost problem encountered in the pledge loan system according to farmers as well as officials was lack of awareness among the farmers about the scheme itself. Other major problems included farmers' fear about quality deterioration during storage and price fall in future, inadequate amount of pledge loan from APMCs, lack of nearby godowns for scientific storage, produce brought to warehouses, which is unfit for scientific storage etc.

### Policy Implications

1. For any scheme to be effective, the first and the foremost requirement is that the concerned stake holders should have adequate awareness. As revealed by the present study, the proportion of farmers having awareness about pledge loan scheme was very meagre. Also, major sources of information for the farmers were APMC officials and SWC/ CWC officials with mass media playing insignificant role. Thus, efforts have to be made to enhance the extent of awareness among the farming community about the pledge loan scheme operating at APMCs. For this, the potential of mass media may effectively be exploited to carry the message of pledge loan system to the farmers at the grass root level.
2. The APMCs lack scientific storage structures, which acts as a hindrance in proper implementation of pledge loan scheme. For example, in one of the stake holders meet, it was expressed by the farmers of Nandagad market area (Khanapur taluk of Belagavi district) that non-existence of SWC / CWC warehouses in Nandagad or Khanapur made it difficult for them to avail pledge loan from Khanapur APMC. As a result, these farmers are availing pledge loan from TAPCMS, Nandagad. However, the pledge loan from TAPCMS does not offer the benefits of APMC pledge loan as the former is not interest free for the first 90 days (unlike in the case of APMC pledge loan) and carries higher interest rate (12-14%) than the latter. Thus, efforts need to be made for creating scientific storage structures at APMCs and also to increase the network of SWC godowns.
3. The staffing position needs to be strengthened at APMCs, SWCs and CWCs for effective implementation of the scheme.
4. The maximum limit for pledge loan in APMCs in Karnataka is Rs. 2,00,000/-. This limit needs to be enhanced.
5. There are instances of bank tie-up with private sector collateral security providers, who ensure scientific storage of the produce at farmers door steps and provide collateral security to the bankers for the advance of pledge loan. The examples of such collateral security agencies are National Bulk Handling Corporation (NBHC), Multi-commodity Analysts and Independent Inspection Agencies

(MAIIA) etc. However, these tie-ups are seen only between the banks and collateral security agencies. There is a need for such tie-ups between the collateral security agencies and APMCs, which would result in providing scientific storage facilities at farmers door steps and thereby giving an impetus to the tempo of APMC pledge loan system. This kind of tie-up assumes significance also because some farmers like the ones from Nandagad expressed that they did not have SWC godowns in the nearby locations, and taking the produce to the distant SWC godowns for pledge loan purpose would result in high transportation cost making village sales more attractive.

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