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Sustainable Agriculture, Poverty and Food Security

Edited by

S. S. Acharya

Surjit Singh

Vidya Sagar

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Edited by

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Asian Society of Agricultural Economists, Seoul

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Rural Credit in India: Some Concerns

Surjit Singh

India launched a programme of economic policy reforms in response to a fiscal and balance of payments crisis in July 1991. This programme comprised of measures for attaining macro-economic stabilization and structural reforms in order to put the economy back on the rails and set it on a higher growth path. The 1980s also did witness limited deregulation and halting liberalization. The reforms of 1990s have wider ramifications for the economy as they touched industrial, trade and investment regimes, among others. The real sector reforms were followed by financial sector reforms in 1992-93 and since then there have been steady changes being witnessed in the financial sector in India (Singh, 1998). India's reform strategy of stabilization-cum-structural adjustment measures has produced some satisfactory results, both in the areas of macro-economic stabilization and growth (Sachs, Varshney and Bajpai, 1999; Ahluwalia, 2000 and Srinivasan, 2000). The present paper looks at the performance of banking sector in relation to rural finance and highlights some concerns in the context of financial sector reforms in India.

Financial Development and Growth

Is financial system important for economic growth? It is contended that well-functioning banks spur technological innovation by identifying and funding those entrepreneurs with best chances of successfully implementing innovative products and production processes (Schumpeter, 1912). It is also contended that "enterprise leads finance follows" (Robinson, 1952), which means that economic development creates demands for particular types of financial arrangements and the financial system responds automatically to these demands. Development economists are skeptic about the role of the financial system by ignoring it (Chandavarkar, 1992).[1] It is further argued that financial system that are more effective at pooling the savings of individuals can profoundly affect economic development. It means that by effectively mobilizing resources for projects, the financial system may play a crucial role in permitting the adoption of better technologies and thereby encouraging growth (Bagehot, 1873). McKinnon (1973) argues that "the farmer could provide his

own savings to increase slightly the commercial fertilizer that he is now using, and the return on this marginal new investment could be calculated. The important point, however, is the virtual impossibility of a poor farmer's financing from his current savings the whole of the balanced investment needed to adopt the new technology. Access to external financial resources is likely to be necessary over the one or two years when the change takes place. Without this access, the constraint of self-finance sharply biases investment strategy towards marginal variations within the traditional technology".

This has been vindicated by the Green Revolution in India where formal sector finance availability to farmers led to adoption of new technologies and made new technologies scale neutral (Singh, 1991). It is, therefore, pertinent to mention here that economic growth provides the means for the formation of growth-promoting financial intermediaries, while the formation of financial intermediaries accelerates growth by enhancing the allocation of capital (Levine, 1997). Financial development is positively correlated with output growth (Demirguc-Kunt and Detragiache, 1998) and insufficient financial development has sometimes created a "poverty trap" and thus become a severe obstacle to growth even when a country has established other conditions for sustained economic development (Berthelemy and Varoudakis, 1996).

Another important question is: Does the financial structure change as economies grow? There are no right answers available and despite that in the recent years efforts are on to have similar financial structures governed by similar norms. Therefore, over the last three decades, many countries have liberalized their financial markets. The trend towards financial liberalization is part of a broader trend towards reduced direct intervention by the state in the economy. But, in many developing countries, financial liberalization is also a deliberate attempt to move away from using financial repression to fund fiscal imbalances and subsidize priority sectors (Demirguc-Kunt and Detragiache, 1998). Financial liberalization is less risky when a country's institutional environment is strong. The financial sector reforms in India have been guided by the Narsimham Committee Report and many subsequent reports looking at different aspects of financial sector. The changes in this sector have been gradual and at times determined by political consideration, especially in case of priority sector lending of commercial banks (Hanson and Kathuria, 1999).

The financial sector consists of formal and informal institutions for borrowing and lending financial resources, marketing for trading financial instruments such as equities, debentures and their derivatives, and the markets for sharing, shifting, and trading risk (Srinivasan, 2000). The problems of moral hazard, adverse selection, or more generally the possibilities of ex-post opportunistic behaviour are part of financial sector functioning[2]. The ball was set rolling for financial sector opening up by the works of McKinnon (1973) and Shaw (1973) which touched the issues of financial repression. Full liberalization of the financial sector entails elimination of credit controls, deregulation of interest rates, ease of entry into the financial sector, autonomy for banks, permitting private ownership of banks, and liberalization of international capital controls (Singh, 1998). It requires existence of a framework for enforcing prudential regulations and an adequate capital base. The global performance of reforms in the financial sector suggests the following:

1. The McKinnon-Shaw hypothesis that financial development contributes to economic growth is broadly supported in cross-country analysis. However, there is evidence to the contrary in Latin America.
2. The evidence on the elasticity of savings and investment rates with respect to interest rates is mixed (Demirguc-Kunt and Detragiache, 1998). It is expected as a rise in the interest rate has income and substitution effects going in opposite directions with the net effect possibly being positive. There is strong wealth effect of interest rate increases.
3. There is some evidence that liberalization redirected investment from less to more efficient uses which is again consistent with hypothesis that financial development promotes growth. Financial intermediaries, such as banks, make savings available to entrepreneurs who may lack resources of their own to finance investment and technology acquisition, and they screen and monitor loan applications, thereby improving the allocation of resources. By exploiting economies of scale, intermediaries can also make savings mobilization more efficient (Levine, 1997).
4. The evidence of increased financial depth consequent to liberalization is difficult to establish firmly since the available proxy for depth (M2/GDP) is not an ideal one. The movement towards greater depth will depend on whether the economy has poorly developed or well developed financial markets.

The main courses of financial sector reforms in India are well known now (Singh, 1998; Hanson and Kathuria, 1999). The interest rates are now no longer administratively set for certain loans, though they are still set with respect to savings deposits, small savings, NRI deposits, and loans under Rs.0.2 million (Srinivasan, 2000). Cash reserve ratios and statutory liquidity ratios have been scaled down significantly. Private banks have entered the market. The regulatory system is largely in place. But lot more needs to be accomplished for full liberalization of the financial sector. In the wake of 1997 East Asian economic crisis, India has been acting with considerable care in the liberalization of financial markets. The reforms are being appropriately sequenced. This caution is required as in many instances, banking problems have occurred shortly after the financial sector was deregulated (Demirguc-Kunt and Detragiache, 1998). Caprio and Summers (1993) and Stiglitz (1994) caution that some degree of financial regulation is preferable to premature liberalization in developing countries.

India has well-developed financial institutions which have played an important role in its economic development. However, the reforms thus far undertaken have raised certain issues in the context of rural finance. The Narasimham Committee, the Gupta Committee on Rural Credit and many other committees have advocated reduction in subsidies to the rural sector. The main concern of these committees is for directed credit to the rural sector, i.e., the priority sector lending. The priority sector lending is suggested to be reduced from present 40 percent to 10 percent. It is argued that interest rate subsidies on the loans to priority sectors should be totally eliminated. What really has happened since the reforms is looked at in the ensuing discussion.

Performance of Banking Sector

Financial sector reforms were initiated in 1992-93 and since then many changes have occurred in this sector (for details, see Singh, 1998). In this section, we will review the progress made and its impact on rural sector. The coverage of population by banking sector since 1969 has been improving and this trend has continued since the reforms too, though the pace has slowed down due to closing of loss making bank branches (Singh, 1998). The density of bank branches increased during the reform period and one bank branch now covers 15,000 persons. The year 1999 had 64,918 bank branches in India. The saving mobilization also has been going up. The per capita deposits with the scheduled commercial banks in India have jumped from Rs.2,775 in 1991-92 to Rs.7,323 in 1998-99 and it is largely due to increased coverage of the population (see Table 1). On the other hand, per capita credit increased from Rs.1,536 prior to onset of reforms to Rs.3,783 in 1998-99. The scheduled commercial banks also appear to have improved per office performance. In 1991-92, the per office deposits which stood at Rs.3.82 crore steadily improved to Rs.10.71 crore. Against this, the per office credit disbursed in 1991-92 was Rs.2.12 crore, which went up to Rs.5.53 crore in 1998-99.

Table 1 *Scheduled Commercial Bank Performance*

Year	*Per Capita*		*Per Office*	
	Credit (Rs.)	*Deposit (Rs.)*	*Credit (Rs. Crore)*	*Deposit (Rs. Crore)*
1991-92	1536	2775	2.12	3.82
1992-93	1776	3153	2.47	4.38
1993-94	1867	3586	2.63	5.04
1994-95	2330	4261	3.32	6.06
1995-96	2740	4680	3.94	6.73
1996-97	2952	5362	4.28	7.77
1997-98	3379	6241	4.92	9.09
1998-99	3783	7323	5.53	10.71

Besides, the credit deposit ratio of the scheduled commercial banks stood at 55.5 in 1999. One observes deterioration in this ratio and there are regional variations observed too. For instance, the northern region had a ratio of 57, north-eastern region 28, eastern region 37.4, central region 33, western region 65.9 and southern region 68.6. At the state level, the variation ranges between a low of 7.7 in Lakshadweep and a high of 93 in Tamil Nadu (RBI, 1999). A low ratio indicates low investment opportunities in the region/state or capital moving out of the region/state for greener pastures. The latter reason is more strong as banks under the garb of improving NPA are lending in more profitable areas. The Punjab, Haryana and Delhi Chamber of Commerce and Industry recently raised its voice against this capital flight. The story does not end here as there are wide inter-bank and inter-financial institutional variations.

In the reform process, performance of banks is being evaluated under the Basle system and prudential norms have been set rolling by the Reserve Bank. In this regard, it may be pointed out that intermediation cost as percentage of total assets of public sector banks in 1992-93 was 2.63 which went up to 2.65 in 1998-99 (RBI, 1999). However, provisioning for contingencies as percentage of total assets has gone down from 1.92 to 0.95 during the same period. The ratio of gross profits as percentage of total assets has improved from 0.94 in 1992-93 to 1.37 in 1998-99, though Indian Bank is still in loss. The net profit as percentage of total assets has become positive and stood at 0.42 in 1998-99 when it was (--)0.99 in 1992-93. Interest income as percentage of total assets observed a decline from 9.55 in 1992-93 to 9.02 in 1998-99, while interest expanded as percentage of total assets during the same period reduced from 7.16 to 6.21. The net interest income, on the other hand, improved during the period from 2.39 to 2.81 (RBI, 1999). At times banks have to make provisioning for contingencies etc.

Priority Sector

Since the reforms, though priority sector lending proportions have not been reduced, the banks have used the implicit and explicit rules and new institutions to reduce the lending to priority sector, mainly agriculture sector. One important change recently introduced is that the priority sector now has many new entries like software industry, food and agro-processing sector, venture capital, small roads and water transport (RBI, 1999). In March 2000, only 163 lakh accounts were recorded for agriculture credit which stood at 217.9 lakh in March 1994. Between March 1994 and March 2000, the amount outstanding increased by 118 percent in case of agriculture sector compared to 207 percent in case of other priority sector advances. Commercial banks can also put funds in rural infrastructure development fund to the extent of 1.5 percent and earn interest of 11.5 percent, implying a new source with assured returns for the banks and more the reason not to lend to agriculture sector where transaction costs are high.

In the above context, it is interesting to note that a shift has taken place in type of borrowers of credit from scheduled commercial banks. Private companies have gained in the share from 38.6 percent in 1992-93 to 48.1 percent in 1998-99 (CMIE, 2000a). The three major borrowers of credit from scheduled commercial banks now are central government owned undertakings, private companies and other enterprises. The share of these three in total bank credit was 76.2 percent in 1992-93 which rose to 81.5 percent in 1998-99. The individual borrowers' share in total bank credit has, on the other hand, reduced from 15.8 percent to 9.1 percent during the same period. These individual borrowers are mainly in the agriculture sector. This reflects on the changing perceptions of the scheduled commercial banks in liberalized era in India.

Flow of institutional credit to agriculture has been under constant focus. Commercial banks are mandated to earmark 18 percent of total annual lending to agricultural sector as part of priority sector lending. Providing better access of institutional credit for small and marginal farmers and other weaker sections to

enable them to adopt modern technology and improved agricultural practices, has been one of the major objectives of Indian government. The priority sector lending to agriculture sector, came down to 11.6 percent in 1999 from 16.2 percent in 1990(RBI, 1999) -- a fall of 4.6 percentage points (one-fourth fall) -- which is quite significant and in March 2000 it stood at 15.8 percent (RBI, 2000). The total non-food sector lending share fell from 39.4 percent in 1990 to 33.5 percent in 1999, while that of (industry, trade, etc.) improved in total credit from 58.7 percent to 61.6 percent during the same period. The food credit marginally improved its share to 4.9 percent from 2 percent during the period.

This is not all, when we come to sector-specific situation, we find that scheduled commercial banks observed a decline in number of accounts since the onset of reforms -- a fall by 0.981 crore at aggregate level – while in case of agriculture sector, the number of accounts fell by 0.643 crore and accounts of artisans and village industries by 6.9 lakh (see Table 2). This means a reduced coverage since the reforms. The share of agriculture sector in total bank credit also reduced by 2.89 percentage points, while in case of artisan and village industries there is a marginal improvement of 0.03 percentage points. As Economic Survey admits "about 70 percent of the incremental advances to the priority sector during April-October 1999 flowed to the category other priority sectors in contrast to 40 percent in the corresponding period of 1998-99" (CSO, 2000: 55).

Table 2 *Outstanding Credit of Scheduled Commercial Banks (Rs. in Crore)*

Year	*Total Credit*	*Agriculture*	*Artisans & Village Industries*
Total Credit Centre			
1992-93	162467.3	22060.2	1030.9
1998-99	382425.0	40889.3	2518.7
Share in Total Credit Centre			
1992-93	100.00	13.58	0.63
1998-99	100.00	10.69	0.66
Number of Accounts Centre			
1992-93	62116396	26216787	2595351
1998-99	52305456	19788385	1897714

Source: CMIE (2000a).

The hard hit are the lower-end borrowers by liberalization of financial sector. At the aggregate level, 19.8 percent share was of those borrowing Rs.25000 or less in 1992-93 which fell to 10 percent in 1998-99. On the other hand, the share of those borrowing credit of Rs.10 crore or more improved from 16.4 percent to 29.1 percent during the same period (CMIE, 2000a). It is further revealed that though total credit in the range of Rs.25,000 or less increased by more than Rs.6,193 crore, the number of accounts reduced by 1.577 crore (see Table 3). Further, the per capita credit comes to Rs.5,483 in 1992-93 which went up to Rs.8,956 in 1998-99. In case of agriculture sector, the number of accounts reduced by 7.57 million whereas the credit disbursed

improved by more than Rs.4,022 crore. The per capita credit went up from Rs.4,581 in 1992-93 to Rs.8,792 in 1998-99. The number of accounts of artisan and village industries declined by 8.2 lakh between 1992-93 and 1998-99 while the credit disbursed increased by Rs.425.8 crore. At the other end, the number of borrowers in the range of Rs.10 crore or more increased by 298 percent or per capita credit improved to Rs.26.64 crore in 1998-99, which was Rs.25.32 crore in 1992-93. The share of agriculture sector was 2.76 percent in 1992-93 which declined to 2.30 percent in 1998-99. However, an improvement is observed in the number of agricultural borrowers in the category of Rs.10 crore or more and these are mainly high-tech ventures in the agriculture sector. This shows a bias against small borrowers and increasing neglect of this section as well.

Table 3 *Credit by Size*

Year	*Total Credit*	*Agriculture*	*Artisans & Village Industries*
Less than Rs. 25,000			
1992-93	32091.5	11622.7	947.9
1998-99	38285.0	15645.1	1373.8
Number of Accounts			
1992-93	58520533	25368744	2570792
1998-99	42747346	17794494	1754891
Rs.10 crore or more			
1992-93	26614.3	931.8	—
1998-99	111385.6	3508.0	—
Number of Accounts			
1992-93	1051	29	—
1998-99	4182	96	—

Another change that one observes has occurred in relation to regional shift in credit. The share of rural areas in total credit fell by 4.6 percentage points during the period from 1992-93 to 1998-99 (from 18.7 percent to 14.1 percent), while in case of semi-urban areas, the decline is by 1.28 percentage points (from 15.61 percent to 14.33 percent) (see Table 4). This again reflect on an implicit, decline, in importance of rural areas in credit deployment. It is again revealed that in rural areas, the number of accounts fell by 84.1 lakh between 1992-93 and 1998-99 in case of total credit, while in case of agriculture sector these reduced by 45.1 lakh and the number of borrowers went down by 6.1 lakh as far as artisans and village industries are considered. The above discussion reveals only one thing: slow withdrawal from dispersed borrowers and concentration on profit-making venture lending. This process would continue in future too and can India afford this at this juncture when studies show that traditional moneylender is going strong in rural India and there are still bypassed regions and sections of our society (Singh, 1999). It uncovers that economic factors eventually are taking precedence over the social agenda.

Table 4 *Credit in Rural Areas*

Credit	*Credit (Rs. Crore)*		*Accounts (No.)*	
	1992-93	*1998-99*	*1992-93*	*1998-99*
Total Credit	30338.8	53908.6	32881221	24473040
Agriculture	11856.8	19671.8	17455592	12942370
Artisan & Village Industries	635.4	1156.2	1867984	1257072

Source: CMIE (2000a).

It is a strong argument of financial sector reform proponents that interest rates should be raised as rural population is borrowing from non-formal sector at high interest rates and have capacity to repay. The deregulation of bank interest rates is used as the observable policy changes indicating liberalization. It is also argued in literature that banking crises are more likely when financial sector is liberalized even when other factors (like real interest) are controlled. The data delineate that the number of borrowers in 1992-93 in the interest band of below 6 percent was 6,137 which went down to mere 12 in 1998-99 in case of agriculture sector, while in case of artisans and village industries, the corresponding figures were 163 and 78 (see Table 5).

Table 5 *Scheduled Commercial Banks Credit by Interest Rates*

Interest Range Percent	*1992-93*		*1998-99*	
	Accounts (No.)	*Credit (Rs.crore)*	*Accounts (No.)*	*Credit (Rs. crore)*
Less than 6	6137	54.1	12	7.0
	163	0.5	78	0.5
6-10	5171	128.1	328	187.8
	36	0.1	33	5.4
10-12	24371	553.7	2143	619.7
	1425	5.0	69	4.6
12-14	132754	1208.3	26673	3263.5
	4271	14.2	787	48.9
14-15	98059	862.9	28587	1621.6
	5716	18.9	616	31.1
15-16	448049	4024.3	32567	1990.0
	6242	22.1	943	65.7
16 – 17	45145	789.0	31522	2329.2
	2809	9.5	1596	111.7
17 – 18	63260	1039.1	22944	1532.6
	2574	8.6	1003	63.6
18 – 20	8781	1003.1	17146	1271.8
	690	2.3	496	33.4
20 +	16290	793.4	2655	254.6
	418	1.1	137	7.8

Source: CMIE (2000a).

Note: First row relates to agriculture and second row one relates to artisan and village industries.

It is also found that nearly four-fifth of the persons in the agriculture sector in 1992-93 had borrowed at the rate of 14 percent or more and in 1998-99, more than four-fifth borrowers obtained credit at the rate of more than 14 percent. This dilutes the argument that the subsidy was going to lower end of borrowers. Rather this means that more subsidized credit is going under government schemes and not to the agricultural sector.

Table 6 *Credit Deployment by States: Number of Accounts*

States	*1992-93*			*1998-99*		
	Total	*Agriculture*	*Artisan & Village Industries*	*Total*	*Agriculture*	*Artisan & Village Industries*
Jammu & Kashmir	309070	92997	31469	304389	75223	17833
Himachal Pradesh	121080	18952	341451	87003	18939	318365
Punjab	1576212	680206	40360	1384161	545332	30817
Haryana	1200856	552844	33318	924907	351968	25257
Uttar Pradesh	7423385	3446186	370409	6217152	2738249	323503
Rajasthan	2258339	1038878	145640	2005850	872319	97174
Bihar	5628737	2417742	365182	3627599	1311929	212609
Orissa	3008377	1221326	179869	2181736	820237	107213
West Bengal	4592730	1512472	576838	3603805	869349	439751
Assam	1097735	328220	89910	761931	180886	37702
Meghalaya	74552	42434	2096	72989	31589	3158
Tripura	364468	166136	27501	288304	91564	19632
Mizoram	17452	7838	1097	25978	6679	1402
Manipur	54255	13313	8519	67071	14793	9162
Nagaland	57062	25992	1224	37770	17343	1002
Arunachal Pradesh	17781	10060	304	49914	27937	1227
Sikkim	27130	12442	598	15071	7715	391
Gujarat	2278349	1034171	85557	1906662	797379	57872
Maharashtra	4782887	1819290	55392	4910285	1361972	50839
Goa	129711	27863	1510	109939	9647	1407
Madhya Pradesh	3568232	1489043	191077	2592335	1078071	114734
Andhra Pradesh	7419533	3794061	147405	6409809	3227057	98492
Karnataka	4915445	2176805	93331	4331049	1665875	71049
Kerala	3690721	1290464	68640	3457915	1179531	68745
Tamil Nadu	6378275	2823742	55077	5611808	2380825	83167

Source: Same as Table 5.

At the state level, in case of total credit deployed, the number of accounts has gone down in all states except for Himachal Pradesh, Mizoram, Manipur, Anunachal

Pradesh and Maharashtra between 1992-93 and 1998-99 (see Table 6). The situation in the agriculture sector is worse; it is observed that only in Manipur and Arunachal Pradesh the number of agriculture sector accounts went up during the same period. In case of artisan and village industries, the number of accounts increased in Meghalaya, Mizoram, Manipur, Arunachal Pradesh, Kerala and Tamil Nadu. Almost all major states have reduced number of borrowers with the banking sector. Thus, it is clear that banks are no more interested in these two important sectors which create employment and livelihood for millions in rural India.

Short-Term and Term Loans

Now, when we observe the short-term and term loan situation, the number of accounts in the category of borrowers with up to 2.5 acres land reduced in north-eastern and southern regions only, while at the state level, the reduction occurred in Jammu & Kashmir, Rajasthan, all states in north-east except Tripura and Mizoram, Orissa, Madhya Pradesh, Goa and Kerala during the period from 1991 to 1997 (see Table 7). At all-India level, the number of borrowers went down by 7.56 lakh, though the credit disbursed increased by Rs.952.74 crore. On the other hand, the total credit disbursed to this category of farmers has gone up in all states except north-eastern states. However, in case of farmers with more than 5 acres of land, the number of borrowers increased in all regions and states except Jammu & Kashmir, Meghalaya, Nagaland and Bihar. At all-India level, the number of borrowers went up by 5.12 lakh and the credit disbursed increased by more than Rs.1,527 crore (see Table 8).

In case of term loans, we observe that in the category of up to 2.5 acres of holdings, in all regions and states, except Orissa and Gujarat, the number of borrowers has come down between 1991 and 1997 (see Table 9). At all-India level, the number of borrowers reduced by 1.28 lakh whereas the credit disbursed increased by Rs.42.81 crore. However, eastern and central regions observed decline in credit disbursed and among the states, Jammu & Kashmir, Punjab, Mizoram, Orissa, West Bengal, Madhya Pradesh, Goa and Tamil Nadu observed a decline.

On the other hand, in case of category of borrowers with 5 and more acres of holdings, at all-India level, the number of borrowers increased by 3.34 lakh and the credit disbursed increased by more than Rs.1,201 crore (see Table 10). Northern, central and southern regions observed a decline in borrowers and so did the states like Haryana, Jammu & Ksahmir, Punjab, Meghalaya, Tripura, Bihar, Madhya Pradesh, Uttar Pradesh, Goa, Andhra Pradesh and Tamil Nadu. However, none of the regions or states witnessed a decline in credit deployed to this category.

The above analysis reveals that bank credit is getting concentrated as number of borrowers is reducing at the lower end while the number is increasing at the upper end of holdings. There is no doubt that the amount of credit deployed has not reduced during the reform period, though in certain regions and states, the indications are of reversal of pre-reform period situation.

Table 7 *Scheduled Commercial Banks Direct Finance to Farmers Short-Term Loans (Up to 2.5 Acres)*

State/UT	*1991*		*1997*	
	Disbursed During the Year		*Disbursed During the Year*	
	No. of Accounts (000s)	*Amount (Rs.crore)*	*No. of Accounts (000s)*	*Amount (Rs.crore)*
Northern Region	**21.0**	**11.7**	**30.25**	**50.66**
Haryana	2.2	1.2	4.30	10.30
Himachal Pradesh	2.4	2.0	5.49	6.47
Jammu & Kashmir	0.7	0.1	0.45	1.97
Punjab	8.0	4.4	13.51	25.12
Rajasthan	7.6	3.8	6.43	6.46
North-Eastern Region	**4.8**	**1.8**	**2.05**	**1.09**
Assam	2.1	0.8	1.21	0.59
Manipur	0.2	0.1	0.03	0.02
Meghalaya	1.3	0.4	0.18	0.09
Nagaland	0.8	0.4	0.02	0.01
Tripura	0.3	0.1	0.48	0.31
Arunachal Pradesh	0.1	-	0.05	0.02
Mizoram	-	-	0.09	0.05
Eastern Region	**173.8**	**54.7**	**229.80**	**89.21**
Bihar	20.9	7.5	25.97	18.85
Orissa	77.7	21.0	47.47	25.64
West Bengal	74.7	26.1	155.38	44.25
Central Region	**94.1**	**36.0**	**104.99**	**95.18**
Madhya Pradesh	12.6	6.3	7.77	20.63
Uttar Pradesh	81.5	29.7	97.22	74.56
Western Region	**57.5**	**39.7**	**116.28**	**115.41**
Gujarat	19.0	11.9	58.75	57.50
Maharashtra	35.4	26.7	56.25	56.58
Goa	3.1	1.1	1.27	1.32
Southern Region	**1172.2**	**615.7**	**1283.79**	**1360.80**
Andhra Pradesh	307.7	154.2	406.54	345.45
Karnataka	71.2	35.8	75.97	87.61
Kerala	398.7	217.7	303.92	353.88
Tamil Nadu	384.9	203.3	487.27	559.29
All India	**152[illegible].4**	**759.6**	**767.15**	**1712.34**

Source: RBI (1999).

Table 8 *Scheduled Commercial Banks Direct Finance to Farmers: Short-Term Loans (Above 5 Acres)*

State/UT	*1991*		*1997*	
	Disbursed During the Year		*Disbursed During the Year*	
	No. of Accounts (000's)	*Amount (Rs.crore)*	*No. of Accounts (000s)*	*Amount (Rs. crore)*
Northern Region	**60.0**	**69.5**	**79.69**	**261.05**
Haryana	8.6	9.9	15.84	45.82
Himachal Pradesh	0.4	0.8	0.56	1.47
Jammu & Kashmir	0.3	3.3	0.19	1.02
Punjab	39.6	45.1	45.92	149.17
Rajasthan	11.1	8.6	16.91	27.75
North-Eastern Region	**1.3**	**0.8**	**1.24**	**8.06**
Assam	0.3	0.2	0.99	1.31
Meghalaya	0.2	0.1	0.01	0.01
Nagaland	0.7	0.5	0.08	0.08
Tripura	-	-	0.11	6.64
Arunachal Pradesh	0.1	-	0.06	0.02
Eastern Region	**29.6**	**21.6**	**56.72**	**98.39**
Bihar	9.9	6.9	9.61	12.34
Orissa	13.3	6.4	25.36	20.17
West Bengal	6.3	8.3	21.68	65.76
Central Region	**68.5**	**75.0**	**75.80**	**180.10**
Madhya Pradesh	12.9	32.7	19.81	63.35
Uttar Pradesh	55.6	42.2	55.99	116.75
Western Region	**129.4**	**134.3**	**297.03**	**520.03**
Gujarat	67.9	69.8	218.44	358.48
Maharashtra	61.3	63.4	78.39	160.76
Goa	0.2	1.0	0.20	0.79
Southern Region	**350.5**	**362.5**	**640.39**	**1123.41**
Andhra Pradesh	133.8	133.9	236.98	394.56
Karnataka	57.4	65.2	90.47	289.69
Kerala	12.8	15.2	22.61	56.71
Tamil Nadu	144.3	145.8	287.99	378.20
All India	**639.2**	**663.7**	**1150.87**	**2191.03**

Source: Same as Table 7.

Table 9 *Scheduled Commercial Banks Direct Finance to Farmers Term Loans (Up to 2.5 Acres)*

State/UT	*1991*		*1997*	
	Disbursed During the Year		*Disbursed During the Year*	
	No. of Accounts (000's)	*Amount (Rs. crore)*	*No. of Accounts (000s)*	*Amount (Rs. crore)*
Northern Region	**36.5**	**33.3**	**18.84**	**35.62**
Haryana	5.7	3.2	2.81	6.01
Himachal Pradesh	3.8	1.7	2.52	3.64
Jammu & Kashmir	1.4	1.1	0.07	0.15
Punjab	7.1	12.4	3.57	7.75
Rajasthan	18.5	13.6	9.78	17.56
North-Eastern Region	**6.1**	**2.5**	**4.47**	**7.26**
Assam	4.3	1.8	3.07	5.45
Manipur	0.1	0.1	0.07	0.15
Meghalaya	0.2	0.1	0.44	0.51
Nagaland	-	-	0.02	0.01
Tripura	1.4	0.4	0.72	0.98
Arunachal Pradesh	0.1	-	0.12	0.12
Mizoram	-	0.1	0.03	0.04
Eastern Region	**85.5**	**75.2**	**72.42**	**63.63**
Bihar	42.2	17.7	28.39	29.71
Orissa	18.1	39.9	21.02	17.29
West Bengal	25.1	17.4	22.55	16.29
Central Region	**90.3**	**134.3**	**59.23**	**129.08**
Madhya Pradesh	27.8	84.3	14.83	59.98
Uttar Pradesh	62.6	49.9	44.40	59.10
Western Region	**39.6**	**38.8**	**42.38**	**63.41**
Gujarat	8.8	7.5	14.48	22.90
Maharashtra	28.9	30.5	27.69	40.10
Goa	1.8	0.7	0.22	0.40
Southern Region	**178.5**	**137.1**	**111.34**	**165.01**
Andhra Pradesh	41.7	29.8	28.19	40.00
Karnataka	28.1	21.2	19.92	27.34
Kerala	45.2	25.5	31.67	45.80
Tamil Nadu	62.6	59.8	30.97	50.74
All India	**436.8**	**421.2**	**308.68**	**464.01**

Source: RBI (1999).

Table 10 *Scheduled Commercial Banks Direct Finance to Farmers Term Loans (Above 5 Acres)*

State/UT	*1991*		*1997*	
	Disbursed During the Year		*Disbursed During the Year*	
	No. of Accounts (000s)	*Amount (Rs.crore)*	*No. of Accounts (000s)*	*Amount (Rs.crore)*
Nothern Region	**48.9**	**307.2**	**46.40**	**565.76**
Haryana	13.0	85.1	12.53	156.34
Himachal Pradesh	0.5	2.8	0.73	6.14
Jammu & Kashmir	0.2	0.5	0.15	2.30
Punjab	20.6	136.4	16.47	225.80
Rajasthan	14.6	82.4	16.52	175.18
North-Eastern Region	**0.9**	**4.5**	**0.91**	**6.39**
Assam	0.4	2.4	0.48	5.73
Manipur	-	0.2	0.04	0.17
Meghalaya	0.2	0.1	0.01	0.03
Nagaland	0.1	0.2	-	0.02
Tripura	0.2	0.1	0.11	0.16
Arunachal Pradesh	-	1.5	0.27	0.28
Eastern Region	**15.7**	**112.9**	**28.40**	**147.66**
Bihar	6.8	43.1	6.44	70.45
Orissa	4.8	24.7	16.39	16.37
West Bengal	4.1	45.0	5.35	60.57
Central Region	**71.3**	**290.2**	**44.40**	**667.36**
Madhya Pradesh	27.0	124.9	20.25	377.89
Uttar Pradesh	44.3	165.3	24.15	289.47
Western Region	**57.9**	**206.0**	**408.50**	**508.27**
Gujarat	26.3	77.7	373.88	271.14
Maharashtra	31.3	127.6	34.44	235.06
Goa	0.2	0.5	0.18	2.08
Southern Region	**64.6**	**191.9**	**64.47**	**412.25**
Andhra Pradesh	15.6	49.0	15.49	86.04
Karnataka	20.7	57.1	25.22	188.42
Kerala	4.0	12.5	4.39	34.74
Tamil Nadu	24.3	72.5	19.20	102.10
All India	**259.6**	**1118.1**	**593.73**	**2319.73**

Source: Same as Table 7.

Concerns

The indications are that commercial banking system in India has become quite apprehensive of exposing itself to lending risk and has developed an unhealthy appetite for greener pastures like government securities and now it will be insurance sector which they will concentrate on. The lending is increasingly being done on the basis of asset ownership to avoid adverse selection of borrowers. Because transaction costs are fixed largely, banks are preferring to make large loans now. One forgets that covariable risk affects all types of farmers equally, but the ability to bear this risk is perceived to be higher for large farmers. Small and marginal farmers must have access to institutional credit, both to reduce poverty and to spur economic growth. Attempt should be to prevent the process by which they become landless. Again, one has to keep in mind that credit market imperfections can create inefficiency in both production and consumption -- a problem that disproportionately affects the poor in rural areas. The overall benefit of targeted farm credit exceeds the cost to the government by 13 percent (Binswanger and Khandker, 1995). As funds are fungible, the impact of farm credit has to be evaluated not only in terms of farm production and investment (participant level impact) but also in terms of rural non-farm production and employment (economy-wide impacts). The widening of priority sector credit would adversely affect the credit availability for agricultural production and thereby food security of the country and this needs correction when there is a observed decline in area under foodgrains (Singh, 2000). It would be necessary to provide institutional technological support to step up productivity improvements to avoid any emergence of major demand-supply imbalance.

NOTES

1. In this category one put Meir and Seers (1984) and Stern (1989).
2. Even Kautilaya recognized the risk element in transactions. He stipulated that 1.5 percent per month should be the legal interest rate on essentially risk free transactions, but much higher interest rate on loans that finance risky transactions that involve transportation through forests, across the seas, and so on (Kangle, 1972: 226 as quoted by Srinivasan, 2000). But one forgets here that how and in what type of situation the individual is placed.

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