CHAPTER - VII

CONCLUSIONS AND POLICY

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VII.1 Conclusions

Commercial banks have come to finance a much bigger part of the credit needs of agriculturists in the early 70's than what they did in the early 60's. Rough estimates made by us, show that whereas, the credit needs of agriculturists at current prices may have increased three fold during the decade, the absolute quantum of credit assistance to them by commercial banks must have increased almost thirtyeight fold during the same period. However, the financing of agriculture by commercial banks has not been regionally equitable, to say the least. For 283 districts the co-efficient of variation of agricultural credit per hectare of net sown area is 2.32 as against only 1.39, 1.26 and 0.73 as the same co-efficient for per capita outstanding credit, per capita deposit, and number of bank offices per lakh of population respectively. The range of agricultural credit per hectare of net sown area is as wide as 12 paise to Rs.1120.18. In other words, while commercial banks have successfully increased the share of agriculture in their total outstanding credit several fold, it has failed to maintain a minimum degree of uniformity in its regional distribution.

However, the regional distribution of per capita outstanding credit also has a high degree of variation, even though not as high as the degree of variation of agricultural credit.

The influence of the spread of bank-offices in augmenting the flow of agricultural credit from commercial banks, is doubtful, if we consider the sample of all-districts numbering 283. The regression of agricultural credit per hectare of net sown area (X_2) showed the co-efficient of X_5 as negative which is not significant at 5 per cent level, but significant at nearly 10 per cent level. However, for those districts which fall in the middle range of aggregate credit of commercial banks per head of population, the impact of the spread of bank offices is significant and positive (regression co-efficient of X_5 is +3.636 with t - value 2.223). For the sample of all districts this co-efficient is -3.052 which is significant nearly at 10 per cent level. Assuming that the negative impact of spread of bank offices is significant, one possible explanation for such behaviour may be that the opening of new bank offices is likely to meet with heavily increased demand for credit from the non-agricultural sectors. The agricultural sector, never very much dominant, eventually suffers from opening of new bank-offices. This tendency is more prominent in areas where the level of per capita credit is already very high so that increased demand for credit from non-agricultural sectors is met by diverting funds away from the agricultural sector. However, in such areas, the existing level of agricultural credit is likely to be higher than in the rest of the country because of high level of over-all per capita credit itself. It appears that the banks in districts in the

middle range of overall credit operation have developed the correct approach about- priorities in credit operation while opening new offices. Such opening of new offices in this group of districts has a definitely beneficial effect for the purposes of extending credit to the agricultural sector. Concentration of rural assets either in the sense of Lorenze curve inequality or in the sense of concentration of asset-value in asset groups which are above the average has positive and significant influence on commercial banks agricultural credit. This may be a pointer to the fact that mercantile forces or forces of surplus appropriation in the form of profit-on-alienation, have succeeded in influencing this important source of institutional credit for the agricultural sector. This is confirmed by the fact that the average level of assets per rural household, as such, is not so much important in influencing X_2 as the degree of concentration of such assets within a region. It shows that the dominance of classes with operational assets in the form of land and other than land above the average level is able to influence the flow of agricultural credit from commercial banks. This possibly also indicates a role of middlemanship being played by the rural rich and agriculturist money-lenders between the organised sources of credit and the general mass of users of such credit.

However, the old class of monopoly of purely big land-owners seems to have been passive in influencing commercial banks' distribution of agricultural credit. The commercial banks have been successful, it appears, in avoiding pressures from areas of concentration of large farms on the regional

pattern of distribution of agricultural credit. In fact, in the group 3 districts, with high per capita credit, a good amount of variation in X_2 (agricultural credit per hectare of net sown area) is explained by X_4 (degree of concentration of area in large farms) alone, when it is fitted as a parabolic function of the latter and the parameters obtained are such that X_2 is declining within the relevant range of X_4 (equation 6.13, Chapter-VI). In the all-districts sample, X_4 has a significant negative regression co-efficient in the linear multiple regression model determining X_2. This negative effect of an increase in X_4 on X_2 is stronger in districts where the level of per capita credit is higher (in the highest sample of Group-3 districts with highest level of per capita credit). That possibly shows that a greater maturity of commercial banks in credit operations leads to a greater awareness in them of the social and egalitarian objectives. This awareness, is possibly diluted by a tendency on the part of commercial banks to follow the pattern of co-operative credit movement in the matters of giving agricultural credit (See Chapter-IV, Section-IV.3). Central Co-operative Banks' outstanding credit per hectare of net sown area (X_3) is higher in areas where X_4 is higher.

Therefore, the fact that clearly emerges from this analysis is that commercial banks' agricultural credit successfully avoids areas where land concentration is high but at the same time is mopped up by areas with high degree of concentration in the distribution of rural assets (which combine both land

and non-land assets). It is no longer the purely big-land-owner classes (forces of surplus generation in the form of absolute rent) which dominate in the matter of distribution of institutional credit coming from the organised money market to the rural economy. It is on the other hand, a class of rural rich whose assets do not only consist of landed property but also of various other forms of mercantile interests, including trade and money-lending, which has come to dominate the scene. The commercial banking system, being a superstructure of the underlying socio-economic reality, is only, if grudgingly, following the dictates of the new masters of the countryside.

To sum up, the significant determinants of the level of agricultural credit per hectare of net sown area in our regression model, have been, per capita bank credit, Central Co-operative Banks' outstanding credit per hectare of net sown area, number of bank-offices per lakh population, per capita bank-deposit, degree of urbanisation, (even though it is multi-collinear with per capita credit), and intensity of cultivation. It appears, as amongst the three productivity variables included in the analysis, viz., intensity of cultivation, percentage of irrigated land-area, and percentage area under commercial crop cultivation, only intensity of cultivation has significant and positive, impact on commercial banks' agricultural credit. - Apparently, commercial banks, giving mainly short-term crop-loans, are interested more in quick turnover than in higher productivity or higher profitability of cultivation,

The significant determinants of the level of per capita commercial bank-credit of a region (district) are found to be per capita deposit (X_7) per hectare of net sown area outstanding credit of central co-operative banks (X_3) (a proxy for overall co-operative credit), spread of bank offices in relation to population (X_5) and the degree of urbanisation (X_9). The regression co-efficients for all these variables were found to be positive and significant. On the other hand, in determining the level of per capita deposit in a district, level of co-operative credit is not important, while per capita credit (X_6), number of bank-offices relative to population (X_5) and the degree of urbanisation (X_9) are significant determinants. There seems to be a blind circulatory system by which areas which make higher deposits automatically become more credit-worthy. The level of per capita credit is largely determined by that of per capita deposit.

On the other hand, spread of bank offices is more effective in increasing deposits than credit. The regression co-efficient of X_5 is 25.128 and 5.370 respectively, in identical equations determining per capita deposit and per capita credit (Tables-III.1 and III.2). It is doubtful whether the present drive to increase the spread of bank offices in rural centres will succeed in initiating a flow of funds from the organised money market to the rural sector. As a matter of fact, if credit-deposit ratio data by population size-groups of bank-centres is any indicator, the reverse flow may really get encouragement.

Lastly, in spite of all these influences discussed above, on the level of agricultural credit in a district, the single most important factor remains to be the level of over-all bank credit in the district. This is borne out by two findings:

(i) Per capita credit alone explains 26% of variation in X_2 in our regression model;

(ii) The co-efficient of variation of the variable, viz., percentage of agricultural credit to total outstanding credit is the lowest (0.89) amongst all the banking variables considered in this analysis.

This leads to major policy premises as regards the problem of increasing effectively regional equality in the distribution of agricultural credit, by commercial banks. We shall, now, turn to these policy-implications which emanate from this study.

VII.2 Policy

The policies recommended here are intended to bring about a greater regional balance in the distribution of agricultural credit by commercial banks and for fostering a greater cohesion of such credit and egalitarian objectives of interpersonal character that can be brought about, through inter-regional discrimination.

(1) It emerges from this analysis that a region being high up in non-agricultural activities receives a high quantum of overall bank-credit relative to population which, in turn, leads to a high level of agricultural credit also from commercial banks. Therefore, the first step for bringing about a more equitable regional distribution of agricultural credit should be an attempt at bringing about a greater regional equitability in the distribution of overall credit itself. While more attention should be paid to the problem of generating demand for bank credit in the rural and semi-urban areas (a task for the concerned multi-level planning authorities), the banking system, on its part, should be prepared to divert resources from the urban sector to the rural, thereby reversing its present policy which augments an opposite flow. Broadly speaking, therefore, a concerted effort should be made by all authorities concerned to reduce the tendency on the part of developed regions having a higher predominance of non-agricultural activities to attract what we have called a 'multiplied flow of funds' (See Chapter-VI, Section VI.3). This may mean for some districts, which have little non-agricultural activity

to invest in, the extension of credit, overwhemingly, to the agricultural sector alone in the initial stages. But that will ensure eventually a greater equality in the distribution of both total credit as also agricultural credit of commercial banks.

(2) This would, however, require a reformulation of the policy about credit-deposit ratio. The finding of this study that per capita credit is highly dependent on per capita deposit and that the credit-deposit ratio is higher in urbanised centres than in non-urbanised centres, implies that the policy has to be reversed. Banks in districts with low per capita deposit should be encouraged to maintain a higher credit-deposit ratio than their counterparts in districts with higher per capita deposit. In so far as per capita deposit itself is augmented by per capita credit[1], such a policy should eventually lead to a greater spread of banking habits in areas of under-development, and the initial favour to be shown to districts with low per capita deposit, in matters of giving credit, may ultimately be self-eliminating.

(3) Once the overall level of per capita credit is raised for those districts which are at present at a lower level in this regard, the banking machinery, it seems, will be in a better position to follow a policy of discrimination against areas of concentration of very large farms, in matters of extending agricultural credit. However, our analysis shows that commercial

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1. See, Chapter-III, Section-III.3

banks, while showing a good degree of awareness about avoiding large-farm concentration areas for the purposes of disbursement of agricultural credit, have fallen victims to the influence of the class of big asset-holders and have given more agricultural credit to areas of higher concentration of rural assets. States which boast of greater development of institutional framework for rural credit are, in fact, states with higher inequality of rural asset distribution and possibly with greater role of middlemanship for traders in credit and commodities. Therefore, instructions should be so framed as will enable commercial banks to avoid pressures, not only of big-land owner classes, but also big asset holder classes, in releasing agricultural credit. That will also eventually, ensure greater equality in the distribution of agricultural credit by commercial banks as between different states.

(4) The result of analysis of X_2 as regards the impact of new bank-offices gives rise to a number of policy premises. Whereas the Banking Commission stresses the need to try out various alternatives with a view to finding out which particular method is suited to an area of a given type"[2] and states that banking facilities can be provided to rural areas by commercial banks through (i) opening of branches, or (ii) adoption of villages or (iii) financing of primary credit societies, the programme of branch expansion should be selective about groupings of districts made by the present analysis. Any

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2. Report of The Banking Commission, Op.cit., Recommendation No. 27, p. 575.

programme of channellising commercial banks credit towards the agricultural sector will have to keep the classification of districts adopted in this analysis in view. It appears that while a simple expansion of bank-offices will definitely lead to an increase in aggregate credit in a district, whether it would lead to a simultaneous increase in agricultural credit also depends on the existing level of overall credit in the district. It can be safely said that in the middle range of districts with medium level of per capita credit, a simple expansion of bank offices will lead to an increase in agricultural credit and a considerable economy may be achieved by such expansion of bank-offices instead of opening of the specialised financial institutions for rural credit. On the other hand, as we have observed in Chapter-III, for the districts in the top and bottom ranges of per capita credit, it would possibly require a little amount of caution to adopt a strategy of opening new bank offices for the purpose of expanding bank-credit to agriculture. In these districts, either, particular stress must be laid in the orientation of bank-offices on their adopting a bias in favour of the agricultural sector, or, the institution of specialised financial agencies like Rural Banks should be more effective in catering to the credit needs of the agriculturist community. Our recommendation, therefore, is that while selecting districts for opening Rural Banks, the authorities should concentrate on those districts where the overall credit level is either very low or very high, because in either group of districts, the mere expansion of existing

commercial banks' branches is less likely to achieve the goal of expansion of agricultural credit than in those districts where the overall credit level per capita is in the middle range.

(5) If we assume, as we have done in this analysis, that the regional pattern of disparity in the co-operative agricultural credit movement in the country is broadly indicated by that in the Central Co-operative Banks' outstanding credit, then, there is need for caution in relying too heavily on the primary credit societies in matters of distributing agricultural credit. These societies are prone to the influence of the coterie of big land-owner class and possibly concentrate in areas where this economic class dominates. (See the analysis of Central Co-operative Banks' outstanding credit in Chapter-V). The Banking Commission's recommendation for providing banking facilities by financing primary credit societies[3] or by making a good primary agricultural credit society to work as a subsidiary of a commercial bank[4] should be safeguarded by additional restrictions on the qualification of membership of these societies so as to ensure adequate representation of small and marginal farmers, and barring altogether the entry, if possible, of the very large farm-owner into such co-operatives as members. In any case, while adopting primary agricultural credit societies for patronage, the commercial banks would have to be selective about the areas in which they

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3. Ibid. p. 575

4. Ibid, Recommendation 28, p. 575, Recommendation 47, p. 579; Also recommendation 33 and 35, pp. 576-77.

operate. Preference should be given to societies which operate in areas of other-than-large-farm concentration even if such societies may not be as good in audit-classification as those which operate in areas of large-farm concentration.

(6) Lastly, the recommendation of the Banking Commission, in giving priority in the establishment of rural banks in areas, among others, "where high-yielding varieties programmes have been introduced in a big way"[5] has to be checked in the light of our finding that in areas of high-intensity of cultivation, commercial banks' agricultural credit is already quite high. It will not possibly be a wrong generalisation to assume that areas of high yielding varieties programme are also areas of high intensity of cultivation[6]. That being so, our analysis suggests that high yielding varieties programme areas, or areas of package programmes are recipients of already high doses of commercial banks' agricultural credit and of course, credit from other institutional sources like the co-operatives and land development banks. Setting up of rural banks in such areas, therefore, will further accentuate regional disparities. As Prof. Boudhyayan Chattopadhya and Prof. Moonis Raza state"... the very idea of high yielding varieties package programme, implicit in the Green Revolution Strategy, must necessarily - by definition, sharply accentuate regional disparities, because of concentration of inputs in restricted pockets, heavily subsidised by the State"[7]. The results expected of the concerted

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5. Ibid, Recommendation 48, p.579
6. S.Y. Krishnaswamy: "Banking in the Rural Sector", in S.L.N. Simha Reform of the Indian Banking System, op.cit. p.76.
7. Boudhayan Chattopadhya and Moonis Raza, op.cit. p.22.

application of public investment in selected pockets do not fructify because the assumption of propagation-through percolation and diffusion - a la Hirschman - is not very unrealistic in the Indian context[8]. So long as the economy does not break out of the premises of capital accumulation of the second way - even directed public investment cannot deliver the goods, since the external economy effects of such investment are mopped up by the urban and rural conglomerates defined as a specific form of property appropriating a specific form of surplus under conditions of coalescence of the rural modes of generation, appropriation and utilisation of surplus in agriculture and industry promoted by the State.[9]

No wonder, therefore, that the Banking Commission, should recommend further credit aid to areas of high yielding varieties programmes or green revolution areas through setting up of Rural Banks. However, from the point of view of regionally balanced distribution of state-subsidised organised sector-credit to agriculture, it is now the other areas, i.e. non-high-yielding-varieties areas, where the Rural Banks should be set up. Our analysis has shown that significant dependence of commercial banks' agricultural credit on intensity of cultivation already exists. Moreover, agronomists recently have been noticing a marginal shift taking place by which high intensity of cultivation areas, of late, are turning into big-farm concentration areas because of technological necessities of the high yielding varieties programme (even though the shift

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8. Ibid page-22
9. See, Chapter-I.

may not yet be complete and small farms and intensity of cultivation still go together. Our analysis has posed the question in the form of dilemma for the policy makers of the commercial banks' agricultural credit departments. The fact that banks, as of-to-day, are inclined to avoid areas of high concentration of large-farms, but are eager to finance agriculture in areas of high intensity of cultivation, may face a dilemma, if, in future, they become eventually overlapping areas. Again, if, in course of future years, it is the large farms which come to show higher intensity of cultivation, then again, the state-subsidised (commercial banks' subsidiaries) Rural Banks being set up in such areas will mean giving up of the egalitarian approach in favour of the productivity criterion. To the extent the inevitability of such solution of the dilemma lies in the built-in structural dualism of the economic system, very little can be done to avoid it. However, to the extent it is possible to modify the structural dualism itself and the disparities of the inherited space-economy, by massive public investments, an attempt should be made to evenly distribute this public investment between various regions. In that case, it should not be the high-yielding-varieties programme areas for initiating Rural Banks, but areas which are dry, drought-prone and with uncertain water-supply, even though, in these areas, credit given by institutional agencies may need to be insured against possibilities of crop-failure and consequently, may lead to an increase in the cost of such credit and in the resultant subsidy by the State either given directly or through the nationalised commercial banks.