



# GENDER EQUITY AND INCLUSIVE GROWTH

Editors

Dr. K.C. Leelavathy

Dr. U. Jerinabi

Dr. R. Annapoorani



Centre for Women's Studies  
Equal Opportunity Cell  
and

Dr. Ambedkar Studies Centre  
Avinashilingam Deemed University for Women  
Coimbatore- 641 043, Tamil Nadu, India

# Impact of Agricultural Credit Provided by the Scheduled Commercial Banks on Financial Inclusion in India

<sup>1</sup>Dr. R. Annapoorani, <sup>2</sup>Dr. S. Gandhimathi and <sup>3</sup>G. Mookambigai  
<sup>1</sup>*Professor of Economics, Avinashilingam Deemed University for Women, Coimbatore*  
<sup>2</sup>*Assistant Professor of Economics, (SG)/ Reader,*  
*Avinashilingam Deemed University for Women, Coimbatore*  
<sup>3</sup>*UGC Project Fellow, Department of Economics,*  
*Avinashilingam Deemed University for Women, Coimbatore-641043*

---

The Eleventh five year plan of India envisages inclusive growth as a key objective. Inclusive growth aims at poverty reduction and to achieve this, it is essential to broaden access to economic opportunities in terms of credit. The Reserve Bank India set up a commission (Khan Commission) in 2004 to look into financial inclusion and the recommendations of the commission were incorporated in the mid-term review of the policy (2005-06). The NSSO data reveal that 45.9 million farmer households in the country out of a total of 51.4 million households do not have access to credit, either from institutional or non institutional sources. Further, despite the vast network of bank branches, only 27 percent of total farm households are indebted to formal sources (of which one – third also borrow from informal sources). Farm households not accessing credit from formal sources as a proportion to total farm households is especially high 95.91 percent, 81.26 percent and 77.59 percent in the north eastern and central regions respectively. Thus, apart from the fact that exclusion in general is large, it also varies widely across regions, social groups and asset holdings. The poorer the group, the greater is the exclusion. The small and marginal farmers who constitute 80 percent of the marginal holdings and cultivate nearly 36 percent of the area in India are disadvantageously placed with respect to their access to credit. In this context, an attempt was made to analyse the impact of agricultural credit provided by the scheduled commercial banks on financial inclusion in India. The specific objectives of the study are:

- To analyse the trends in the distribution of agricultural credit by the scheduled commercial banks across farmer categories and
- To assess the extent of disparity in the distribution of agricultural credit and to identify the extent of financial exclusion.

## METHODOLOGY

The study was based on the secondary data relating to agricultural credit availed by different group of farmers from 1991-2007. The data were compiled from the Hand book of Indian Economy published by Reserve Bank of India, 2008.

### Quantitative tools Applied

#### *Compound Growth Rate*

Compound growth rate was calculated to find out the trends in the amount of credit availed by different groups of farmers. The formula used was

$$Y = ab^t$$

#### *Theil's Inequality Index*

To find out the extent of inequality in the number of accounts and amount of agricultural credit distributed to different groups of farmers, Theil's inequality index was employed. The form of the Theil's inequality index was

$$Y = \log(n) - y * \log(1/y)$$

## FINDINGS OF THE STUDY

The findings of the study are discussed under the following heads

- Trend in the distribution of agricultural credit among various categories of farmers and
- Extent of disparity in the distribution of agricultural credit.

### Trend in the Distribution of Agricultural Credit among Various Categories of Farmers

Ensuring adequate flow of credit to agriculture has been a policy thrust for achieving the objective of sustainable and inclusive growth. Accordingly, strengthening credit delivery mechanism for the agricultural sector is a prior concern of the Reserve Bank of India. Table 1 shows the trends in credit availed by different groups of farmers from scheduled commercial banks.

Table 1: Trends in Credit Availed by Different Groups of Farmers from Scheduled Commercial Banks (1991-2007)

Year	Marginal farmers		Small farmers		Medium and large farmers		Total	
	Number of Accounts	Amount	Number of Accounts	Amount	Number of Accounts	Amount	Number of Accounts	Amount
1991-92	6063 (42.79)	3239 (24.27)	4439 (31.33)	3050 (22.85)	3669 (25.89)	7058 (52.88)	14170	13346
1992-93	6057 (42.08)	3437 (24.19)	4460 (30.98)	3328 (23.42)	3878 (26.94)	7444 (52.39)	14395	14210
1993-94	6007 (43.14)	3595 (24.11)	4282 (30.75)	3411 (22.88)	3637 (26.12)	7902 (53.01)	13926	14908
1994-95	5463 (42.02)	3889 (24.45)	4047 (31.13)	3659 (23.00)	3492 (26.86)	8359 (52.55)	13002	15906
1995-96	5557 (41.87)	4326 (24.19)	4255 (32.06)	4295 (24.01)	3461 (26.08)	9265 (51.80)	13273	17885
1996-97	5296 (40.46)	4894 (23.99)	4219 (32.23)	5033 (24.68)	3575 (27.31)	10469 (51.33)	13090	20396
1997-98	4890 (39.83)	5058 (22.73)	4034 (32.86)	5442 (24.46)	3354 (27.32)	11752 (52.81)	12278	22252
1998-99	4408 (38.31)	5511 (23.11)	3711 (32.25)	5680 (23.82)	3389 (27.32)	12651 (53.06)	11507	23842
1999-00	4544 (38.84)	6185 (22.62)	3777 (32.28)	6445 (23.57)	3379 (28.88)	14719 (53.82)	11700	27349
2000-01	4600 (38.84)	7215 (22.91)	3689 (31.15)	7308 (23.21)	3555 (30.02)	16963 (53.87)	11844	31486
2001-02	4902 (39.99)	8759 (23.34)	3961 (32.32)	9686 (25.81)	3394 (27.69)	19083 (50.85)	12257	375
2002-03	4749 (37.46)	9813 (21.83)	4092 (32.28)	11316 (25.17)	3835 (30.25)	23831 (53.00)	12676	44961
2003-04	6086 (39.86)	14805 (25.72)	4806 (31.48)	13974 (24.28)	4377 (28.67)	28786 (50.01)	15268	57565
2004-05	7299 (39.57)	20499 (26.12)	5874 (31.84)	20759 (26.45)	5274 (28.59)	37218 (47.43)	18447	78476
2005-06	8239 (38.80)	29719 (26.60)	6677 (31.44)	29255 (26.18)	6321 (29.76)	52769 (47.22)	21237	111743
2006-07	9954 (40.65)	37336 (26.68)	7548 (30.82)	37815 (27.02)	6985 (28.53)	64810 (46.31)	24487	139961

Source: Compiled from the Hand book of Indian Economy, Reserve Bank of India, 2008

Figures in parenthesis indicate percentage to total.

Table 1 indicates that from 1991-92 to 2002-03, the number of accounts of marginal farmers decreased from 6063 to 4749. For the small farmers, it declined from 4439 to 4092. In contrast to this from 2002-03 to 2006-07, the number of accounts for both marginal and small farmers depicted an increase.

In absolute terms, the amount of loan availed by marginal farmers increased from Rs.3239 crores in 1991-92 to Rs.37336 crores in 2006-07. For the small farmers, the increase was from Rs.3050 crores to Rs.37815 crores.

In relative terms, the proportion of credit to marginal farmers increased from 24.27 percent to 26.68 percent and for small farmers it increased from 22.85 percent to 27.02 percent. However, the share of credit to large farmers declined from 52.88 percent to 46.30 percent.

The compound growth rate will reflect the changes in the trends. Hence the compound growth rate was calculated for both the number of agricultural loan accounts and the amount distributed for all categories of farmers.

**Table 2: Compound Growth Rate of Agricultural Credit Provided  
By the Scheduled Commercial Banks to Different Groups of Farmers**

Farmer category	Number of accounts			Number of amounts		
	Growth rate	T value	R <sup>2</sup>	Growth rate	T value	R <sup>2</sup>
Marginal farmers	1.9	85.575**	.159	16.8	73.473**	.903
Small farmers	2.6	103.796**	.335	17.4	84.759**	.930
Medium and large farmers	3.4	106.114**	.474	15.5	107.307**	.944
Total	2.5	96.756**	.296	16.3	91.520**	.932

\*\* Significant at one percent level

The compound growth rate of agricultural loan accounts was higher for the medium and large farmers. But the growth of amount disbursed was higher for the small farmers. It shows that less number of small farmers had availed greater amount of credit.

### Extent of Disparity in the Distribution of Agricultural Credit

Theils inequality index was calculated to identify the extent of disparity in the distribution of agricultural loan accounts and amount distributed. Table 3 shows the estimated Theils inequality index

**Table 3: Estimated Theils Inequality Index of Number of Accounts and Amount of Agricultural Credit Distributed**

Year	Number of accounts	Agricultural credit distributed
1991-92	0.0219	0.0807
1992-93	0.1800	0.0766
1993-94	0.0226	0.0816
1994-95	0.0179	0.0780
1995-96	0.0187	0.0720
1996-97	0.0131	0.0685
1997-98	0.0117	0.0802
1998-99	0.0060	0.0820
1999-2000	0.0075	0.0883
2000-01	0.0067	0.0887
2001-02	0.0114	0.0654
2002-03	0.0040	0.0827
2003-04	0.0099	0.0591
2004-05	0.0093	0.0423
2005-06	0.0063	0.0412
2006-07	0.0121	0.0360

The estimated Theils inequality index shows that the inequality in the distribution of loan accounts had fluctuated and finally declined to 0.0121 in 2006-07. But the index in the distribution of agricultural credit ranged between 0.0807 to 0.0827 in the period of 1991-92 to 2002-03. This implied greater inequality in the distribution of credit by the scheduled commercial banks.

The Reserve Bank of India recognised the concept of financial inclusion in 2002. Hence, from 2002-03 to 2006-07 the estimated Theils Inequality index in the distribution of agricultural credit declined from 0.0827 to 0.0360, which implies that disparity in the distribution of agricultural credit had declined from 2002-2003 onwards.

To conclude, only less number of small farmers had availed greater amount of credit. Hence the financial exclusion existed not only among various categories of farmers but also within the category of farmers. The policy prescription of the Reserve Bank of India was helpful in achieving inclusive growth among different categories of farmers in terms of number of accounts and the amount of loan distributed.

### *Suggestions*

- To achieve financial inclusion, it is essential to provide loan to small and marginal farmers at subsidized rates of interest.
- There is a need for liberalising the procedural formalities in granting loans to the small and marginal farmers.
- The guarantee limit for the marginal and small farmers should be extended so that they can have accessibility and
- The disparity in the loan distribution, within a group can be reduced by following the service area approach properly.

### **REFERENCES**

- [1] NSSO (66<sup>th</sup> round), Government of India New Delhi
- [2] Khan commission (2004), NABARD Government of India, Bombay
- [3] Annapoorani R. Gandhimathi S. and Mookamibigai G. (2010), "Impact of Kisan credit card system on Financial Inclusion in India", Inclusive Growth, Excel India publication, pp-63-66.
- [4] World Bank (2008), "Finance for all policies and pitfall in expanding access", Washington.
- [5] Rangarajan.C (2008), "Report of the committee on financial inclusion"
- [6] Sarma M. (2008), "Index of Financial inclusion -Indian council for research on international economic relatives", New Delhi
- [7] Taking Banking service to the common man - Financial inclusion by V. Leeladhar [www.iibf.org.in](http://www.iibf.org.in), [www.rbi.org](http://www.rbi.org)
- [8] Reserve bank of India (2009), "Hundred percent of financial inclusion – Evaluation by internal agencies broad findings, circular dated January 22