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Impact on Problem Recognized on Agriculture Finance in Commercial Banks - An Empirical Study

Varshs Thanilazhagi .D .S
MBA, Department of Management Studies
Bharath Institute of Science and Technology,
Selaiyur, Chennai, Tamil Nadu 600 073
Bharath Institute of Higher Education and Research

ABSTRACT

This study examines the environment of the association between prescribed agricultural credit and agricultural GDP in India, specifically the role of the former in supporting agricultural growth, by adequate finance is a universal remedy, the presently under right of way sector, Govt. and RBI are guiding to commercial banks channelizing more and more funds to farmers at easy conditions. The study uses a mediation analysis support to plan the pathways through which institutional credit relates to agricultural GDP relying on a control function approach to undertake the problem of endogeneity. There is a sigh of relief for the rural poor from the dreaded clutches of money lenders. The Recent data reveals that 66% households in rural area are still away from getting banking services and facilities at cheaper cost. The Commercial banks are extending financial inclusion in rural areas directly beating poverty alleviation in India. Though financing of agriculture by commercial banks has proved its value in changing the economy of farmers by raising their returns so far the system is not free from some problems. This study is a challenge to find the problems faced by farmers and propose some framework changes about problems and sound financing system for the future.

1. INTRODUCTION

Developing countries like India still have domination of agriculture in their economy in terms of revenue making as well as manpower employment. About 60% population appoint in Agriculture in India contributes 18% of GDP whereas the developed countries get only 2% of Their GDP from agriculture. About 10% of the national exports originate in this sector it shows clearly that economic growth and development of India is directly joined to the development of agriculture. The agriculture sector, as such has been growing at a comparatively low rate in judgment to other sector of the economy. Following data shows the sector wise growth rate of economy.

AGRICULTURE AND ALLIED ACTIVITIES

The Twelfth Five Year Plan (2012–17) has envisaged 4 per cent per annum growth in GDP from Agriculture and related Sectors. This purpose is an important element of 'inclusiveness'. About half of our population is either wholly or considerably dependent for their livelihoods on some form of Agriculture and Allied Activities – be it crop agriculture, horticulture, animal husbandry or fisheries. The purpose of inclusive growth can only be realized with the revitalization of this sector and by transforming the present agricultural scenario. Accordingly, during 2014-15 Agriculture and Allied Activities has been allocated an Outlay of Rs. 11530.90 crore which is 2.38 per cent of the total Central Plan Outlay.

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CENTRAL PLAN OUTLAY FOR AGRICULTURE AND ALLIED ACTIVITIES

S.NO.	AGRICULTURE AND ALLIED ACTIVITIES	2013-14	2014-15
1	Crop husbandry	18781,28	11530.90
2	Soil and water conservation	9875.54	4431.90
3	Animal husbandry	19.00	18.00
4	Daily development	975.00	172.17
5	Fishers	524.70	411.47
6	Forestry and wild life	317.30	422.56
7	Plantations	1041.32	378.98
8	Food, stores and warehousing	458.01	369.51
9	Agriculture research and education	3113.00	3354.00
10	Co operation	121.50	124.90
11	Other agricultural programmes	1535.09	1120.00

Sources: Planning Commission Expenditure Budget 2014-2015 volume -1

TABLE NO 1

SOURCES OF AGRICULTURAL CREDITS

The various sources of agricultural credit can be classified in two groups.

- Non Institutional Agencies
- Institutional Agencies

Non institutional agencies include the local village money lender and their agents and landlords. Institutional agencies includes cooperatives societies, commercial banks regional rural banks and NABARD,

PERFORMANCE IN ACHIEVEMENT OF PRIORITY SECTOR LENDING TARGETS

The priority sector comprises of a vast section of the population occupied in sectors such as agriculture, MSEs, education and housing. As per the extant course of action on main concern sector lending, a target of 40 per cent of adjusted net bank credit(ANBC) or credit equivalent amount of off-balance sheet exposures (CE of OBE), whichever is higher, as on March 31 of the previous year, has been arranged for lending to the priority sector by household scheduled commercial banks and foreign banks with at least 20 branches. For foreign banks with less than 20 branches, the target for lending to the main concern sector is 32 per cent of ANBC or CE of OBE, whichever is higher, as on March 31 of the preceding year. The performance of private sector banks has been better, as compared to public sector and foreign banks. As on per the data received from the banks,10 out of 26 public sector banks, 4 out of 20 private sector banks and 1 out of 39 foreign banks could not achieve the target of the overall priority sector as on March 31, 2014.

FLOW OF CREDIT TO THE AGRICULTURAL SECTOR

Agriculture credit is one of the major drivers of agricultural production. With the purpose of making credit accessible to farmers, the government has been setting up targets for flow of credit to agriculture by the banking sector every year.

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PRIORITY SECTOR ADVANCES

AS ON MARCH 31	PUBLIC SECTOR BANKS	PRIVATE SECTOR BANKS	FOREIGN BANKS
2014	12,822 (36.2)	3,274 (37.5)	849 (35.1)
2015	16,190 (39.4)	4,645 (43.9)	907 (35.8)

Sources: National Economy Survey 2014-15

TABLE NO 2

The target for 2013-14 was fixed at 7,000 billion. Credit to the agriculture sector has been higher than targets in recent years. However, credit by cooperative banks and regional rural banks(RRBs) has been less than their respective targets

TARGET AND ACHIEVEMENT FORAGRICULTURAL CREDIT

YEAR	TARGET	ACHIEVEMENT
2010-2011	3,750	4,683
2011-2012	4,750	5,110
2012-2013	5,750	6,074
2013-2014	7,000	7,116

Source: National Bank of Agriculture and Rural Development(NABARD)

TABLE NO 3

However, credit by cooperative banks and regional rural banks(RRBs) has been less than their respective target Interest subvention scheme has mixed outcomes; recovery of direct agriculture advances needs improvement The government introduced the interest subvention scheme in 2006-07 for short-term crop loans up to `0.3 million, which has been continuing ever since with minor variations. Currently, it is providing interest subvention to banks, RRBs and cooperative banks with respect to short term production credit up to `0.3 million provided they make available the credit at the ground level at 7per cent per annum. Besides, an additional interest subvention of 3 per cent per annum is also provided for farmers who repay the loans in time making the effective rate of interest for such farmers at 4 per cent.

BANK GROUP-WISE TARGET AND ACHIEVEMENT FOR AGRICULTURAL CREDIT 2013-14

AGENCY	TARGET	ACHIEVEMENT
Commercial Banks	4,750	5,090
Cooperative Banks	1,250	1,199
RRBs	1,000	827
Total	7,000	7,116

Sources: NABARD / Indian Banks

TABLE NO 4

From 2013-14, the subvention is available to private sector SCBs with respect to loans given by their rural and semi-urban branches.

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NPAS-AGRICULTURE LOANS

YEARS	AGRICULTURE LOANS OUTSTANDING AS ON MARCH 31)	GROSS NPAS (AGRICULTURE)*	RATIO OF GROSS TO AGRICULTURE LOANS (OUTSTANDING AS ON MARCH 31)
2008	3081	97	3.2
2009	3744	72	1.9
2010	4636	104	2.2
2011	5072	167	3.3
2012	5802	248	4.3
2013	6428	302	4.7
2014	7792	340	4.4

Sources: planning commission 2014-2015

TABLE NO 5

The subvention scheme is limited to farmers availing crop loans of up to `0.3 million. Interest subvention as an incentive for prompt repayment has not helped in improving the asset quality in the agriculture sector. The non-performing assets (NPAs) ratio in agriculture loans have been rising and stood at 4.4 per cent as on March 31, 2014. The recovery of agriculture advances has been almost stagnant at around 75 per cent and needs improvement.

RATIONALE FOR THE REVISED GENERAL CREDIT CARD (GCC) SCHEME

RECOVERY OF DIRECT AGRICULTURE ADVANCES

YEAR	TOTAL DEMAND	TOTAL RECOVERY	PERCENTAGE OF DEMAND TO RECOVERY
2011	1822	1383	75.9
2012	1918	1429	74.5
2013	2595	1978	78.1

Sources: planning commission 2014-2015

TABLE NO 6

During the FIP review meetings held with banks during May-July 2013, it was observed that the data reported by the banks under GCC was not showing entrepreneurial credit extended to individuals. In order to enhance the coverage of the GCC scheme to ensure greater credit linkages for all productive activities within the overall priority sector guidelines and to capture all credit extended by banks to individuals for non-farm entrepreneurial activities, GCC guidelines were revised on December 2, 2013. The revised scheme does not prescribe any ceiling on the loan amount as long as the loan is for non-farm entrepreneurial activity and is otherwise eligible for classification under priority sector whereas the old scheme stipulated a limit of `25,000 for an individual. Further, the credit extended under the revised scheme is for non-farm entrepreneurial activities whereas under the old scheme, there was no such insistence on purpose or end use of credit.

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2. OBJECTIVES OF THE STUDY

- To examine on institutional agricultural credit setup in India
- To determine performance of commercial banks financing agriculture
- To identify the problems faced by farmers in getting agricultural finance by commercial banks

3. RESEARCH DESIGN AND METHODOLOGY

The researchers were collected from Primary as well as secondary data, the primary data through Questionnaire. Purposive discussion with bank staff is conducted regarding problems and remedial measures. Secondary data from various committees reports RBI bulletin are collected from our research point of view. A sample unit of 60 borrowers from sample area financed by state bank of India is collected and this unit is further stratified in small, medium and big farmers in the ratio of 3:2:1. Weight age is given according to their numbers in universe. Borrower farmers through questionnaires were asked about some problems mentioned in questionnaires to answer with preference order.

4. ANALYSIS & INTERPRETATION OF DATA

Data received through questionnaire are analyzed in three categories A. Problems of marginal and small farmers B. problems of medium farmers C. problems of big farmers. Almost all marginal and small farmers responded about problems and there high rank problems are – high rate of interest on loan, lack of financial knowledge about bank products and plans and cumbersome process of getting loans and lack of security and collateral. Medium farmers responded there problems rank wise as cumbersome process of getting loan, lack of financial knowledge and high rate of interest. Bank staff is not cooperative it is also reported by this group. Responded top problems of big farmers are as cumbersome process of getting loan, bank staff is not cooperative, lack of financial knowledge and high interest rate. Some common problems faced by all the three groups of farmers are cumbersome process of getting loan, high rate of interest and bank staff is not cooperative.

PROBLEM FACED BY MARGINAL AND SMALL FARMERS

PROBLEMS FACED BY SMALL FARMERS	FREQUENCY	PERCENT	CUMULATIVE PERCENT
High Rate of Interest on Loan	18	12.0	12.0
Lack of Financial Knowledge	33	22.0	34.0
Cumbersome Process of Getting Loan	27	18.0	52.0
Bank Staff is Not Cooperative	21	14.0	66.0
Lack of Security of Collateral	22	14.7	80.7
Fear Factor About Recovery Process	29	19.3	100.0
Total	150	100.0	

Sources: Primary data

TABLE NO 7

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PROBLEM FACED BY MARGINAL AND SMALL FARMERS (RANK WISE)

PROBLEMS FACED BY SMALL FARMERS	MEAN	STD. DEVIATION	MEDIAN	RANKS
Cumbersome Process of Getting Loan	2.7500	1.40153	2.5000	V
High Rate of Interest on Loan	2.8889	1.67179	2.0000	IV
Lack of Financial Knowledge	3.5610	1.62863	3.0000	III
Bank Staff is Not Cooperative	4.5769	1.39063	5.0000	I
Fear Factor About Recovery Process	4.5500	1.63755	5.0000	II
Total	3.5533	1.69696	3.0000	

Sources: Primary data

TABLE NO 8

PROBLEM FACED BY MEDIUM FARMERS WITH RANKS WISE

MEDIUM FARMERS	MEAN	STD. DEVIATION	MEDIAN	RANKS
High Rate of Interest on Loan	2.1111	1.32349	2.0000	VI
Lack of Financial Knowledge	2.1515	1.03444	2.0000	V
Cumbersome Process of Getting Loan	2.5926	1.18514	3.0000	IV
Bank Staff is Not Cooperative	3.0000	1.37840	3.0000	III
Lack of Security of Collateral	3.0909	1.60087	3.0000	II
Fear Factor About Recovery Process	3.6897	1.00369	4.0000	I
Total	2.7800	1.34549	3.0000	

Sources: Primary data

TABLE NO 9

PROBLEM FACED BY BIG FARMERS

PROBLEM FACED BY BIG FARMERS	FREQUENCY	PERCENT	CUMULATIVE PERCENT
Cumbersome Process of Getting Loan	20	13.3	13.3
Bank Staff is Not Cooperative	37	24.7	38.0
Lack of Entrepreneurship in Agriculture Sector	34	22.7	60.7
High Rate of Interest on Loan	38	25.3	86.0
Fear Factor About Recovery Process	21	14.0	100.0
Total	150	100.0	

Sources: Primary data

TABLE NO 10

5. SUGGESTIONS AND CONCLUSION

There are many studies are in vogue at macro level on agricultural finance by commercial banks but study at micro level about problems faced by farmers is out of vogue and need of the time for realistic approach. The present study is an attempt in this regard and will serve a base for future policy makers. All types of farmers have responded high interest rate and cumbersome process of getting loan. Policy makers should simplify the procedure of agriculture credit, interest rate for marginal and small farmers should be reduced and about problem of lack of cooperation by bank staff,--and training college of bank staff should provide compulsory rural oriented training. Education about financial knowledge to marginal and small farmers is spread through NGOs and

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educational institutions. Role of government should strictly be adhesive to infrastructure development like road, transport, irrigation and electricity Micro financing is a right step for financial inclusion. Recovery process of loan must be elastic and based on reality. Fear factor about recovery process of bank amongst rural poor should be reduced through education and image of bank be presented in rural society as friend, philosopher and guide.

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