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INSTITUTIONAL FINANCING OF AGRICULTURE IN INDIA WITH SPECIAL REFERENCE TO COMMERCIAL BANKS: PROBLEMS FACED BY FARMERS – AN EMPIRICAL STUDY

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ABSTRACT

Indian economy is still dominated by agriculture. It is a core sector of economy. Development of agriculture is a necessary prerequisite for the over all development of Indian economy. But the growth of this sector is lagging behind in comparison to other sector's growth. A break through in this sector is thus essential for placing the economy on a sound footing. Credit is leverage for development and adequate finance is a panacea for this. Presently under priority sector, Govt. and RBI are guiding to commercial banks channelizing more and more funds to farmers at easy terms. Indian banking is shaping the rural economy. Impact of agricultural credit on the economy of farmers is positive. Banks are now catalyst of development. Institutional financing of agriculture or multi agency approach (MAA) is a complex approach. It includes Govt. agencies, co-operatives, regional rural banks and commercial banks. NABARD (National bank for agriculture and rural development) is the apex institution providing refinance to rural credit. The role of commercial banks is increasing year to year after nationalization and share of moneylenders is decreasing. It shows a success of govt. efforts towards rural credit yet the system faces some problems like financial inclusion especially for landless and marginal farmers, high rate of interest and cumbersome process of getting loan. Author suggests more deployment of funds through micro financing (bank linkage self help group scheme) and use of I.T. solutions in cost effective manner. Government schemes like NAREGA(National rural employment grauntee act) and PMGSY(Pradhan mantri gram in sadak yojna) should go through banks. This paper highlights the present comparative position of institutional financing and reveals some primary problems faced by farmers in getting agricultural credit through an empirical study and explores the new avenues for commercial banks financing agriculture.

KEYWORDS

Cumbersome process, Financial inclusion, Micro financing, Multi agency approach, Priority sector.

INTRODUCTION

Indian economy still has the dominance of agriculture and agriculture is the key sector of economy. This sector contributes 17% of GDP and provides livelihood to 67% of the working population of country. Nearly 10% of the total exports of country are shared by agriculture. Development of agriculture is a necessary prerequisite for the overall development of Indian economy but the growth of this sector is lagging behind in comparison to growth of other sectors. Agriculture growth rate is 3% while industry 7.1%, services 10%.

TABLE 1: YEAR ON YEAR GROWTH RATE IN PERCENT

Annual rates	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Agriculture	5.1	4.2	5.8	-0.1	0.4	6.6	3.0
Industry	9.7	12.2	9.7	4.4	8.0	7.9	7.1
Services	11.0	10.1	10.3	10.1	10.1	9.4	10.0
Non-agriculture	10.5	10.8	10.1	8.2	9.4	8.9	9.0

A break through in this sector is thus essential for placing the economy on sound footing. Before nationalization of banks, the main source of rural credit was moneylenders. Exploitation, substandard practices and high rate of interest were the stigma on this sector. In 1969, govt. nationalized commercial banks. The preamble of this act stated "The banking system touches the lives of millions and has to be inspired by large social purpose and has to serve national priorities and objectives such as rapid growth of agriculture, small industry and export rising of employment level and development of backward areas". Disguised unemployment and low productivity are the main negative features of agriculture sector. Credit plays a vital role for the development of agriculture. As this sector generates low income or surplus due to increasing cost of inputs and implements, resulting Indian agriculture a way of sustenance not a surplus yielding work. Use of technology and high yielding varieties of seeds is still cry for mars for marginal and small farmers. Credit needs is beneficiary for all types of farmers. However it is inevitable for small and marginal farmers which constitute 78% of the total farmers. Small farmers having holding less than 2 hectares and marginal farmers having holding less than 1 hectare. Economy of Indian farmers is dualistic where existence of two different segments. One segment of the economy is developed, makes use of modern technique of production and is usually market oriented and have a few problems regarding bank finance. The other segment is subsistence type of economy that makes use of primitive methods of production and has various problems in financing agriculture credit.

Agricultural credit needs can be classified in three categories:

1. Short term
2. Medium term
3. Long term

Short term needs varies between 3 months to 15 months it is seasonal and for purchasing of seeds, fertilizers, pesticides and payment of wages and operational expenses. This type of need is mostly required by all farmers.

Medium term needs varies between 15 months to 5 years for the purchase of cattle, small agricultural implements, repairs and constructional wells etc.

Long term needs are required for the permanent improvement on lands, digging tube wells, purchase of larger agricultural implements and machinery like tractor, harvesters etc and repayment of old debts. The period of such credit extends beyond 5 years. Commercial banks provide two types of loan i.e. crop loan and investment loan. Crop loan is a short term loan, stands due for repayment immediately after the harvesting of the crop whereas investment loan is a long term loan required for the purposes of capital formation on land.

SOURCES OF AGRICULTURAL CREDIT

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

- 1) Non Institutional Agencies
- 2) Institutional Agencies

Non institutional agencies include the local village money lender and their agents and landlords. Institutional agencies include government, cooperative societies, commercial banks including regional rural banks and NABARD at apex level for refinance.

TABLE 2 – SOURCES OF AGRICULTURAL CREDIT (In %)

Source	1952-52	1961-62	1970-71	1981-82	1991-92	2002-03	2010-11
Government	3.3	2.6	3.6	4	6.1	3	4
Cooperative societies	3.1	15.5	22.7	28.6	21.6	26	24.9
Commercial banks	.9	.6	4.0	28	33.7	27	43.1
Moneylenders	90.9	67.4	68.4	38.8	32.7	41	21.9
Others	1.8	13.9	1.3	.6	5.9	3	6.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Report of the all India rural credit review committee 1969, RBI bulletin and NSSO, May 2011, Economic Survey 2010-11

POLICY DEVELOPMENTS IN RESPECT OF AGRICULTURAL CREDIT

Government and RBI views in respect of agricultural credit policy, can be divided into two phases

- 1) Period before 1970

Before 1970 the government was committed to the exclusive development of cooperatives as major source of institutional credit in rural areas. This period is called cooperative period.

- 2) Period since 1970

Two major developments occurred; the first was the green revolution in the wake of adoption of the new agricultural technology.

The second was the nationalization of 14 major commercial banks in July 1969 (six more commercial banks was nationalized in April 1980). Multi agency Approach (MAA) was started regarding agricultural and rural credit. Commercial banks begin to participate with full heart in agriculture finance. Two new institutions known as regional rural banks and the farmers service societies were also established during this period. The following table shows the share of commercial banks and cooperatives in India.

TABLE 3 - RELATIVE SHARE OF COMMERCIAL BANKS AND COOPERATIVES (%)

Year	Co-operatives	Commercial Banks	Regional Rural
1970-71	100.0	-	-
1980-81	61.6	38.4	-
1990-91	49.0	47.6	3.4
2000-01	39.4	52.6	8.0
2001-02	38.0	54.1	7.9
2002-03	34.1	57.2	8.7
2003-04	31.0	60.3	8.7
2004-05	25.0	65.0	10.0
2005-06	21.8	69.7	8.5
2009-10	19.6	71.8	8.6

Sources – Economic survey of India

REVIEW OF THE LITERATURE

There are some studies related to the development of rural economy and bank finance but very few have studied the problems faced by farmers. Present study is a micro level study about problems of farmers in getting loan from banks. Katter (92) concluded in their article that after nationalization of banks, there was increase in saving, investment, productivity of capital and GDP; however the desired goals were not fully met. Yadav (2005) highlighted the role of Regional rural bank in rural development. Das (2007) has made a sincere attempt to establish the relationship between commercial bank and rural development. Sharma Lokesh, Parul D and associates (2011) concluded in his paper that how bank are shaping the rural economy and playing catalytic rule in the development of economy. NABARD has indirect positive effects on rural credit and rural development, stated in his paper by Shrivastav P.K (2009). Still there is a need of some more study about multi agency approach (MAA) in agriculture credit in India. Are these agencies overlapping? What is their individual area of work and their problems? Present study is an attempt in this regard.

OBJECTIVES OF THE STUDY

The main objectives of the study are:

- To provide an analysis of various steps taken by commercial banks regarding agricultural credit after nationalization and their impact on economic development of rural area.
- To know the problems faced by farmers in getting agricultural credit from banks especially for small and marginal farmers.
- To highlight the future of multi agency approach in agriculture finance in India.
- To suggest some new ideas about financial inclusion for landless and marginal farmers.
- To suggest some new avenues to penetrate the role of banks in rural development.
- To provide a comparative picture of various agencies providing agricultural credit in India.

RESEARCH METHODOLOGY

The nature of present study is analytical and empirical. For analytical work secondary data from various reports and surveys are used and for empirical portion, primary data is used collected through questionnaire. Purposive discussions with bank officials were held time to time. A questionnaire with asking various problems faced by farmers in getting agriculture credit from bank was given but filled by investigators. Our sample unit is 120 borrower farmers from sample area (Kashipur block of Udham Singh Nagar distt.). Further this sample unit of borrowers is stratified in marginal and small farmers, medium farmers and big farmers in proportion of 3:2:1 so that marginal and small farmers can get a justified presentation in this study.

MICROFINANCING – NEW AVENUE FOR COMMERCIAL BANKS

The microfinance approach or tool has emerged as an important development in banking for channelizing credit for poverty alleviation directly & effectively. It is a part of bank's priority sector loans. Microfinance involves small loans to the poor without any collateral for undertaking self-employment projects. Loan amount up to Rs. 25000 extended to the poor. Microfinance scheme in India have emerged as major avenues for bringing the poor within the purview of the organized financial sector. It has eradicated money lenders web from poor rural India. RBI & NABARD define microfinance as the "provision of thrift credit & other financial services & products of very small amounts to the poor enabling them to raise their income levels & improve living standards". For providing microfinance in rural area, national bank of agriculture and rural development (NABARD) started self help groups (SHGs) and bank linkage program in 1992.

Under this programme, banks provide loans to SHGs for their activities. These SHGs also deposit their saving in the banks which helps in capital formation. SHGs – bank linkage programme currently covers 523 districts in all the state & 504 banks including 48 commercial banks, 192 RRBs, 264 co-operative banks, & 2800 NGOs are associated with this programme. More than 90% of the SHGs linked with bank are exclusive women groups. The experience so far indicated that microfinance approach is viable approach; the repayment rates under the programme have been higher than about 95% of the loans.

TABLE 4: SHG - BANKING LINKAGE PROGRAM PROGRESS

Agency	No. of SHGs(000)		Loans distributed	
	2007-08	2008-09	2007-08	2008-09
Commercial banks	735	1005	5404	8061
RRBs	328	406	2652	3193
Cooperative bank	165	199	794	999
Total	1228	1610	8849	12254

Source: NABARD Annual report 2008-09.

ANALYSIS & INTERPRETATION OF FINDINGS

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 these 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.

TABLE 5 (a) PROBLEMS FACED BY MARGINAL AND SMALL FARMERS (Rank wise)

High rate of interest on loan	I
Lack of financial knowledge	II
Cumbersome process of getting loan	III
Bank staff is not cooperative	IV
Lack of security of collateral	V
Fear factor about recovery process	VI

TABLE 5 (b) PROBLEMS FACED BY MEDIUM FARMERS (Rank wise)

Cumbersome process of getting loan	I
High rate of interest on loan	II
Lack of financial knowledge	III
Bank staff is not cooperative	IV
Fear factor about recovery process	V

TABLE 5 (c) PROBLEMS FACED BY BIG FARMERS (Rank wise)

Cumbersome process of getting loan	I
Bank staff is not cooperative	II
Lack of entrepreneurship in agriculture sector	III
High rate of interest on loan	IV
Loan amount is not sufficient	V

SUGGESTIONS AND CONCLUSION

There are many studies in trends 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 maker's 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,--training college of bank staff should provide compulsory rural oriented training. Education about financial knowledge (financial inclusion) to marginal and small farmers be spread through NGOs and educational institutions. Role of government should strictly be adhesive to infrastructure development like road, transport, irrigation and electricity Micro financing (bank linkage) 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. For landless marginal and small farmers priority should be given for this deprived sector and image of bank be presented in rural society as friend, philosopher and guide.

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