

FINANCING OF AGRICULTURE BY COMMERCIAL BANKS – PROBLEMS FACED BY FARMERS (An Empirical Study)

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ABSTRACT

In Indian economy, the agriculture sector growth is lagging behind (3.0%) in comparison to industry sector (7.1%) service sector (10%). Development of agriculture sector is vital for economic growth and development. 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. In institutional finance to agriculture, commercial banks including RRBs now are emerging in top ranking. Most importantly the role of money lenders is decreasing and reaching near bottom level. There is a sigh of relief for the rural poor from the dreaded clutches of money lenders. NABARD as apex institution of indirect financing to agriculture is providing patronage as philosopher, guide and friend. The progress achieved by NABARD in refinancing is praiseworthy. Recent data reveals that 66% households in rural area are still away from getting banking services and facilities at cheaper cost. Financial inclusion is the need of hour. Commercial banks are extending financial inclusion in rural areas directly hitting poverty alleviation in India. Though financing of agriculture by commercial banks has proved its value in changing the economy of farmers by increasing their income yet the system is not free from some problems. This empirical study (paper) is an attempt to find the problems faced by farmers and suggest some framework changes regarding problems and sound financing system for the near future.

Keywords: Institutional finance, Priority Sector, Financial inclusion, Money lenders, Poverty Alleviation

INTRODUCTION

Developing countries like India still have dominance of agriculture in their economy in terms of revenue generation as well as manpower employment. About 60% population engage 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 closely tied to the development of agriculture. The agriculture sector, as such has been growing at a relatively low rate in comparison to other sector of the economy. Following data shows the sector wise growth rate of economy.

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

Disguised unemployment and low productivity is the negative feature of this 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. It results, 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 than1 hectares. Economy of Indian farmer 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 lot of 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 credits

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 includes cooperatives societies, commercial banks regional rural banks and NABARD

Table2. 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 nationalize 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 establish 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

Source: Economic survey of India

OBJECTIVES OF THE STUDY

The main objectives of the study are as

1. To study and review the present institutional agricultural credit setup in India.
2. To study the role and performance of commercial banks financing agriculture.
3. To identify the problems faced by farmers in getting agricultural finance by commercial banks.
4. To review the present multi institutional approach of agriculture in India.
5. On the basis of micro level study (sample area), suggest some new ideas and changes for macro planning.

RESEARCH DESIGN AND METHODOLOGY

Primary data are collected through Questionnaire from Sample area. 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 (kashipur block) financed by bank of Baroda kashipur is collected and this unit is further stratified in small, medium and big farmers in the ratio of 3:2:1. weightage is given according to their numbers in universe(total). Borrower farmers through questionnaires were asked about some problems mentioned in questionnaires to answer with preference order. Collected data are classified and tabulated and result is presented in tabular form.

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.

Table 4(a) Problem 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 4(b) Problem 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 4(c) Problem 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 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 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 and image of bank be presented in rural society as friend, philosopher and guide.

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