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Agricultural finance of commercial banks in India with special reference to lending and recovery

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Abstract

The overdue position among all the credit institutions in the formal sector namely commercial Banks has seriously hampered the expansion of agricultural credit. The reasons for poor loan recovery were largely attributed to lack of sufficient field staff to ensure follow-up after the sanction of loan and absence of statutory powers to induce prompt repayment by the borrowers as far as the banks are concerned. In addition, the government's populist policy of waiving off loan has created mass psychology in the rural areas to withhold repayment and wait for some type of loan waiver programme to come to their rescue. More importantly, the reasons for nonpayment of the loan amount by the borrowers were, failure of monsoon, diversion of the loan amount for purposes other than agriculture, farm investment turning out to be unproductive, the income from the crop yields was not sufficient to repay the loan while maintaining their families and priority given to the repayment of loans borrowed from the private moneylenders. Some of the suggestions for prompt recovery of loans includes continuous supervision and follow up action after the loan is dispersed, realistic assessment of loan requirement and providing technical support to the farmers to increase the productivity which will ensure better repayment by the borrowers.

Keywords: Agricultural credit, overdue, recovery, failure of monsoon, loan waiver programme

Introduction

The contribution of agricultural sector to national income, foreign exchange, industry and employment is a measure of the sector's importance in the overall economy of the country. Agriculture plays a dominant role in the Indian economy. By tradition, India is an agricultural country, which is endowed with abundant natural resources. The development of agriculture to its fullest potential is therefore, the kingpin of Indian economy and the prosperity of India is solely dependent on agriculture. If agriculture blooms, the country prospers. Agriculture plays a significant role in the economic development of India. Agriculture is the source of livelihood for over seventy percent of population in our country. To meet the requirements of the growing population and rapidly developing economy, agriculture has to grow fast and get modernized. This requires the use of high pay off inputs. Adoption of high yielding varieties requires large quantities of fertilizers, plant-protection chemicals, modernized equipment's, and machineries, which in turn needs huge investment. The rural agricultural sector of the economy is labor-abundant, land-poor and capital scarce. So it would be very difficult to get the benefits of modernization of agriculture without adequate and timely supply of credit to the farmers. Agricultural growth is crucial for alleviating rural poverty. Access to institutional credit to more farmers and appropriate quantity and quality of agricultural credit are crucial for realizing the full potential of agriculture as a profitable activity. Notwithstanding the importance, agricultural sector did not get its due share of institutional credit for a long time. Until the year 1967, financing agriculture was considered to be the sole responsibility of the cooperative credit institution. However with the growing demand for credit for agriculture and allied activities on account of increasing emphasis laid on higher agricultural production as also the technological breakthrough achieved by Indian farmers, the resources of the cooperative sector turned out to be inadequate. Against this background, commercial banks were as a matter of national policy, called upon for the first time in 1967 to provide finance to agricultural sector. Their role in this direction assumed considerable significance after the nationalization of fourteen major commercial banks in July 1969. Again in 1980, six more commercial banks were nationalized and the tempo of credit delivery of the commercial banks was continued.

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Review of literature

U.C. Kulshrestha (1985) ^[4] in his article has assessed the performance of Lead banks in the western regions of U.P; with such parameters as branch expansion, deposits and credit deployment. He has also reviewed the problems faced by the lead banks and recommended a re- examination of the discretionary powers of bank managers , particularly in the rural areas in order to avoid unhealthy competition between commercial banks and primary credit societies. He has also recommended the issue of credit eligibility passbooks to the farmers by the block development officials. R.N. Malhotra (1986) ^[5] in his article has outlined the importance of timely adequate finance, stressed the need to improve the bankers' capacity to plan their operations ahead of time so that supply of credit is not delayed. He has also hinted at the problems of co-ordination that arise in the wake of the multi-agency approach to rural credit.

S.A. Patel (1989) ^[9] has made a study of the recovery performance of district agricultural advances of scheduled commercial banks in the Surendra Nagar district of Gujarat. He has recorded that the farmers were ready to repay the loans if the harvests were good and agricultural prices remunerative. They were also eager to have further finance and felt that due recognition for full repayment will induce early repayment.

B. Ramachandra Rao (1990) ^[13] has studied the evolution of priority fee advances and their monitoring. He has noted with concern the tyranny of the targets and the problems like misutilisation of loans, poor recoveries etc., and those arising out of the understaffing of rural financial institutions.

Sunil Kumar (2004) ^[13] in his article he states that the Indian agriculture, dominated by the small operational landholdings has been facing a serious problem of insufficient credit availability. The traditional methods of

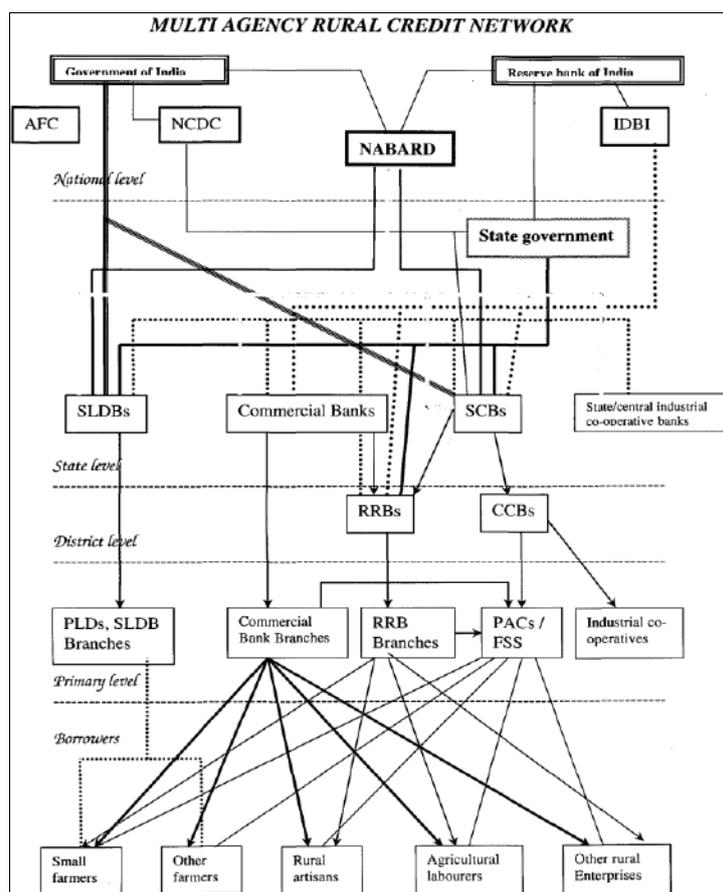
financing like subsidised credit through cooperatives, Priority sector lending and other farm credit schemes have proved to be insufficient and unsustainable.

Agricultural credit system in India

In India, for a long time, there was no institutional agency for providing agricultural credit. Farming in India, being small scale and subsistence, the cultivators were borrowing only from non-institutional agencies such as moneylenders, indigenous bankers, friends and relatives. Institutional credit in India made a beginning in the year 1904 when the Co-operative Credit Societies were started to provide agricultural credit. The passing of the co-operative credit societies Act 1904 paved the way for starting co-operative credit societies in India. Even after the cooperatives were ushered, in the initial years their impact was poor and the disbursement of credit by them was dimly insufficient and inadequate. In fact, during the first three decades of the century, the village moneylender was the main source of finance for farmers. The Reserve Bank of India (RBI), the Central Bank of the country, wanted to strengthen institutional finance for agricultural credit. Hence, an important committee called the All India Rural Credit Survey Committee was established in 1952 to enquire in detail into the position of rural credit and the performance of institutional agency vis-a-vis non-institutional agencies.

The study group submitted the following recommendations for the expansion of the commercial banks in the rural sector.

1. Direct lending in areas where primary co-operatives have no footing
2. Providing credit-support to base-level co-operative agencies, etc.

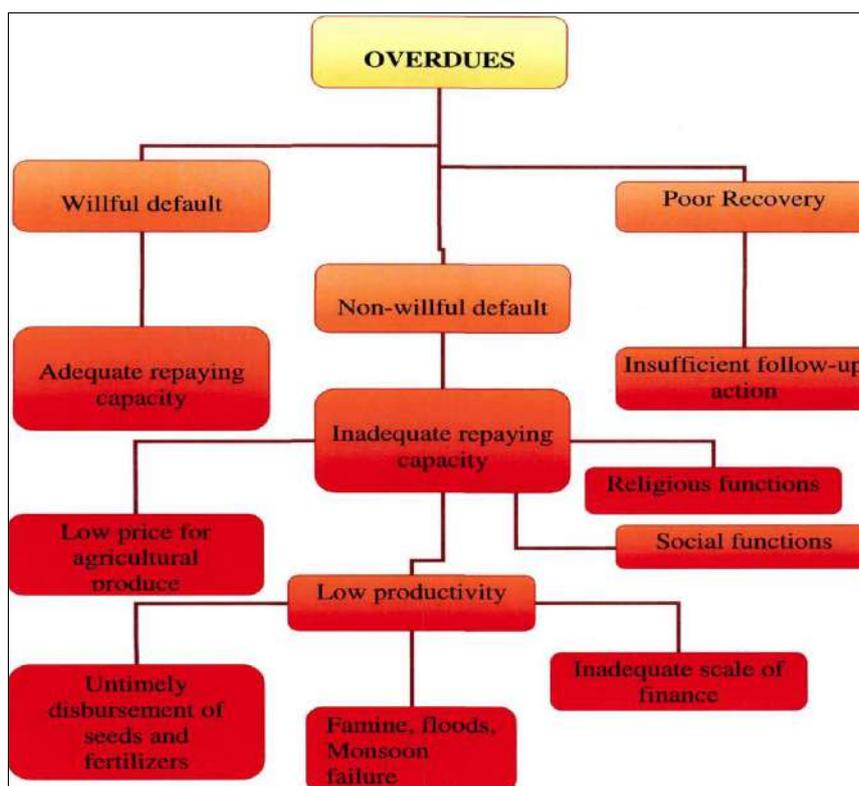


Along with the growth of the Institutional Credit Structures almost keeping pace with it certain policy measures were designed to enlarge the flow of credit to the rural sector. "A concept of priority sector category of borrowers has been evolved to ensure increased flow of bank credit to certain sectors which earlier did not have easy access or had little access to Institutional credit. The priority sector comprises mainly of agriculture , small-scale business and retail trade , small road transport operators , etc. within the priority sector certain target groups of beneficiaries have been identified as weaker sections like small farmers, marginal farmers, tenant farmers, shared croppers and agricultural laborers, artisans, village and cottage industries , scheduled castes and scheduled tribes, specific targets and sub-targets have been fixed for lending by commercial banks to the priority sector".

The major reasons for over dues from the point of view of borrowers and the bankers as seen in the preceding are:

- Willful default
 - Non-willful default
 - Poor recovery of loan amount
- a. Low productivity: natural calamities like floods, droughts, cyclones etc., untimely disbursement of seeds and fertilizers by the banks, and their inadequate scale of finance result in the produce of the farmers being low.
 - b. Low price for the agricultural produce in the market
 - c. Personal commitments, social and religious functions and other familial expenses, lead the borrowers to a financial crisis which transpires to inadequate repaying capacity of the borrower.

The reasons for over dues analysed has been represented in the following chart.



Objectives of the Study

- I) To assess the performance of commercial banks in agricultural credit,
- II) To analyse the disbursement of agricultural credit by the commercial banks,
- III) To analyse the farm credit over dues of the commercial banks,
- IV) To analyse the opinion of the borrowers and
- V) To offer suitable suggestions for the improvement of agricultural credit situation.

Research Methodology:

The database for the present study is both from primary and secondary data. The primary data have been collected from the borrowers (respondents) of the selected commercial banks and secondary data have been collected from fourteen sample commercial banks. Published data from committee reports and government reports have also been used.

Limitations of the Study

- The study is mainly concerned with agricultural lending (short term and term loans) and recovery
- Though two main institutions, viz. Co-operative banks and Commercial banks operate to provide agricultural loans in the area of study, only commercial banks have been chosen for the study purpose.

Conclusion

The recommendation made by the committee, inter-alia state participation in the co-operatives at all levels strengthened the co-operative movement and the co-operatives have been a fillip in extending more agricultural credit. Commercial banks have emerged as an important institution for agricultural credit after nationalization of the major commercial banks in 1969. Paddy continues to be the crop for which the maximum loan has been given. This is followed by banana and the amount lent to sugar cane

growers has very much increased. A lesser amount is lent for the cultivation of groundnut and pulses. It is to note that the quantum of term loan given during the period under enquiry showed a decreasing trend. Most of the borrowers opined that the lending procedure was easy but the disbursement of loans and fertilizers are not in time. A major portion of the respondents feel that the scale of finance provided by the commercial banks was inadequate. Majority of them also opined that the follow-up action of the bankers regarding recovery were insufficient. The main reason for over dues as stated by the borrowers is the failure of monsoon rather than their willful default. The entire enquiry reveals that though there is a marginal reduction, there is a high degree of over dues and default in repaying and the situation presents a very sorry state of affairs in the commercial banks' lending with reference to its recovery.

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