CHAPTER VII
FINDINGS, SUGGESTIONS AND CONCLUSION

Institutional finance for agricultural credit was started with the establishment of co-operative credit movement in 1904. But as per the findings of the All India Rural Credit Survey Committee Report 1954, the co-operatives were able to provide only 3.1 per cent of the rural credit, commercial banks were able to provide 0.9 per cent and supplemented by the government which was providing 3.3 per cent of the rural credit. Thus in 1954 there was a dismal picture of institutional finance for agriculture. 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.

FINDINGS:

An analysis of the loan extended for various purposes reveal that 72 per cent constitutes short term loan, 25 per cent constitutes term loan and 3 per cent for allied activities.

Regarding the short term credit provided by the sample commercial banks during the period under enquiry, the quantum of lending had been in the increasing trend. 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 during the period 2005-2006 and 2006-2007. A lesser amount is lent for the cultivation of groundnut and pulses. The quantum of crop loan lent by
commercial banks in Tiruchirappalli district showed an increase throughout the study period.

With reference to term loan, loan for the purchase of tractors and threshers are the maximum followed by amount lent for purchase of bullock and bullock carts and minor irrigation. It is to note that the quantum of term loan given during the period under enquiry showed a decreasing trend.

Regarding allied activities which are very important for agriculturists to get subsidiary income, loan for dairy operation has increased from Rs.14.8 lakhs to 17.7 lakhs in the year 2006-2007. The amount lent for sheep and goat rearing increased from 6.2 lakhs to 8.8 lakhs in the year 2006-2007.

The priority sector lending by the commercial banks has been maintained between 40 per cent and 47 percent during the period under enquiry.

The DRI advances have come down from 0.007 per cent to 0.005 per cent during the same period. During this period the deposit ratio has increased. The percentage of advances to agriculture in total advances by the commercial banks has increased from 18 per cent to 22 per cent.

The credit-deposit ratio of the commercial banks in Tiruchirappalli district has increased from 50 per cent to 80 per cent during the period of enquiry.

Commercial banks in Tiruchirappalli district have satisfied the target norms relating to the direct advances to agriculture during the period under enquiry except in the year 2003-04.
The big farmers owning above 5 acres are the biggest beneficiaries, followed by medium farmers. Small farmers account for only 15 per cent.

The farm credit over dues of commercial banks during the period has decreased from 31 per cent to 29 per cent indicating a marginal reduction in over dues.

The enquiry reveals that 50 per cent of the defaulters are willful defaulters who refuse to repay even when they have capacity to repay. Drought, Floods and other Natural Calamities account for 36 per cent of the defaulters. Among the defaulters big farm holders having more than 5 acres are the highest defaulters followed by medium and small sized holders.

A comparison between the private banks and the nationalized banks reveal that the over dues of the nationalized banks both with reference to short term and term loan are much higher than the private banks.

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.

SUGGESTIONS:

- Though there has been a steady increase in the flow of agricultural credit by the commercial banks, the total outflow of agricultural credit by the commercial banks seems to be inadequate compared to the greater demand generated by higher and improved methods of cultivation which have led to higher cost of cultivation. Substantial amount of loan is obtained from institutional agencies. There is a need for quantitative and qualitative improvement in the farm lending by the commercial banks.

- The amount lent to allied activities by the commercial banks can be increased resulting in generation of higher income which in turn increases the repaying capacity of the borrowers.

- Firm measures to recover the agricultural loans should be taken by the commercial banks and the government; political parties should desist from the habit of periodically calling for and promising of writing off agricultural loans by institutional credit agencies.

- The disbursement of loan, seed and fertilizers should be given in time to the farmers to increase the productivity and repayment.

- There should be strict follow up action by the commercial banks for recovering the loan amount from the borrowers.

- The borrowers should use the amount of loan only for agricultural purpose to increase the output.
Stringent legal actions should be taken against the chronic defaulters such as to attach their land holdings and properties.

Effective recovery procedures should be instituted by creating a separate court for recovery.

The need for prompt recovery of agricultural loan should be accepted as a moral code not only by the borrowers but also by the lending institutions, government and political parties.

If a borrower is found to be a known defaulter for a chronic period of time any further loans should not be given to the borrower.

Positive incentives by marginal reduction in the interest rate may be given to prompt settlers of loan amount.

In years of extreme difficulty, when due to monsoon failure or due to drought, floods, etc. there is high loss of production and if some relief is to be given to the borrowers, it should be based on the merits of selective cases and not a blanket write-off. In such years re-phasing of re-payment converting short term into medium term loan may be thought of.

It has been revealed beyond reasonable doubt during the study that no serious follow up measures or monitoring is made by the lending commercial banks. Of course, the private banks are slightly better in this respect. A separate cell of these banks should watch the utilization and recovery of loans.

In view of the huge over dues, banks should distinguish between current over dues and age old over dues. On a priority basis, every effort should be taken to recover current demand to see that it doesn’t
culminate in over dues. Regarding age old over dues, a repayment schedule should be made and easy recovery be effected.

- Absence of land records affects the flow of credit. It is necessary to improve and update the data base for land holdings.

- There is a need of co-ordination between various financial institutions in order to avoid multiple financing. Commercial banks and co-operative banks should avoid nothing at cross-proposes to prevent double financing and also should ensure that departing farmer of one institution might not get finance from another.

- The banks should educate the farmers and get them into the habit of regular repayment.

- The state Govt. should recognize the legal rights of tenant farmers and share croppers and enter them in official records, which provide them an access to credit.

- The Central Govt. should fix the support prices that could be operative across a wide range of target crops to encourage crop diversification.
CONCLUSION

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 non payment of the loan amount by the borrowers were, frequent crop failure, 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.
SCOPE FOR FUTURE RESEARCH:

- The performance of co-operative banks and commercial banks with reference to agricultural finance can be studied comparatively.
- Private sector commercial banks and public sector commercial banks performance regarding agricultural finance – A comparative study can be made.
- Over dues of public sector and private sector commercial banks can be studied comparatively.
- Repayment performance of beneficiaries under agricultural Finance by commercial banks can be studied.