ROLE OF COMMERCIAL BANKS FOR AGRICULTURE CREDIT-WITH SPECIAL REFERENCE TO ETAWAH DISTRICT OF U.P.

ABSTRACT
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ABSTRACT

Agriculture is an important factor for any economy to grow and credit plays an important role in increasing the agriculture production. Small and marginal farmers should get appropriate, timely and low cost credit from various sources of finance. Like other factors, credit delivery is also important to get sustainable development in the priority sector. A number of farmers who are small producers, need agriculture credit to earn their livings by doing farming in the villages. It is very clear from the past experience that if credit is delivered timely and properly then it has positive impact on the productivity, asset formation, income food security of rural poor. Government feels responsibility to bring financial institutions to help the agriculture sector as a whole.

It is now a well known fact the flow of institutional credit to farmers has not been in sufficient quantity. This leads the farmers, especially small farmers to go to the money lenders and beg for the loans and the money lenders take advantage of the condition of the farmers by charging a high amount of rate of interest. In spite of the availability of the loans in banks in the rural areas, farmers prefer taking loan from the money lenders. Because there is more demand for rural credit, but supply of credit is adequate to meet the demand of farmers (Sunita and Sarala, 2013). Therefore the role of money lenders cannot be denied as they actually provide some kind of help to the rural poor even though they charge very high interest rate. But this kind of credit actually makes the farmers to lose their land into the hands of money lenders because they are unable to return the taken credit. The guidelines of the RBI for providing loan to the agriculturists need to be implemented as they are written off.

The Government of India has introduced a number of policies to improve the accessibility of farmers to the institutional sources of credit. The main motto of these policies has been on progressive institutionalization for providing timely and proper
credit support to all farmers with particular focus on small and marginal farmers and weaker sections of society to enable them to adopt modern technology and improved agricultural practices for increasing agricultural production and productivity. The working of the credit policy of the government mainly focuses on a fluent credit flow at the ground level through credit planning, adoption of region-specific strategies and rationalization of lending Policies and Procedures.

As far as banking system in India is concerned, here banking system is very much systemized as compared to other established economies of the world. We have many kinds of banks with their numerous branches across small towns and even villages. And with the support of banking institutions and their adequate mode of operations we try to reach every hook or corners of the country to get faster growth and sustainable development. To provide the loans to the needy poor farmers India has a vast institutional credit network since independence. Four major sources of institutional finance can be classified as commercial banks. Co-operative banks short term regional rural banks and long term regional rural banks. Besides this, major player government has also approved a variety of financial agencies under private and public sector to get the desired results. In 1968 the need of financing agriculture sector was felt that commercial banks should come forward to do the work which was not previously performed by these institutions as they were not feeling much responsibility to help this sector. In 1972 Reserve Bank of India formalized the system on the basis of a report submitted by the private institution in 1971. According to the policy, for every branch opened in metropolitan area, the banks were required to open four branches in rural areas where no banks was there. And according to the agriculture credit policy 40 per cent of the total credit distributed was required to provide to those who were not able to get timely and appropriate credit in the absence of binding targets. And 18 per cent loans was to be distributed to the agriculture and allied activities. In early 1990s Narsainham Committee raised a point that banks should work on the basis of profitability and should be given free hand to decide the interest rates charged to me their expense. As a result a number rural branches were about to close. In the 1990s, there was (a) large scale closure of commercial bank branches in rural areas; (b) a widening of inter-State inequalities in credit provision, and a fall in the proportion
of bank credit directed towards regions where banking was historically underdeveloped; (c) a sharp fall in the growth of credit flow to agriculture; (d) increased sidelining of small and marginal farmers in the supply of agricultural credit; (e) increased exclusion of the disadvantaged and dispossessed sections of the population from the formal financial system and (f) strengthening of the hold of moneylenders on rural debt portfolios (Ramachandran and Swaminathan, 2005; Shetty, 2006; Chavan, 2005, 2007). In 2004 the UPA government intended to raise the credit flow to agriculture up to 100 per cent more. In early days direct finance to agriculture was more in practice as loans used to provide to the cultivators without any middle person involved. In this type of finance short-term loan and loans for seasonal agricultural loans used to be given. Usually crop loans were considered as short term loan as they were for cultivation for some specific crops.

Review of literature plays an important role in finding out information on the work done in the past by different researchers and provides valuable guidelines in formulating the theoretical framework of research at the time of investigation. Keeping this aspect in view, an attempt has been made in the thesis to evaluate various concepts and views related to the research.

Rajesh et al. (2011): In their study they had analyzed the role of Co-operative Banks in agriculture credit in India from 2002-2007. Discussed the main sources of finance of Co-operative banks: Central and state government, The RBI and NABARD, other cooperative institutions, Ownership fund and Deposits. Told about primary cooperative agricultural credit societies that can be started with 10 people who belong to the same village or community. It gives loan to the members who are very needy. There are now over 92,000 primary agricultural credit-societies, 367 central cooperative banks and 29 state cooperative banks operating in India (RBI, 2009). Total agricultural credit by the cooperative has also been increased during the period studied. They concluded that average compound growth rate of agriculture credit by cooperatives has always been less than average compound growth rate of all India Institutional finance.

Uppal, (2009): highlighted the need to channelize the flow of credit to priority sectors for the larger interest of the country. Uppal studied the advances of public, private and
strongly opposing these social evils. The women SHGs have also emerged as a social pressure groups for bringing about social change and transformation. The social benefits are more than the economic betterment, the women have experienced a greater betterment in the non-economic spheres of their lives. What makes one feel optimistic about most of SHGs which were visited is that, in spite of their problems, they are hopeful of turning the corner and doing constructive work in the future. Thus, overall socioeconomic empowerment of rural poor women has been ensured by the micro finance based women empowerment programmes. Now women are slowly emerging out of a system that had oppressed and exploited them for centuries with the help of successful SHGs.

The objectives of the study are as follows:

- To assess the agricultural credit requirements of cultivators in the state with special reference to Etawah district.

- To study the disbursement of loans in the region for agricultural development.

- To examine whether credit are properly used or misused.

- To investigate the pattern of utilization and repayment of such credit and problems of farmers.

- To study a relationship between the flow of institutional credit and agricultural growth in Etawah district.

- To examine the deficiencies of the pattern of institutional credit and suggest remedial measures to strengthen the institutional credit structure in the district

- To evaluate the role of institutional finance for agricultural development of Etawah district.

- To assess the group financing for agricultural development.
Abstract

- To suggest suitable remedial measures for recovery of over dues.
- To review the history of agriculture credit delivery through commercial banks in Uttar pradesh.

Besides the above objective, the following other objectives were also taken into consideration according to the availability of data. They are; (a) To review the growth and development of agriculture credit delivery in Etawah and its relevance to Uttar Pradesh and India. (b) To examine the socio-economic status of the people indulged in agriculture related and various non-farm activities. (c) To find out the economic viability of agriculture credit investment in agriculture sector through commercial Banks in Etawah district. (d) To find out impact of agriculture credit through commercial banks on the socio economic status of rural poor. (e) To suggest measures that how, the agriculture credit in priority sector by commercial banks, can be made more effective and viable on the basis of case study of Etawah district.

The findings of the study are as follows:

The data gathered from the office of the planning commission, Uttar Pradesh covers 8 blocks of Etawah District. The data including other blocks have sometime been eliminated for the purpose getting accurate results. The impact of agriculture credit on the social condition of rural poor about the various non-farm activities in which they are involved is based on the assessment of the detailed information obtained from secondary data. The people living in blocks of the district for the study are indulged in the number of activities other than farming like dairy works, small kirana shops, tailoring, pickle manufacturing, candle manufacturing, carpet weaving, vegetable selling and leaf plates manufacturing.

The study revealed that commercial banks provided loans to members for initiating various IGAs (Income Generating Activities), consumption purposes, settlement of old debt taken from money lenders and contingency purposes such as health related expenditure and other social functions like, marriage ceremonies and funeral, etc.
As far as performance of Agricultural implements due to the credit delivered in Etawah district is concerned, it has been declined from the year 1982 to 2003.

Wooden implements continuously declined during every five year of time span. From 1982 to 1988 the iron implements saw an improvably increase and after that it continuously declined and same is the case with advance harrow and cultivator.

Only in case of tractors, it can be said that it registered a remarkable increase during last 10 years.

As it can be seen that the impact of credit delivery is more or less negligible on rice production as total area and area under irrigation remains almost same.

Same is the case with wheat except 93 to 98 as area decrease due to the separation of Auraiya district from Etawah.

But the case of pulses differ from the case of rice and wheat, this is due to the culture and geographical condition of the Etawah district.

Agriculture credit could not do much in case of sugarcane even though it is the main crop of Uttar Pradesh. Some very fertile area of sugarcane has been transferred to Auraiya district which used to be the part of Etawah before 1998.

As wheat is the main food Etawah district, it can be observed that the role of commercial banks in wheat production have shown a significant result in comparison of the other main crops.

Farmers utilized the credit given by the commercial banks in using fertilizers, as a result the production has gone up and this is the good sign for future.

As far as the use of land for agricultural purpose is concerned, it is lacking behind as most of the farmers are small and marginal and they are not aware of the schemes provided by the banks.

Increment in the number of banks its branches in UP and Etawah has been shown by the compounded annual growth rate. And shows significant improvement as far as the Uttar Pradesh state as a whole is concerned; in case of Etawah it shows a marginal improvement from the period 1995-2005 to 2005-2013.
Abstract

- Bank deposits do not show any noticeable improvement but still it has been maintained by the commercial banks very well.
- The farmers and agriculturists in Etawah district have been very enthusiastic and keen to go for the agriculture related activities which is shown by the CAGR.
- Credit delivery ratio has also been calculated.
- Number of banks in Etawah district has shown rapid increase in the year 2006-07 and after 2012.
- After the UPA government got second tenure, loans towards the agricultural related activities gone very high.
- Correlation analysis of agriculture credit shows that it is positively correlated with all the main crops (irrigated area) except pulses. And sugarcane shows highly negative trend.
- Government related institutions need to recognize the potential of agricultural financial services to maintain investment and expansion in key economic sectors and hence to add significantly to national economic growth.
- As a matter of fact poor do intensely use the limited knowledge and experience at their command without a sufficient return. If we want to bring about the significant change in the lives of the poor than we have to bring in significant inputs of a kind that the poor want but they don't have. For this it is important to find out what they do know and have. It is only then, that schemes can be devised that can give right inputs in right quantities.
- A good regulatory framework for agricultural services is necessary to reduce the transaction costs and also to bring in much needed transparency and accountability. This will also helps in bringing long-term sustainability. The safety of small savers, ensuring proper terms of credit, instilling financial discipline and having a proper reporting and supervision system should be put in place.
- Through proper guideline and supervision it must be ensured that financial institutions are run prudently and must help the poor people in increasing their income through the proper livelihood activities.
Abstract

- Institutions which are involved in managing the functioning of commercial banks in the country like RBI, SIDBI (Small Industries Development Bank of India), NABARD and others must evolve proper means for monitoring, managing, directing and controlling of credit. State Government and Central Government agencies must also ensure proper monitoring of these fund providing agencies.

- Mass media must be used widely for the spread of functioning of commercial banks in rural areas. Through the mass media potential and benefits of banks can reach to a large section of people and subsequently it will help in further increase in the number of branches of these banks in the villages.

- In particular, the success and sustainability of commercial banks in the studies area depends significantly upon greater clarity about who is to play the key role of maintaining quality, and how the costs of doing so are to be met.

- The awareness of the Bank staff with the local issues and the local people will help in the success of commercial banks in a long way. For the success of commercial banks close association of Bank staff with the agriculturists is necessary, right from identification of the viable non-farm economic activity to planning for all the elements of this non-farm economic activity. Post credit monitoring and loan recovery is also very much important for the success of commercial banks.

- The procedure for applying, seeking and releasing of credit from the banks must be simplified further. During the study it is observed that the procedural difficulties are one of the major stumbling blocks, which has denied rural people from taking the financial benefits of the banks.

- Efforts should be made to motivate banks to take active interest in the farming and the activities related to agriculture and rural people to spread the information of various schemes and financial needs of poor.

- The bank functionaries who deal with agriculture credit branch managers should be exposed to the local people’s language and culture. Motivational training programmes should be organized for bank functionaries to generate in them a sense of cooperation and positive orientation towards rural people.
Abstract

• Beside the agricultural related activities institutional credit must also be made available for consumption needs arising out of emergencies, crisis, as also for housing, sanitation and for provision of other basic amenities.

• Efforts must also be put in for the quick release of funds and its channelization to the related departments and agencies so that it can reach the targeted small farmers.

• Encouragement must be provided to commercial banks to work in an organized manner, as this will help in reaping economies of large scale production.

• Some random surveys can be done in the area of agriculture finance to the clearer picture of the rural poor of Etawah District.

• This type of study can be done on primary data in Etawah as well as other districts of UP state.

• Comparative studies can be done on the performance of commercial banks of different districts as well as different states.

• Studies regarding other aspects of commercial banks like loan to other industries can also be highlighted.

• Similar studies can be done on the agriculturists to highlight the purpose of getting institutional credit.

• Studies can be undertaken on the factors which motivate the farmers to get the benefits of different commercial banks.

• Studies can be done to analyze the role of government in promoting the agriculture credit through financial institutions.

The above mentioned interventions will help the commercial banks towards their evolution and growth and long term sustainability. Implementing the above recommendations will help the commercial banks in rising into sustainable financial institutions.