CHAPTER - I

INTRODUCTION

Agriculture is the backbone of Indian economy. It is still a major occupation in several parts of the world. It provides food to the people without which they cannot live. Besides, providing raw-materials to industries, it supports internal and foreign trade, contributes a sizeable to the nationation-Income, provides political stability and good defence for the country. Naturally, agricultural development is the foundation for the economic well-being of any economy characterised by the predominance of agricultural sector. Inspite of introduction of several measures relating to agricultural credit, agricultural marketing, irrigation, etc, under the banner of Five-year plans since 1951, agriculture in India has been beset with several problems. Over crowding of population in farm cultivation, sub-division and fragmentation of land, old methods of cultivation, low productivity, lack of irrigation facilities, lack of marketing facilities, under employment, threat of competition in the wake of liberalisation regime and inadequate finance for agriculture, unexpected natural hazards, etc, are the challenges to be faced.

Finance is the life blood of an industrial and commercial undertakings and agriculture as well. In a sense, the words viz., credit, finance, debt and loan are synonymous; money or credit or finance is the lubricant that facilitates the operation of machine. Financing of Agriculture means the use of capital to meet
the financial requirements of the people engaged in various agricultural activities. Thus, agriculture finance refers to the process of arranging finance for agricultural activities, viz; crop loans, minor irrigation, land development, farm mechanisation, plantation and horticulture, dairy development, poultry, sheep and goat rearing, fishery, forestry and others.

An important link among the various economic activities is banking and it has to play a direct role not only in creating the machinery needed for measuring developmental activities but also in ensuring that the finance made available goes into the desired directions. The various Committees and Working Groups, were appointed from time to time by the Government of India (GOI) and the Reserve Bank of India (RBI) to study and suggest remedial measures for overcoming the defects in the present banking system. These have thrown much light on the role of the commercial banks in the overall development of agriculture which is the main occupation of rural masses.

Bank's Finance and Agricultural Development in India:

After the nationalisation, the commercial banks have been giving special attention to the financial needs of agriculturists. This is clear from the various measures taken by the commercial banks in general and public sector banks in particular. This is evident from the following:

i) The proportion of agricultural finance to total bank finance has increased from 5.4% in 1969 to 14.1% in 1999.
ii) The strategy of agricultural finance by the banks has been:

a) to take note of various imbalances in the agricultural development and to take measures to correct them;

b) to give a big push to agricultural development in terms of investment, management and policy; and

c) to develop untrapped potential in the neglected regions.

iii) The banks provide direct financial assistance to the agriculturists in the forms of:

a) short term crop loans;

b) term loans for purchasing animals and farm machinery, constructing wells and tube-wells, levelling or developing land, etc,

c) loans for allied activities such as dairying, poultry farming, piggery, bee-keeping, fisheries, etc.

iv) The commercial banks provide indirect assistance to the agriculturists in the following forms:

a) they finance co-operative societies to enable them to expand their production credit to the farmers;

b) they provide indirect finance for the distribution of various agricultural inputs,
c) they extend credit to firms or agencies engaged in the supply of agricultural machinery on hire-purchase basis or otherwise, and
d) they subscribe to the debentures of the central land development banks and also grant loans to them.

v) The commercial banks have started many innovative schemes to ensure large flow of credit to the needy farmers and its effective utilisation.

Some of such schemes are:

i) Agricultural Development Branches of the State Bank of India,

ii) Village Adoption Schemes,

iii) Gramvikas Kendras of Bank of Baroda,

iv) Rural Financing centres of Dena Bank,

v) Project lending with refinance facility from the National Bank for Agriculture and Rural Development (NABARD),

vi) Linking of lending with development activities, etc.

vi) Since 1975, the State Bank of India and nationalised banks Regional Rural Banks (RRBs) to extend cheaper credit to small farmers, rural artisans and others.

vii) To help the small but potentially viable farmers, the commercial banks have set up Farmers' Service Societies (FSSs) in Small Farmers Development
Agency areas (SFDA) for providing credit facilities, ensuring the supply of inputs, and helping in the marketing of agricultural produce.

viii) Kisan Credit Card Scheme was introduced in 1998-99 to facilitate the flow of timely and adequate short term credit to the farmers.

ix) The Commercial banks have been increasingly adopting area approach in agricultural lending by selecting groups of villages in different areas and meeting total credit needs of farmers in those villages. As per the recommendations of the seminar convened by the RBI on 9th and 10th January, 1988, the RBI set up a Committee under the Chairmanship of Dr. P.D.Ojha, Deputy Governor, RBI, which evolved the concept of Branch Command Area Approach, and subsequently, implemented as "Service Area Approach (SAA)". The significant feature of this approach is that the stress is given for credit planning by bank branches at the grassroot level and their active participation in the allround development of the service area assigned.

Need for the present study:

The commercial banks are considered as the best suited financial institutions for agriculture and allied activities. Being widely-spread and imbibed with Governments' national ethos, Commercial Banks (CBs) are expected to meet the overall financial requirements of agriculturists.

In order to improve the functioning of the banking sector particularly the commercial banks in India, the Govt. has been trying to solve rural credit problem.
From the Gorwala Committee (1951) to the Gadgil Committee (1968), to the Ojha Committee (1988), to the Goiporia and the Narashimham Committee (1991), the intentions of the Government have been manifestedly demonstrated. Further, it is to be noted that the results of all these exercises have belied the expectations. Hence, the Government has directed the banks to diagnose the malady. The same way, the commercial banks, inspite of their geographical expansion and adequate resources have failed to meet the financial requirements of agriculture.

Since nationalisation of Commercial Banks in 1969, the performance of commercial banks involving a marked shift from traditional class banking to 'mass banking' has brought in its wake some serious problems; which appear to hinder their capacity and attitude to finance agriculture in the years to come. The main problems are: failure of mansoons, mounting overdues, world over competitions, world bank pressures, threat of merger or privatisation, etc.

In the present economic environment characterised by deregulation and global competition, the crucial role of commercial banks in meeting the socio-economic necessities of the farming community has been duly recognised. As such, strengthening and promoting the commercial banks assumes greater significance. However, the aggregate performance evaluation i.e. Macro approach conceals many flows. Such an approach does not throw light on regional imbalances. Hence, a assessment of the agricultural credit requirements and problems that have emerged is an important step in formulating a proper policy for overall guidance.
Therefore, it is necessary to evaluate the performance of commercial banks in the sphere of agriculture finance. In view of this, the present study assumes a special significance.

Statement of the Research Problem:

The CBs have the noble objective of effecting a socio economic transformation in the lives of rural masses through agricultural finance. With a focus on sectoral growth and development, the commercial banks have been endeavouring to meet the financial requirements of farmers and also of the people who are busy in allied activities like dairy development, poultry, piggery etc; with their network of branches spread different areas. Each branch is expected to be an innovator within it's service area. The commercial banks with their network of branches have been channelising the credit to different sections of the society in general and to agriculture and allied activities in particular. No doubt, there has been sizable growth in finance made by commercial banks. Under the Service Area Approach (SAA) and as per the national priorities given under the Five Year Plans, Commercial banks have been assigned with the task of effecting revolution in agricultural growth of the district. Moreover, the commercial are also expected to face the challenges of other counterparts of the banking system, especially the co-operative sector which have introduced the pioneer scheme of Kisan Credit Cards in the district.

However, in recent years, the CBs have been facing problems in the sphere of agricultural finance, recovery, mounting non-performing assets, high
level operational cost of management, shortage of skilled man power, poor resources, non-viable branches, intensional defaulters, etc., have been alarming the CBs to proceed with caution. As such, their performance in financing agriculture needs to be evaluated at regional or micro level. Hence, the statement of the present research problem:

"FINANCING OF AGRICULTURE BY COMMERCIAL BANKS IN KARNATAKA: A CASE STUDY OF DHARWAD DISTRICT".

Review of Literature:

With a view to crystalising the objectives of the present research study, it was considered to have an idea of the findings of some of earlier research studies and methods adopted. Such a review of literature connected with the working and performance of commercial banks in India and abroad as well as related financial institutions would provide a basis either for conforming the earlier findings or for contradicting them and thereby suggest points of departure for further studies.

Dinesh (1970) has pointed out that prior to bank nationalization, commercial banks were mainly interested in approaching the more technologically affluent farmers where security risks were minimum.

Desai and Desai (1970), in their empirical study pointed out that the working capital was inadequate to meet the requirements of the new technology in agricultural sector.
Grewal and George (1975) attempted to estimate the real cost of credit from different agencies in Bhiwani block of Hissar district (Haryana). They concluded that the overall cost of credit met by the farmers was considerably higher than that of official rate of interest. In the case of short-term credit from co-operatives, the cost of credit was 29.4 percent higher than the official interest rate and in the case of commercial banks, it was 15.37 percent higher.

Singh (1975) in his study on farmers' opinion on SFDA project of Fathepur district of Uttar Pradesh on various aspects of credit reported that credit was not provided in time, the amount was inadequate, rate of interest and security were high and norms of repayment were not favourable to the farmers.

Lavenia, Bhalerao and Tiwari (1976), in their study conducted in Gazipur district, Uttar Pradesh, found that the rich farmers were benefitted more from institutional finance, while the poor farmers were deprived of benefits. The study also showed that all the institutional agencies have a tendency of assisting large farmers.

Rajput and Singh (1977) have observed that the highest number of borrowers took loans for the extension of irrigation facilities, followed by those taking loans for purchase of improved agricultural implements. And the number of borrowers taking loan for fertilizers crop and dairy development was the lowest.
Barik and Singh (1978) in their study on cost of credit for the rabi loan of large sized society in Uttar Pradesh found that interest cost formed a major part of the cost of credit having share of 69.54 percent in the total amount of credit. The non-interest cost of borrowing was 30 to 40 percent of the total cost of credit and this was high mainly due to the complicated and time consuming procedure involved in advancing loans. Non-interest cost included the cost of making trips, cost of obtaining records, cost of documents and service charges.

Desai (1978) conducted a study in 30 randomly selected villages of the districts of Coimbatore and Salem of Tamil Nadu to analyse the flow of funds of farm loans and factors affecting them. The study found that in villages where there was only one commercial bank, the variance ratio indicated flow of funds from the rural branches from the urban centres but in the three-bank villages, the variance ratio revealed that the funds were flowing to rural branches from the urban centres. The study further found that the magnitude of short and medium term-loans had been comparatively higher in the one-bank villages while this pattern charged slightly in favour of long term loans in two-bank villages. The short and long-term loans are the major components in the three-bank villages. The study also pointed out that the funds followed out of villages where there was no competition amongst banks and competition among banks had a positive impact on the village economy.

Sinha (1979) studied the development and prospects of agricultural credit in India since 1951. He showed that the share of indirect finance had been
increasing and the share of direct finance had been declining. The study revealed that neither the co-operatives nor the commercial banks succeeded in providing credit on the scale needed for the weaker sections of the community.

Tiwari and Sharma (1979) attempted to study quantitative performance of commercial banks in the area of agricultural credit during eight years after nationalisation i.e. from June 1969 to June 1977. They concluded that, from quantitative point of view, the performance had been quite impressive. In respect of qualitative performance, however, several weakness had been noted. Conventional security-oriented approach of banks in granting loans and routine procedure of obtaining third party guarantee were found to characterise their operation.

Reddy (1980), in a case study of six sample villages of Anantpur district in Andhra Pradesh, examined the direction of agricultural credit advanced to 51 participants by three commercial banks. He observed that there was no bias in the distribution of commercial banks' loans among sample farmers as the small and marginal farmers.

Reddy (1980), analysed the purpose-wise lending pattern of commercial banks in Andhra Pradesh. The result pointed out that about 81 percent of the crop loans were lent to the large and medium farmers, 60 percent of land development loans to small and marginal farmers, 76 percent of minor irrigation loans to large and medium farmers and about 86 percent of the dairy
loans were shared by small and large farmers. The study suggested, conclusively, the relaxation of security norms to enable farmers to reap better benefits of incremental income from different credit schemes.

Narasimhan (1986) in his study, "Banks and Agricultural Credit of India", pointed out that the growth of agricultural credit was phenomenal since nationalization of banks in 1969. He also found that there was an increase in the number of borrowers' accounts.

Sunil Kumar (1987) inferred that the commercial banks have turned towards rural areas since nationalisation, but still their coverage in terms of financing was inadequate.

Balisheter, Singh, Roshan & Prakash (1989) attempted to find the overdue position of farmer-borrowers from Bichipuri branch of State Bank of India in Uttar Pradesh in 1985-86. It was observed that 61 percent of farmers defaulted, with overdues on advance to crop loans by the bank. Large and medium farmers accounted 55 percent of total overdues. Wilfull default was found in about 35 percent cases. Slackness by the banks in insisting on timely repayment of loans, diversion of income for purchasing lands or other property and uncertainty about getting new loan after repayment were the main reasons for wilful default.

Sharma U.K. (1989) pointed out that the small borrower was generally known to be conscious of his obligation to repay. According to his study, non-
recovery affected not only further availability of production credit but also the health of the institution and its eligibility to borrow. The study suggested to encourage competition in recovery but not in write offs.

Sharma P.N. (1990) has studied the commercial bank financing to agriculture in Bihar. The study found that the share of agriculture in total bank credit rose sharply from 2.6 percent at the end of June 1969 to as much as 24.1 percent at the end of June 1983. The share of direct finance rose impressively from 0.5 percent to 18.2 percent, while that of indirect finance increased from 2.2 percent to 5.7 percent during the same period. The study further expressed that the total agricultural credit provided by commercial banks in the State was inadequate and the distribution of agricultural credit between different regions of the State was quite uneven.

Singh and Jaiswal (1992) have studied the magnitude of commercial banks' advances to priority sector. According to them, during the post-nationalization period, banks started financing the priority sector. Among the different priority sectors, agriculture claimed 19.1 percent of total bank assistance to priority sector as at the end of 1998, followed by small scale business road and transport operations self employed and self professionals, exports and education etc., received 28.8 per cent. The authors concluded that in the post-nationalization period, banking sector of the country changed from 'class' banking to 'mass' banking from 'rich' to 'poor', paying special attention to backward and traditionally neglected sector of the economy such as agriculture and small scale sectors.
Pouchepparadjou (1992) found that the cost of credit was more in case of money lender than the commercial banks, because of exhorbitant rate of interest charged by him. Farmers are happier with the commercial bank credit even through the non-interest cost is more.

Reddy and Reddy (1996) made a case study of borrowers' knowledge on farm credit and follow-up action of bank officials in Khajipt mandalam of Cuddapah district of Andhra Pradesh. The results revealed that 54 percent of the borrowers opined that scale of finance provided by the bank was sufficient, but all the beneficiaries wanted technical guidance. 60 percent of the borrowers opined that loan sanctioning procedure was easy and 82 percent of the borrowers were of the opinion that interest charged was reasonable.

Pandey (1997) studied the progress of commercial banks during the period 1969-1995 and found considerable increase in priority sector credit. The percentage of rural credit to total credit rose from 3.3 percent to 12.7 percent. The percentage share of rural credit to total credit was maximum (15.3%) in the period from December 1987 to December 1988 but it came down to 12.5 percent in 1995.

Shiyani and Sima (1999), while comparing performance of credit institutions in promoting agricultural development in Gujarat, opined that the total overdues of agriculture and allied activities in Gujarat was as high as Rs.241.52 crore. The situation of agriculture overdues in co-operative banks was
more than 65 percent. Contrary to this, the share of co-operative banks in the total credit flow to the agricultural sector by all the banks was only 36 percent.

Safiullah (2000) analysed credit flow in animal husbandry sector of Tamil Nadu. He used time series data on credit flow by Land Development Banks, District Central Co-operative Banks and commercial bank for the period from 1981 to 1994. He concluded that commercial banks had a leading stride over Land Development Banks, District Central Co-operative Banks and Urban Co-operative Banks during the reference period. The amount of credit flown for agricultural production was ranging between Rs.3,622.76 million and 21,417.94 million during 1981 to 1995.

Thus, the review of earlier studies reveals that the inferences noted above are derived from the experiences of different areas with diverse socio-economic background. Though the above mentioned studies have been useful in highlighting the different issues relating to agricultural financing, by the very nature of their objectives, they have not been able to probe deep into various aspects of financing of agriculture by commercial banks. Secondly, no study about the problems of agricultural credit by commercial banks in Dharwad has yet been made. So it was felt that there is a need for an in-depth study about the commercial bank financing to farmers and appraise the intensity of the problem, particularly with reference to Dharwad district. It is obvious that the agricultural credit policies will be effective when they are related to the specific conditions prevailing in a region. Hence, specific study of an area is essential so as to provide
meaningful inferences for the formulation of appropriate credit policies in the light of area-specific socio-economic background. In the light of this conclusion, the present study has been conducted with special reference to the Dharwad district of Karnataka State.

OBJECTIVES:

The main objectives of the present study are:

1) To study the role of commercial banks in the sphere of agricultural financing in Karnataka in general and in Dharwad district in particular.

2) To study the socio-economic profile of Dharwad district.

3) To study the evolution and growth of commercial banks.

4) To examine the role of credit agricultural development.

5) To analyse the composition of banks' credit and inter-bank variations in credit flow.

6) To analyse inter-block variations in credit flow.

7) To evaluate the banks' performance in achieving the targets.

8) To offer useful policy measures having bearing on agricultural financing by commercial banks operating in the study area.
SCOPE OF THE STUDY:

The scope of the present study is confined to the evaluation of the performance of the commercial banks in its sphere of financing of agriculture and allied activities with special reference to the commercial banks operating in Dharwad district. For the purpose of making performance evaluation more meaningful, an analysis has been made for a period of five years i.e. from 1997-98 to 2001-02.

Research Methodology:

The present study is primarily based on the secondary data. The data used for the study was collected from the following sources:

1) Annual Credit Plans of the Dharwad District Lead Bank i.e. Vijaya Bank for the period from 1997-98 to 2001-02.

2) Vijaya Bank, Lead Bank section, Hubli.

3) District Statistical Office, Dharwad.

4) Statistics on Commercial Banks, NABARD, Bombay (various issues).

5) Potential linked Plans, prepared by NABARD, pertaining to Dharwad district.

Besides the data collected from above sources, the requisite primary data required for the study were also collected through personal
discussions with the officials of the various commercial banks and the lead bank officials.

The data so collected were properly classified and analysed with the help of simple statistical parameters like averages, ratios, etc. For the purpose of drawing meaningful conclusions, the techniques of financial analysis, like, Inter-bank inter-block analysis, intra-bank inter-block analysis, inter-bank inter-activity analysis, etc., have been used to draw meaningful conclusions.

Research Design:

The present study is presented within a framework of eight chapters.

First chapter, being an introductory chapter, includes the role of commercial banks in agricultural development, need for the study, review of earlier literature, statement of the research problem, objectives of the study, scope of the study, research methodology, research design and a brief account of the some unique concepts used in the study.

Second chapter provides a synoptic view of socio-economic profile of the Dharwad district.

Third chapter deals the tracing the evolution and growth of commercial banks in India during pre-and post-independence period followed by a brief account of network of bank in Karnataka State and also in Dharwad district.
A theoretical framework of the role of banks' credit in the growth and development of agriculture is presented in the fourth chapter.

Fifth chapter deals with an analysis of banks' credit-mix for agriculture and inter-bank variations in credit flow.

Sixth chapter is packed with an analysis of inter-block variations in credit flow for different agricultural operations.

Seventh chapter aims at evaluating the banks' performance in achieving the targets.

The last chapter is packed with a summary of major findings and suggestions made for improving the commercial banks in Dharwad district in particular and also in other districts in general.

C) DEFINITION OF CONCEPTS USED IN THE STUDY:

The main concepts used in the present study and their functional definitions are:

Credit:

Financial assistance provided by Commercial Banks.

Agricultural Credit:

Agricultural credit is the amount, either in cash or in kind or in both forms, received from external sources, that is institutional and non-institutional,
to be repaid in the specified period of time to the lender, with some interest for the use of funds by the borrower. The present study considered only the credit from commercial banks.

Total Credit :

It is an aggregate credit for agricultural and allied activities.

Short-Term/Production Agricultural Credit :

It refers to the amount of credit made available for the purpose of crop production from the commercial banks for a period ranging between 12 months to 18 months.

Medium Term Agricultural Credit :

The medium term loans are those with repayment period extending between 3 to 5 years.

Long-term Agricultural Credit :

Long term loans are those with repayment period extending over 5 or more years.

Large Farmers :

A Large farmer is one whose holdings are more than 2 hectares.
Crop Loans:

Crop Loan, for the purpose of this study, is a short-term production loan given by the commercial banks against the security of standing crops in the fields, when the amount of crop loan exceeds Rs.10,000/- the banks mortgage the land in addition to crops for the purpose of security.

Farm Machinery:

Farm machinery includes tractors, trolleys, threshers and harvesters.

Minor Irrigation:

Minor irrigation refers to the activities undertaken by farmer beneficiaries for the development of land, such as levelling and bunding.

Priority Sector:

The priority sector advances include agriculture and non-agriculture sector advances such as small scale industries and services.

Non-Agriculture Sector Advances:

Non-agriculture sector loans include small scale industries, retail trade, professional and self-employed, small business, small road transport operators.
Non-Priority Sector-Advances:

Non-priority sector advances include loans against fixed deposits/ national savings certificates, staff loans, various consumers durables loans and big industrial advances.

Rural Branch:

A branch located at a place with less than 10,000 population.

Urban Branch:

A branch located at a place with more than 10,000 population.