

An Analysis of Problems of Bankers in Agriculture Credit and Recovery: Indian Context

***Shweta Kumari,
Research Scholar,**

Department of Commerce, Patliputra University, Patna

**** Dr. Ram Uddeshya Singh,
Associate Professor,**

Department of Commerce, Patliputra University, Patna

Abstract

Agriculture is the backbone of Indian economy which contributes nearly 20 per cent to the Gross Domestic Product (GDP), and 55 per cent of the workforce in the country still depends on agriculture. It plays a key role in the overall socio- economic development of the country. For growth to be all inclusive, 'Agricultural Strategy' must focus on 85 per cent of farmers who are small and marginal, increasingly female, and who find it difficult to access inputs, credit, and extension or to market their output.

Credit is an essential requirement for revitalizing agriculture. Banks are confident of meeting the increased target for lending to the agricultural sector. The extension of the interest rate subvention scheme for short term crop loans will boost the credit flow to this sector. The government has set an agriculture credit disbursement target of Rs 27.5 lakh crore for the current fiscal, which is 11% higher compared to actual loans disbursement in FY24. The finance ministry is learnt to have also asked the lenders to try and align the credit approvals with the gross-value added (GVA) of the crops for the respective states, a move that is expected to address regional imbalances in availability of loans for farmers.

Key words: *Agriculture Credit, Crop Failure, Indian Banks, Recovery of Advances, Small Farmers.*

Introduction

India is the seventh largest country, in geographical level, at the top among countries population-wise and fifth largest country, economy-wise. The economy of India is as diverse as it is large, with a number of major sectors including manufacturing industries, agriculture, textiles and handicrafts, and services. Agriculture is a major component of the Indian economy. More than 70% of our people have their livelihood as agriculture and agriculture-oriented works. Mahatma Gandhi said "Indian economy lives in rural villages", and many of the industries get their raw material from agriculture sector.

The five year plans give importance to the agriculture sector and rural development and rural people's employment. Land and water management systems were developed with an

aim of providing uniform growth. Our agriculture sector achieved green revolution during 1970s; after that we achieved white revolution in milk production. Despite some stagnation during the later modern era the policy makers did not concentrate on development of comprehensive agricultural program and rural development compared to urban development and industrial development. Nearly 21.1% of the entire rural population of India exists in difficult physical and financial predicament. Rate of poverty in urban population is 15%. The Government controls the Indian economy, and there remains a great disparity between the rich and the poor.

However, the service sector is greatly expanding and has started to assume an increasingly important role. The fact that the English-speaking population in India is growing by the day means that India has become a hub of outsourcing activities for some of the major economies of the world including the United Kingdom and the United States. Outsourcing to India has been primarily in the areas of technical support and customer services. Other areas where India is expected to make progress include manufacturing, construction of ships, pharmaceuticals, aviation, biotechnology, tourism, nano technology, retailing and telecommunications, Growth rates in these sectors are expected to increase dramatically. But, the other side is, slowdown in agricultural growth which has become a major cause for concern. India's rice yields are one-third of China's and about half of those in Vietnam and Indonesia.

Owing to urbanization and industrialization, use of agriculture land is reduced during the last one decade. Agriculture lands are converted into residential houses and factories. Hence, a number of agriculture labours lost their work and moved to urban areas. This led to low output in agricultural products, insufficiency and rise in food articles prices. Number of surveys say that the world will face food insufficiency in near future.

In India, maximum of landholders are falling under the category of small farmers, so they are not able to meet out the increasing input cost and are not able to introduce any new technological machineries in their farms. Due to this reason our farmers are "born in debt, live in debt and die in debt".

Agriculture: The Backbone of Indian Economy

Agriculture employs a majority of the almost 70 percent Indian population living in rural hinterlands. Consequently, India is the world's largest producer of milk, pulses, and jute, and ranks as the second largest producer of rice, wheat, sugarcane, groundnut, vegetables, fruit, and cotton, accounting for 10.9 percent and 8.6 percent of the world fruit and vegetable

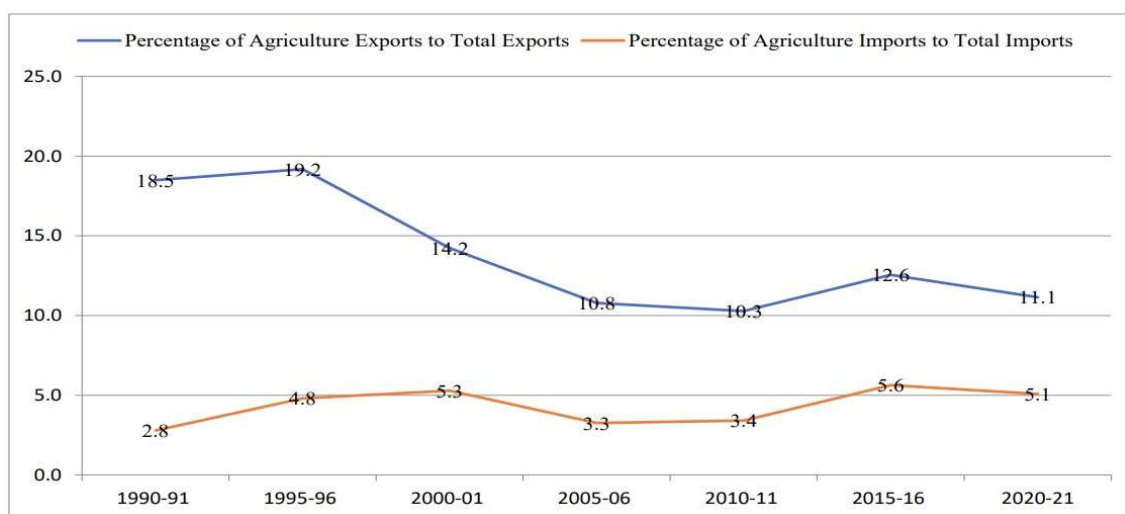
production, respectively. It is also one of the leading producers of spices, fish, poultry, livestock, and plantation crops.

The gross value addition of agriculture sector in India has consistently increased through the past decade. The agricultural exports as a percentage of India's agricultural GDP has increased from 9.4 percent in 2017-18 to 9.9 percent in 2018-19. While the agricultural imports as a percentage of India's agricultural GDP has declined from 5.7 percent to 4.9 percent, indicating exportable surplus and decreased dependence on import of agricultural products in India.

As a testimony to its evergreen nature, even during the difficult time of pandemic and consequent lockdown, Indian agriculture contributed its share in the world food supply chain, displaying great resilience. The export of Agri commodities during March 2020 to June 2020 was Rs. 25,552.7 Crore against an export of Rs. 20,734.8 Crore during the same period in 2019, showing a sharp and rather surprising increase of 23.24 percent.

There has been substantial and laudable increase in export of almost all the agricultural items in the last 15 years, but despite being one of the top producers of agricultural products, India does not feature among top exporters of agricultural produce. India holds second rank in the world wheat production but ranks 34th in its export. Similarly, despite being world Number 3 in production of vegetables, the export ranking of India is only 14th". Same is the case for fruits, where India is the second largest producer in the world, but its export ranking is 23rd.

Figure 1: Contribution of Agricultural Trade to Total National Trade



Source: (i) Ministry of Agriculture, & Farmers Welfare, Agricultural Statistics at a Glance-2020
 (ii) Director General of Commercial Intelligence & Statistics, Kolkata

Agriculture in India is highly susceptible to the natural calamities and risks like droughts, floods, landslides, inundation, hailstorms, cyclones, typhoons, tempests, hurricanes, tornadoes, natural fire, lightning, pests, diseases and so forth. In order to stabilise the income of farmers by protecting them from the natural calamities a scheme, Pradhan Mantri Fasal Bima Yojana (PMFBY) was launched in February 2016. Under the scheme, in event of any loss to the notified crop (food crop, commercial/ horticultural crop and oil seeds) due to any natural calamity, pest or disease, eligible farmers are paid compensation based on the difference between the threshold and actual yield. The extent of compensation is set according to the degree of loss to the notified crop. The scheme is compulsory for farmers availing institutional loans but optional to others.

The mechanisation of agricultural plays a vital role in optimising the use of land and other inputs like water, seed, fertilisers, pesticides and manpower etc. In order to strengthen the agricultural mechanisation in the country, a scheme named as Sub-Mission on Agricultural Mechanisation (SMAM) was launched in 2014-15 by the Ministry of Agriculture and Farmers' Welfare. It aims at increasing the reach of farm mechanisation to small and marginal farmers and to the hinterland where the use of agriculture machinery is low. The scheme endeavours to create awareness among the stakeholders through demonstration, capacity building activities, performance testing and certification of agricultural machines at designated centres located all over the country.

In February 2019, Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) yojana was launched to augment the income of farmers with land holding up to 2 hectares, subject to certain exclusions. The scheme aims at supplementing the financial needs of the of families of small and marginal farmers to enable them to take care of expenses related to their occupation as well as domestic needs. In the union budget 2021-22, a major allocation of Rs. 65,000 crore was allocated for PM-KISAN, under which the government provides Rs. 6,000 to each beneficiary in three equal instalments to the eligible farmers.

With a view to modernise the agriculture, the union government has initiated Digital Agriculture Mission for 2021-25 for agriculture projects based on new technologies such as artificial intelligence, block chain, remote sensing and GIS technology, drones, robots and others modern digital devices.

In nutshell, agriculture and allied sectors play a vital role in a developing economy like India by reducing poverty, unemployment and inequality, ensuring food security and achieving sustainable development. The dynamics of agricultural growth in India reflect a decline in the share of agriculture in national gross value added, employment generation and

foreign exchange earnings. But, it still remains the single largest employment generation sector and source of livelihood to a large proportion of population. To improve productivity in agriculture the focus of policies has been on the rational use of inputs like seeds, water, fertilisers and agriculture machinery.

To improve production and productivity of agriculture, adoption of quality inputs including high yield variety seeds is critical. There is an urgent need to expand the area under irrigation by adopting the appropriate technologies like sprinkler, drip irrigation and rainwater harvesting. The rational and efficient use of fertilisers and pesticides is also essential in order to increase productivity and avoid crop yield losses due to pests and diseases. In order to supplement income from crop cultivation, the focus of attention should be on promoting ancillary industries, nonfarm activities and service units in rural areas so that the surplus manpower can get gainful employment during the slack season. Access to institutional credit at affordable rate is also desired to purchase expensive agricultural inputs. Further, the significance of timely government intervention in agriculture marketing can also not be denied. To attract unemployed educated youth into agribusiness and agripreneurship, special impetus on creating scientific temper and fostering innovative spirit among the rural youth is also required. Last but not least, providing timely advisory services to farmers to adopt best farm practices, technology, through market information system is also essential. An appropriate policy coupled with a strong strategy to strengthen the rural non-farm sector deserves to be at the top priority of Government and policy makers.

Role of Banks in Our Economy

Financial system is the most important institutional and functional vehicle for economic transformation of any country. Banking sector is reckoned as a hub and barometer of the financial system. As a pillar of the economy, this a predominant role in the economic development of the country. The geographical pervasiveness of the bank coupled with the range and depth of their services make the system an indispensable medium in every day transactions. The virtual monopoly of banks in 'Payment Mechanism' touches the lives of millions of people every day and everywhere. Thus, the banking sector has been playing a significant role as growth facilitator.

Till recently the role of banks in the economy was perceived to be 'catalysts' of mobilizing resource requirement for growth. This view has undergone a change and banks are no longer viewed as passive mobilizer of funds, efficiency in the financial intermediation is the ability of the financial institution to intermediate between savers and investors, to set economic prices for capital and allocate resources among competing demands is now

emphasized. In the wake of the recent emphasize in the economy the intermediation role assumes even greater relevance. By virtue of their experience and superior credit assessment of the investment proposals banks should play a significant role in identifying and nurturing growth impulse in the commodity and service producing sector in the economy.

Banking is a highly regulated industry, moreover, Public Sector Banks (PSB) have sizeable portion of business coming from rural and semi-urban areas. So, a public sector bank has to face the twin challenges of innovation and financial Indus on.

Most Indian banks have implemented Core- Banking solutions (CBS), which has dramatically automated what used to be brick and mortar banking. Having committed 75% of their branches network to serving rural and semi-urban population, public sector banks have to adopt a financial emerging approach to rural banking.

Changing Paradigm of Banking

Change is the only constant factor in this dynamic world and banking is not an exception. It has been observed that

- The major challenge faced by banks today is to protect the falling margins due to the impact of competition.
- Technology has demonstrated potential to change methods of selling marketing, advertising, designing, pricing and distributing financial products of an electronic, self-service product delivery channel.
- The role of financial instrumentation in different phases of the business cycle, the emerging compulsions of the new prudential norms and benchmarking the Indian financial system against international standards and best practices.
- The need for introduction of new technology in the banking and the importance of skill building and intellectual capital formation in the banking industry are also equally important.
- The primary concern of the bank should be to bring in proper integration of human resource management strategies with the business strategies.

Problems of the Bankers in Agriculture Credit and Recovery

An analysis of the recovery of loans and overdue of the of the public sector commercial banks pinpoints the under mentioned problems:

Storage of Funds

The banks' freedom in allocation of credit is severely restricted under the District credit plan. The banks in the district are expected to achieve set targets. To ensure this, constant follow-up actions are taken by the district consultative committee.

Lack of Trained Bank Staff

Commercial banks complain that in matter of implementing their agricultural credit schemes, they are handicapped by non-availability of adequate and competent staff.

There is dearth of trained technical staff which is crucially needed to supervise agricultural credit schemes. Often, commercial banks staff lacks the right attitude towards providing agricultural advance because of conventional inspection and procedures.

Problems of Supervision

In addition to the difficulties experienced in the processing of loan applications and subsequent disbursement of loans sanctioned, the bank also faces problems in supervising the proper utilization of loans.

The objective of developmental lending is to ensure that the borrower utilizes the loan amount for a productive purpose which would generate surplus income. The farmers are expected to use the surplus for their own better living and also for the repayment of the loan. In achieving these objectives, supervision by the field staff plays a major role.

Bank must get periodical information regarding the progress and problems of the farmers.

Hostile Attitude of the Farmer towards Supervision

Thus, supervision tends to be ineffective in many cases. For example, it is very difficult to keep an effective control over the crops which are ready for harvesting till the time of sale, as often harvesting takes place simultaneously in all the villages and in all fields within a village.

In the case of term loans, regular visual inspection of assets such as lands and wells do not guarantee repayment. As far as movable assets like tractors are concerned visual inspection does not reveal their effective utilization. Due to competition from other tractor and power tillers in the same village, the full utilization of tractors may not be possible. In case of pump sets they may be in good condition, but they may not be fully utilized due to lack of power supply.

Reluctancy to Adopt Modern Techniques of Cultivation

For most of the farmers agriculture is a 'way of life and not a commercial activity. They get the land as ancestral property without capital investment and continue to follow the age-old agricultural practices. Tradition bound farmers are reluctant to adopt modern techniques. As a result they continue to get low yields and find it difficult to repay the loans.

Irregular Repayment of Loans by Farmers

With the emphasis now on financing small and marginal farmers and landless labourers, the bank is naturally extending credit facilities to more and more of these categories of borrowers. These borrowers are so poor that the loans as well as any additional income generated out of them tend to get diverted to meet their consumption needs. Consequently, they do not make prompt repayment of loans.

Recovery of Advances

Some of the major reasons for the difficulties in recovery of loans faced by the banks are:

Crop Failure

Crop failure is one of the most commonly cited reasons for non-repayment of loan. Natural calamities such as drought and flood affect the agricultural operations considerably and affects repaying capacity of the borrower. The bank should allow extension of time for payment of loans, over two or three years.

Fear of Denial of Fresh Loan

Some borrowers fear that they may not get further loans from the bank even after repayment of their dues. They prefer to use the sale proceeds of one season for the operating expenses of the next season without repaying bank dues. This is only imaginary fear, as bank seldom denies fresh loans to the farmers who are prompt in repayment of their old loans.

Borrowing from Other Agencies

The farmers borrow from banks as well as money lenders regardless of their capacity to repay. Thus, there are multiple claims to their incomes. Borrowers give last priority to the repayment of the bank loan. In fact, money lenders collect dues in the form of harvested produce at the field itself.

Stocking of Produce for Better Price

Some of the farmers are in the habit of stocking their produce expecting a rise in price. Because of this they are not able to repay the loan after harvest.

Wilful Default

Some borrowers are not willing to repay the loan in time, even though they have the necessary resources. This is the most difficult of all the recovery problems faced by the bank. This problem may be solved with the help of other farmers, Government officials and village extension staff. The bank may press for the repayment through the borrowers who are very close to the wilful defaulters.

Summing-up

The problems faced by the lenders of agricultural credit are plenty in number at varying levels. The study reveals that numerous problems exist in the credit system of which the most two significant issues are crop failure or natural calamities and low yield or income from agriculture. It is clear from the findings that the problems faced by the borrowers of agricultural credit are out of the purview of the lenders instead it is a major concern of the society at large. More over most of the applicants are not genuine, which will also hinder the bankers to have a better performance in agricultural credit delivery system. It can also be concluded that there exist significant difference among the type of banks regarding overall problem faced by the lenders of agricultural credit. So sufficient measures have to be imparted in this sector so as to reap the benefit of agricultural sector.

References:

1. *Bhattacharya, H (2001), Banking Strategy, Credit Appraisal and Lending Decision, Oxford University Press, New Delhi.*
2. *Dube, Paritosh and Gupta, Komal (2018), A Study of Role of Commercial Banks in the Rural Development in India, International Journal of Research in Engineering Application and Management, Special Issue, pp. 43-48.*
3. *Jain, M K (1989), Rural Banks and Rural Poor (Problems and Prospects), Printwell Publishers, Jaipur.*
4. *Jha, Sanjay Kumar (2013), Role of Commercial Banks in Industrial Development of Muzaffarpur District, International Journal of Scientific Research, Vol. 2, Issue-II, November, pp. 6-9.*

5. *Kumar, Rajesh and Kumar, Bhupendra (2018), Study on Role of Banking Institutions in Rural Development- An Evaluation, International Journal of Marketing and Financial Management, Vol.6, Issue-1, January, pp. 52-57.*
6. *Sharma, R D (1979), Farm Financing by Commercial Banks, Bharat Book Depot, Bhagalpur.*
7. *Shekhar, K C and Shekhar, Lekshwy (2014), Banking Theory and Practice, Vikas Publishing House Pvt. Ltd., New Delhi.*
8. *Singh, Ramesh Kumar (2015), Problems of Commercial Bank Related to Rural Development of Bihar, Journal of Emerging Technologies and Innovative Research, Vol.2, Issue 6, pp. 1565-1568.*
9. *Singh, S R (2013), Bihar on Move, APH Publishing Corporation, New Delhi.*
10. *Verma, Sawalia Bihari (1997), Role of Commercial Banks in Rural Development, Mohit Publications, New Delhi.*
11. *www.fao.org*
12. *www.iibf.org.in*
13. *www.mospi.nic.in*
14. *www.pib.gov.in*
15. *www.rbi.org.in*