



Analysis of Interest Subsidy as to Agricultural Credit Disbursed by Banks in the State of Kerala

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Abstract

Agriculture as a priority sector occupies a prominent role and hence all possible measures have to be taken to protect this sector in its strict sense. As a result, the Government of India have been framing number of initiatives to protect this sector including provision of adequate credit supply. Interest subsidy is another significant measure, which has to be ensured even now to protect the agriculturists from the high cost of borrowings as well as high cost of agricultural accomplishments. Despite the interest subvention scheme is one of the land marks in the history of agricultural credit system, it has not gained much up to the standard. An in-depth analysis of the subsidy system enjoyed by the agricultural borrowers will be highly helpful to the policy makers in order to ensure a defect free and efficient subsidy system. It is clear from the statistics reveal that majority of the agricultural borrowers have not enjoyed the benefit of subsidy and are out of the purview of the interest subsidy system associated with their credit. It is also undoubted that subsidy is an inevitable one in the credit system for the enrichment of the sector. Therefore, some more crucial measures by way of policies, programmes, initiatives and strategies are to be ensured by Governments at various levels to ensure the availability of subsidy as fixed.

Key Words

Agriculture, Bank, Borrower, Commercial Bank, Co-operative Bank, Credit, Interest, RRB, Subsidy.

Introduction

Agricultural credit is assumed as a driver of agricultural operations and availability of agricultural credit at reasonable rate of interest and other types of concessions is crucial for agricultural sector growth. In lieu of the decisions of the Government of India, specific targets have been fixed for agriculture each year to ensure credit flow to the sector. The flow of agricultural credit has consistently exceeded the target over the years. The agricultural credit flow for the year 2017-18 was Rs.11,62,617 crore against the target fixed of Rs.10,00,000 crore. The Finance Minister, in his budget speech in 2006-07, announced that agriculturalists would receive short-term credit at 7 per cent with an upper limit of Rs.3 lakh amount of credit. The Government of India ensured interest subvention at 2 per cent to public sector banks, regional rural banks and co-operative banks in respect of short-term production credit so as to enable the lenders to deliver credit at this rate to the agriculturalist. The Government of India, in 2009-10, introduced an additional interest subvention of 1 per cent to agriculturalists who repaid their loans on or before the due date; interest rate subvention for timely repayment was raised to 2 per cent in 2010-11 and further to 3 per cent in 2011-12, creating the total subvention to 5 per cent. As a result, agriculturists, who pay their dues on time receive a subvention of 5 per cent and are charged an effective interest rate of 4 per cent. As agriculture coming under the priority sector it has to be protected by all means like interest subvention schemes, other subsidies and incentives. Although many programmes and policies are there to protect the sector, even now the agriculturists are in a sad plight of distress and indebtedness. This is because of insufficient subsidies, concessions, support price, low income from agriculture and so on.

Significance

The subsidy system prevailing in agricultural credit comprising interest subsidy, fertiliser subsidy, and other subsidies is even now in a revamping stage due to the number of issues confronted with it. Even though the interest subvention scheme is one of the land marks in the history of agricultural credit system, it has not gained much up to the standard. The statistics reveal that majority of the agricultural borrowers are out of the purview of the interest subsidy system associated with their credit. A proper analysis of the subsidy system enjoyed by the agricultural borrowers will be highly helpful to the policy makers in order to ensure a defect free and efficient subsidy system.

Objectives

The main objectives of the study are noted below.

1. To analyse the receipt of subsidy by the agricultural borrowers with respect to their agricultural credit,
2. To make a banks and types of credit wise comparative analysis of subsidy enjoyed by the borrowers of agricultural credit, and
3. To analyse the opinion of borrowers and bank officials as to the provision of subsidy for agricultural credit.

Review of Literature

Joy Joseph Puthussery (2002) has made an attempt to analyse the reasons for overdues in the Primary Agricultural and Rural Development Banks of Kerala. The analysis states that the major reasons responsible for heavy overdues are identified as modification of subsidy system, willful neglect, high family expenditure, diversion of income from the project and inappropriate Government policy. The bank authorities are also particularly responsible for mounting overdues by lack of supervision, ineffective leadership, and lack of personal contact and improper scale of finance. The dissatisfaction of the defaulters regarding the overall services of the bank also affects the repayment attitude.

Anand and Manmeet Kaur (2017) revealed that 69.44 percent farmers perceived credit subsidy had no impact on reducing the dependency on money lenders for credit, while 72.78 percent of farmers perceived that the formal subsidised agricultural credit at low rate of interest was not easily available to farmers. The farmers also disclosed that it was difficult to avail formal subsidised credit because of lack of bank accounts and awareness on different credit system available for farmers and complex process of commercial banks providing agricultural credit which was least understood by small farmers. The lack of collateral and the attitude of the bank of risk aversion also prevent the farmers to access credit.

Methodology

The present study is analytical in nature and which uses mainly primary data, which was collected from the borrowers of agricultural credit and bankers disbursing agricultural credit with two sets of well-structured interview schedules. The Stratified Random Sampling method was used for the selection of sample borrowers and lenders. Originally, the whole State of Kerala was divided in to three strata by considering the geographical entity, namely, northern, central and southern regions. From each stratum one district was selected at random and suitable sample size was taken by giving equal representations to the three groups of banks selected for the study, namely, commercial banks, co-operative banks and regional rural banks. Accordingly a total 450 agricultural borrowers and 153 bankers were selected by giving equal representation to each region and each group of banks by using appropriate statistical equations. The analysis was made with the use of different mathematical and statistical tools like Mean, Percentage, and Chi-square Test.

Hypotheses

In view of the objectives of the study, the following four hypotheses were formulated and tested with appropriate tools.

1. H_{01} : There is no significant association between the borrowers of different type of banks and the status of receipt of subsidy by the borrowers.

2. H0₂: There is no significant association between the different types of credit and subsidy received by the borrowers.
3. H0₃: There is no significant difference among the borrowers of the type of banks regarding the opinion of receipt of subsidy for agricultural credit
4. H0₄: There is no significant association between the type of banks and the opinion of officials as to providing of subsidy to the agricultural credit.

Results and Discussions

The results of the analysis made for the study are narrated below.

1.1. Bank Wise Subsidy Received by the Borrowers

The provision of interest subsidy also can influence the performance of agricultural credit in many ways. The extent of borrowers who have received subsidy are given in the Table 1 bank wise. It indicates that majority of the borrowers (52.44%) have not enjoyed the benefit of subsidy. Out of the subsidy received major borrowers are from commercial banks (64%) followed by RRBs (44.67%) and co-operative banks (34%). In order to analyse the association between borrowers of banks regarding receipt of subsidy Chi-square test is applied and it finds out zero as 'P' value. Thus it can be concluded that there is significant association between the borrowers of different type of banks and the status of receipt of subsidy by the borrowers.

Table 1
Bank Wise Subsidy Received by the Borrowers

Subsidy	Name of the bank			Total	Chi Square	P Value
	Com. Bank	RRB	Co-op. Bank			
Received	96 (64%)	67 (44.67%)	51 (34%)	214 (47.56%)	27.818	0.000
Not received	54 (36%)	83 (55.33%)	99 (66%)	236 (52.44%)		
Total	150 (100%)	150 (100%)	150 (100%)	450 (100%)		

Source: Primary Data

1.2. Type of Credit Wise Subsidy Received

The subsidy received by the borrowers were analysed on the basis of type of credit also. Table 2 states that out of the total borrowers who have received subsidy (47.56%), 46.67% borrowers of general agricultural credit and 52%

borrowers of the agricultural gold loan are included. As the 'P' value (0.399) is more than 0.05, it is concluded that there is no significant association between the different types of credit and subsidy received by the borrowers.

Table 2
Type of Credit Wise Subsidy Received

Subsidy	Type of credit		Total	Chi Square	P value
	GAL	AGL			
Received	175 (46.67%)	39 (52%)	214 (47.56%)	0.713	0.399
Not received	200 (53.33%)	36 (48%)	236 (52.44%)		
Total	375 (100%)	75 (100%)	450 (100%)		

Source: Primary Data

1.3. Bank Wise Opinion of Borrowers as to Subsidy

The respondents were asked about their opinion as to the usefulness of subsidy given by the Government against agricultural credit. The opinion of the respondents in this regard is given in Table 3. From the table, it can be seen that around 79% of the borrowers are favourable to the usefulness of subsidy, of which 35.11% noted it as 'useful' and 43.78% as 'highly useful'. On the other hand 4.67% of the borrowers opined that granting of subsidy is 'not useful' and no one has opined that subsidy is 'not at all useful'. However, 16.44% of the borrowers are neutral in this regard, in which least numbers of borrowers are from RRBs (10.67%) as compared to other banks.

Table 3
Bank Wise Opinion of Borrowers as to Subsidy

Opinion	Name of the Bank			Total
	Com. Bank	RRB	Co-op. Bank	
Highly Useful	69 (46%)	66 (44%)	62 (41.33%)	197 (43.78%)
Useful	48 (32%)	62 (41.33%)	48 (32%)	158 (35.11%)
Neutral	28 (18.67%)	16 (10.67%)	30 (20%)	74 (16.44%)
Not Useful	5 (3.33%)	6 (4%)	10 (6.67%)	21 (4.67%)
Not at all Useful	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Total	150 (100%)	150 (100%)	150 (100%)	450 (100%)

Source: Primary Data

In order to establish whether there exists any significant difference among the type of banks with regard to the opinion of borrowers as to usefulness of subsidy for agricultural credit ANOVA is applied. The result as per the test (Table 4) substantiates that there exists no significant difference among the borrowers of the type of banks regarding the opinion as to subsidy for agricultural credit as the 'P' value is more than 0.05 (0.204).

Table 4**Bank Wise Opinion of Borrowers as to Subsidy (ANOVA)**

	Sum of Squares	DF	Mean Square	F Value	P Value
Between Groups	2.413	2	1.207	1.596	0.204
Within Groups	338.007	447	.756		
Total	340.420	449			

1.4. Bank Wise Opinion of Officials as to Subsidy Received by Borrowers

The bank officials were asked to state the extent of borrowers who have received subsidy for their agricultural credit and the result of the same is given in Table 5. It is evident from the table that 30.72% of the officials are of the opinion that '40% to 60%' of their customers have received subsidy, in which RRB occupies least share (21.57%). It is also evident that for 20.92% banks subsidy is received by their '20% to 40%' of their borrowers. Following this 20.26%, 14.38% and 13.73% cases of banks subsidy is received only by their '60% to 80%', 'less than 20%', and 'more than 80%' borrowers respectively.

Table 5**Bank Wise Subsidy Received by Borrowers**

Borrowers who Received Subsidy	Name of the Bank			Total
	Com. Bank	RRB	Co-op. Bank	
< 20%	1 (1.96%)	11 (21.57%)	10 (19.61%)	22 (14.38%)
20% - 40%	11 (21.57%)	9 (17.65%)	12 (23.53%)	32 (20.92%)
40% - 60%	18 (35.29%)	11 (21.57%)	18 (35.29%)	47 (30.72%)
60% - 80%	17 (33.33%)	9 (17.65%)	5 (9.80%)	31 (20.26%)
> 80%	4 (7.84%)	11 (21.57%)	6 (11.76%)	21 (13.73%)
Total	51 (100%)	51 (100%)	51 (100%)	153 (100%)

Source: Primary Data

1.5. Bank Wise Opinion of Officials on Subsidy for Agricultural Credit

The opinions of bank officials about providing of subsidy for agricultural credit were collected and presented in Table 6. It states that about 78% of the officials are of the opinion that subsidy is needed and the rest 22% are against providing subsidy for agricultural credit. The bank wise number of officials who are favouring to subsidy is 41 (80.39%), 40 (78.43%), and 38 (74.51%) respectively for commercial banks, co-operative banks, and RRBs. To know whether there is any significant difference between the officials of the banks as to the opinion of subsidy, Chi-square test was applied. The 'P' value arrived at is 0.767, which is more than 0.05 implying that there is no significant association between the type of banks and the opinion of officials as to providing of subsidy to the agricultural credit.

Table 6

Bank Wise Opinion of Officials as to Subsidy for Agricultural Credit

Opinion	Name of the Bank			Total	Chi Square	P Value
	Com. Bank	RRB	Co-op. Bank			
Needed	41 (80.39%)	38 (74.51%)	40 (78.43%)	119 (77.78%)	0.529	0.767
Not Needed	10 (19.61%)	13 (25.49%)	11 (21.57%)	34 (22.22%)		
Total	51 (100%)	51 (100%)	51 (100%)	153 (100%)		

Source: Primary Data

Conclusion

Agriculture is considered as a priority sector and hence all possible measures have to be taken to protect this sector in its strict sense. Interest subsidy is one of the significant measures among them, which has to be ensured even now to protect the agriculturists from the high cost of borrowings as well as high cost of agricultural accomplishments. The study revealed that majority of the agricultural borrowers has not enjoyed the benefit of the interest subsidy associated with their credit. Moreover, subsidy is an inevitable one as per the opinion of largest majority of the borrowers and bank officials. Therefore, some more crucial measures by way of policies, programmes, initiatives and strategies are to be ensured by Governments at various levels to ensure the availability of subsidy as fixed.

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