



Bankers' Level Analysis as to Basic Aspects of Agricultural Credit in Kerala

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Abstract

Agriculture is a major source of livelihood for majority of the population. As per an ILO estimate employment in agriculture sector as percentage of the total employment was approximately 44 per cent in the year 2018. To stimulate the productivity of these activities, Government of India has, from time to time, given policy thrusts which led to the various agricultural revolutions. As a result, the agriculture sector has not only become self-sufficient but has emerged as the net exporter of several agricultural commodities like rice, marine products, cotton etc. The banks as a mediating force for agricultural credit occupy a crucial role since the agricultural sector faces the critical problem of shortage of finance to invest in the agricultural operations. In order to have a better performance in agricultural credit system, all the adverse forces affecting the lenders and borrowers are to be corrected. All the important aspects of agricultural credit are to be given extreme attention by the policy makers, which will be favourable to the bankers as well as borrowers, so that the society can enjoy a productive result of agricultural credit delivery system.

Keywords: Agricultural Credit, Bank, Interest, Security, Margin Money, Processing Fee.

Introduction

Agriculture plays a very significant role in the development of the Indian economy as it provides livelihood to a large section of the population. According to Census 2011, out of the total workers of 481.7 million, there are 118.7 million cultivators and 144.3 million agricultural labourers, which means approximately 55 per cent of the total workers were employed in agriculture and allied sector. However, the sector is having a number of issues including shortage of funds. Hence, banks in the country have been issuing huge amount of credit to the sector. The agricultural credit system is backed by many peculiarities, which are of varying nature, comprising interest rates, securities

demand, margin money requirements, time period of disbursement, processing fee and so on. The method of credit has to be free from all kinds of issues so as to be beneficial to both the lenders and borrowers. The bankers, as intermediaries of credit, have to be protected in all means in order to have proper channelisation of credit. A detailed analysis of the characteristics of the agricultural credit disbursed by banks is considered as a platform to identify the problems confronted with the bankers.

Significance

Banks and other financial institutions in India occupy a pivotal role in the agricultural credit delivery system. It may be backed not only by the shortage of funds faced by the agriculturists but also by the rigid stipulations on the part of Government with respect to agricultural credit. As the credit is meant for some agricultural purposes, its productivity is highly accountable. There arises a need for having a better agricultural credit system with nil or least issues. A proper identification of the present system only can trigger in finding out the issues and accelerate a problem free agricultural credit system. Against this background a comprehensive analysis from the level of bankers is being attempted as to the basic aspects of agricultural credit disbursed by the banks in Kerala.

Objectives

The main objectives of the study are noted below.

1. To analyse the security demanded and margin money specification by banks with respect to the agricultural credit.
2. To analyse the processing fee charged and time taken to disburse the agricultural credit by banks.
3. To analyse the rates of interest charged on agricultural credit by banks, and,
4. To make a comparative analysis of the basic aspects of agricultural credit disbursed by, commercial, co-operative, and RRBs.

Review of Literature

Uduman Mohideen, in his study concluded that institutional financing agencies should evolve a common strategy in providing credit along with other technical supporting services, keeping in view the conservative decision making attitude of the farmers in general, and of small and marginal farmers in particular. Gagan Sahu and Rajasekhar made an attempt to analyse the factors affecting institutional credit and agricultural income. The study revealed that the gap between credit and investment occurred mainly due to mis-utilisation of credit followed by inadequate and untimely credit to farmers. Mahadeva Murthy and Veena state that timely receipt and utilisation of loans is a significant variable in assessing the concrete benefit of loans. It depicts that 85.90 percent of the borrowers secured their loans within a period of four weeks after making the applications to the bank.

John. K. Mathew, in his study on agricultural financing by commercial banks in Kerala, discloses that; (a) 56 per cent availed loan on security of the land and 21 per cent on hypothecation or pledge of goods, 14 per cent obtained loan on personal security and nine per cent on the basis of 'other' security, (b) 48 per cent reveal that the time lag in sanctioning and disbursing of the loan amount is less than 10 days, whereas it is 10- 15 days in 39 per cent cases and 13 per cent opine that the time lag is more than 15 days, (c) 29 per cent is of the opinion that the rate of interest charged by the commercial banks is high and 71 per cent comment that the rate of interest is reasonable, and (d) 40 per cent respondents have reasonable or high cost as processing fee.

Methodology

An analytical approach is espoused for the present study and it is made mainly with the use of primary data, which was collected from the bankers, who issue agricultural credit, with the use of a structured interview schedule. Stratified Random Sampling was used for the selection of sample respondent bankers. At the start, the whole State of Kerala is divided in to three strata, namely, northern, central, and southern regions. From each region, appropriate sample size is taken for the respondent group by giving equal representations to the three categories of banks. The banks selected for the study includes commercial banks, co-operative banks and regional rural banks. The sample size of the bankers was determined by using appropriate formula. Accordingly a total of 153 bankers were identified by giving equal representation to all the three regions and the three groups of banks. The mathematical and statistical tools used for the analysis include Percentage, Mean, Standard Deviation, Ranks, ANOVA and Chi-square tests.

Hypotheses

In order to have a suitable inferential analysis the following major hypotheses were formulated.

1. H₀₁: There is no significant association between the type of banks and margin money requirement for agricultural credit of the banks.
2. H₀₂: There is no significant association between type of banks and charging of processing fee by banks against the agricultural credit.
3. H₀₃: There is no significant association between type of banks and nature of interest charged by banks for the agricultural credit.

Results and Discussions

The results of the analysis as to the significant characteristics of the present method of agricultural credit disbursed by banks in Kerala are narrated under the following heads.

1. Bank Wise Security Demanded

The respondent bankers were asked to state the different kinds of security they demanded for agricultural credit under five point scaling and the scores are assigned as 1, 2, 3, 4 and 5 respectively for 'highly demanded', 'demanded', 'Average', 'not demanded' and 'not at all demanded'. Finally, they were totalled, averaged and ranked in the order of mean scores so obtained. The table 1 discloses bank wise as well as rank wise security demanded with the test results of ANOVA. It is highly notable from the table that the rank wise top three securities demanded by the banks are land (Rank 1), gold (Rank 2) and LIC policies (Rank 3) without any difference between banks. The other securities demanded in the order of ranks are other types of securities (Rank 4), FD receipt (Rank 5), employees' salary certificate (Rank 5), and shares (Rank 6).

Table 1

Bank Wise Security Demanded (Rank and ANOVA)

Securities Demanded	Mean Values				F value	P value	Action
	Com. Bank	RRB	Co-op. Bank	Total			
Land	1.49(1)	1.69(1)	1.41(1)	1.53(1)	0.780	0.460	Accept
Gold	1.92(2)	1.90(2)	1.92(2)	1.92(2)	0.011	0.989	Accept
Employees' Salary Certificate	3.86(6)	3.90(7)	3.69(4)	3.82(5)	3.012	0.049	Reject
FD Receipt	3.80(4)	3.82(5)	3.84(6)	3.82(5)	0.097	0.907	Accept
Shares	3.98(7)	3.88(6)	3.98(7)	3.95(7)	3.378	0.037	Reject
LIC Policies	3.61(3)	3.78(3)	3.61(3)	3.67(3)	1.767	0.174	Accept
Others	3.82(5)	3.80(4)	3.75(5)	3.79(4)	0.202	0.817	Accept

Source: Primary Data (Ranks are given in brackets)

In order to verify whether there exists any significant difference in the types of securities demanded among the type of banks ANOVA is conducted. It is clear from the table that the calculated 'P' values are more than 0.05 for land (0.46), gold (0.989), FD receipt (0.907), LIC policies (0.174) and other types of securities (0.817). Hence, there exists no significant difference among the type of banks regarding the demand of these securities. However, with regard to other securities viz. employees' salary certificates (0.049) and shares (0.037), there exists significant difference among the type of banks as the 'P' values are less than 0.05. For the security of employees' salary certificates, the co-operative banks have the mean value of 3.69, which is less than other banks, hence co-operative banks have demanded salary certificate in more cases as security as compared to other banks. Further, shares as security is having the mean value of 3.88 for RRBs, which is less than other banks and therefore it can be concluded that RRBs have highly considered shares as securities when compared to other banks.

2. Bank Wise Margin Money Requirement

The bank-wise requirement as to margin money is narrated in Table 2 which highlights that only one-third banks have demanded margin money. Among this RRB comes at first (41.18%) followed by commercial bank (31.37%) and co-operative bank (27.45%). The Chi-square test discloses 0.318 as 'P' value which is more than 0.05 and hence, the hypothesis is accepted at 5% level of significance. Therefore it can be concluded that there is no significant association between the type of banks and margin money requirement of the banks.

Table 2

Bank Wise Margin Money Requirement

Margin Money	Name of the Bank			Total	Chi Square	P Value
	Com. Bank	RRB	Co-op. Bank			
Required	16 (31.37%)	21 (41.18%)	14 (27.45%)	51 (33.33%)	2.294	0.318
Not Required	35 (68.63%)	30 (58.82%)	37 (72.55%)	102 (66.67%)		
Total	51 (100%)	51 (100%)	51 (100%)	153 (100%)		

Source: Primary Data

3. Bank Wise Time Taken to Disburse Credit

The bank officials were asked to disclose the average time taken to disburse the credit and it is presented in Table 3. The table reveals that 47.06% of the banks used to take two weeks time to disburse the credit, of which co-operative bank occupies highest share (54.9%), whereas it is 43.14% for both commercial and RRBs. Moreover one week time is taken by 26.8% banks, in which the share of co-operative bank is quite minimum (7.84%) and 20.26% banks have taken three weeks' time without much variation between banks. It is also clear from the table that more than 3 weeks time period is required mainly in case of co-operative banks as compared to other banks.

Table 3

Bank Wise Time Taken to Disburse Credit

Time Taken in Weeks	Name of the Bank			Total
	Com. Bank	RRB	Co-op. Bank	
1	19 (37.25%)	18 (35.29%)	4 (7.84%)	41 (26.80%)
2	22 (43.14%)	22 (43.14%)	28 (54.90%)	72 (47.06%)
3	9 (17.65%)	11 (21.57%)	11 (21.57%)	31 (20.26%)
>3	1 (1.96%)	0 (0%)	8 (15.69%)	9 (5.88%)
Total	51 (100%)	51 (100%)	51 (100%)	153 (100%)

Source: Primary Data

4. Bank Wise Charging of Processing Fee for Agricultural Credit

The bank wise charging of processing fee for agricultural credit by banks is given in Table 4, which discloses that majority of (62.09%) the banks charged processing fee for agricultural credit. Among the banks who charged processing fee RRB comes at first (66.67%) followed by co-operative banks (60.78%) and commercial banks (58.82%). The 'P' value obtained as per Chi-square test is 0.697, which is more than 0.05. Therefore, the hypothesis is accepted at 5% level of significance and it can be concluded that there is no significant association between type of banks and charging of processing fee against their agricultural advances.

Table 4

Bank Wise Charging of Processing Fee for Agricultural Credit

Processing Fee	Name of the Bank			Total	Chi Square	P Value
	Com. Bank	RRB	Co-op. Bank			
Charged	30 (58.82%)	34 (66.67%)	31 (60.78%)	95 (62.09%)	0.722	0.697
Not Charged	21 (41.18%)	17 (33.33%)	20 (39.22%)	58 (37.91%)		
Total	51 (100%)	51 (100%)	51 (100%)	153 (100%)		

Source: Primary Data

5. Bank Wise Nature of Interest Charged for Agricultural Credit

The bank officials were asked to state the nature of interest they charged against agricultural credit. From the Table 5, it is clear that fixed rate of interest is charged mainly by RRB (68.63%) followed by co-operative banks (52.94%), and commercial banks depend a very little (11.76%) on fixed rate of interest. However, the floating rate of interest is charged mainly by commercial banks (64.71%) and the share of co-operative banks and RRBs is 21.57% and 9.8% respectively. With regard to charging of interest of both the type, there is no huge difference between the three types of banks. The Chi-square test reveals that 'P' value is less than 0.05 (zero). Therefore, the hypothesis is rejected at 5% level of significance and it is concluded that there exists significant association between type of banks and nature of interest charged.

Table 5

Bank Wise Nature of Interest Charged for Agricultural Credit

Nature of Interest	Name of the Bank			Total	Chi Square	P Value
	Com. Bank	RRB	Co-op. Bank			
Fixed	6	35	27	68	46.573	0.000
	(11.76%)	(68.63%)	(52.94%)	(44.44%)		
Floating	33	5	11	49		
	(64.71%)	(9.80%)	(21.57%)	(32.03%)		
Both	12	11	13	36		
	(23.53%)	(21.57%)	(25.49%)	(23.53%)		
Total	51	51	51	153		
	(100%)	(100%)	(100%)	(100%)		

Source: Primary Data

6. Bank Wise Main Rate of Interest Charged for Agricultural Credit

The banks were asked to disclose the rate at which they mainly disburse the credit to agriculture. Table 6 gives a clear cut picture as to the rate of interest charged. Large number of banks (43.14%) disbursed the credit at a rate which is in between '5% to 7%' in which RRBs share (49.02%) is comparatively higher than other banks. Following this, 29.41% of the banks disbursed the credit at a rate which is 'up to 4%' interest rate category, in which commercial banks' share is higher (43.14%) than co-operative banks (27.45%) and RRBs (17.65%). A total of 27.45% banks used to disburse the credit at 8% and above rate of interest, of which 15.03% comes under '8% to 11%' and 12.42% under 'above 11%' category of interest rate.

Table 6

Bank Wise Main Rate of Interest Charged for Agricultural Credit

Rate of Interest	Name of the Bank			Total
	Com. Bank	RRB	Co-op. Bank	
Up to 4%	22 (43.14%)	9 (17.65%)	14 (27.45%)	45 (29.41%)
5% - 7%	20 (39.22%)	25 (49.02%)	21 (41.18%)	66 (43.14%)
8% - 11%	6 (11.76%)	7 (13.73%)	10 (19.61%)	23 (15.03%)
Above 11%	3 (5.88%)	10 (19.61%)	6 (11.76%)	19 (12.42%)
Total	51 (100%)	51 (100%)	51 (100%)	153 (100%)

Source: Primary Data

7. Bank Wise Other Assurances Provided to Agricultural Borrowers

The banks in certain cases provide certain kinds of assurances to the agricultural borrowers along with the amount of credit. They were asked to state the assurances provided if any stating its nature. As per the Table 7 it is clear that out of the total banks, 30.72% have not imparted any kind of assurance comprising 39.22% of RRBs, 31.37% of co-operative banks and 21.57% of commercial banks. Among the different assurances imparted, training assurance is the major one (37.25%) followed by technical assurance (15.69%). It is also notable that input supply (9.15%) is provided only by co-operative banks. Even though training and technical assurances provided by co-operative banks are quite low, marketing assurance is provided by large number of them as compared to other banks.

Table 7

Bank Wise Other Assurances Provided to Agricultural Borrowers

Other Assurances	Name of the Bank			Total
	Com. Bank	RRB	Co-op. Bank	
Input Supply	0 (0%)	0 (0.0%)	14 (27.45%)	14 (9.15%)
Training	29 (56.86%)	18 (35.29%)	10 (19.61%)	57 (37.25%)
Technical	10 (19.61%)	9 (17.65%)	5 (9.80%)	24 (15.69%)
Marketing	1 (1.96%)	4 (7.84%)	6 (11.76%)	11 (7.19%)
No Assurance	11 (21.57%)	20 (39.22%)	16 (31.37%)	47 (30.72%)
Total	51 (100%)	51 (100%)	51 (100%)	153 (100%)

Source: Primary Data

Conclusion

The role of banks as a mediating force for agricultural credit is highly noteworthy since the agricultural sector faces the crucial problem of shortage of finance for their agricultural operations. In order to have a better performance in agricultural credit system, all the adverse forces affecting the lenders and borrowers are to be corrected. The study comes to the conclusion that bankers differ in many respects as to the basic aspects of agricultural credit. The specifications relating to security, margin money, time-period of disbursal, processing fee, interest rate, and other assistance are to be given extreme attention by the policy makers, which will be favourable to the bankers as well as borrowers, so that the society can enjoy a productive result of agricultural credit delivery system.

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