

Bank finance in Agriculture-A study

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Abstract

The study was based on 200 bank borrower-farmers selected from ten villages of two development blocks of Agra district . The study indicates that of the total borrowing about 91 percent was from the institutional agencies and only about 9% from non institutional agencies. Of the total borrowing about 97% availed from commercial banks and only about 3% from co-operative societies of the total loan available to the borrower farmers about 38% was the short term crop loan and about 62% was the term loan. About 91 percent of the total available credit was utilized for productive purposes and 9 percent was diverted to unproductive purposes. The extent of diversion of loan to unproductive purposes shows an inverse relation with the farm size. About 13 percent of the crop loan and about 5 percent of term loan was diverted to unproductive uses, of the total 200 bank borrowers 104 or 52% were defaulters. Over dues as a percentage to amount due stood at about 48% in case of crop loan and about 54% in case of term loan

Key words: Co-operative societies, institutional agencies

Introduction

The introduction of new technology to agricultural sector has led to intensive use of inputs and the package of practices, resulting in manifold increase in the demand for credit – both for production and investment credit .Since the nationalization of banks in 1969, the share of commercial banks in agricultural credit has been steadily growing. The share of commercial banks to total institutional credit to agriculture increased from about 20 percent in 1969 to about 51% in 1994 – 95. The marginal and small farmers and other weaker sections of the rural community are being given priority in advancing bank loans .In spite of considerable expansion of agricultural credit from institutional agencies, farmers have to depend on non-institutional agencies for nearly half of the farm credit requirements. Though adequate and timely supply of credit is an index of the efficiency of the financial institutions but timely repayment of loan by the borrowers is equally important because the non-repayment of loan effects the recycling of funds and further advancement of loan. The problem of non-repayment of loans of institutional agencies has become a cause of concern to the institutional agencies. The recovery of agricultural advances by commercial banks was about 59% by the end of march1998. With this consideration this study was undertaken in Agra district of U.P. The specific objectives of the study were (i)

To examine the availability and utilization of commercial banks credit by the farming households and (ii) to examine the extent of default in the repayment of commercial banks credit by the farmers in different farm size groups.

Methodology

Agra district was purposively selected because the volume of loan advances from the commercial banks was maximum in this district in Agra region. The State Bank of India, Bichpuri branch and Canara Bank, Midhakur branch were selected purposively as these bank branches are engaged in financing agriculture vigorously in C.D. block Bichpuri and Akola. Ten villages(five villages from each block) covered by the sample bank branches were selected randomly. The total numbers of borrower farmers in selected villages were 469. These borrower farmers were categorized in four categories on the basis of owned holding viz; marginal (up to 1 hectare),small (1-2 hectares), medium (2-4 hectares)and large (above 4 hectares). In all 200 borrower farmers consisting 87 marginal, 72 small, 29 medium and12 large were selected for this study. The primary data from the borrower farmers were collected through prepared schedules and questionnaires by personal interview method.

Results and Discussion

Availability of credit from Institutional agencies:

Table 1 shows that overall average borrowings per farm was Rs.19183, varying from Rs.12129 on

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marginal farms to Rs.56822 on large farms. It is further noted that of the total borrowing about 91% was from the institutional agencies and only about 9% from non-institutional agencies. Thus it is apparent that institutional agencies have acquired a dominant position as a source of farm credit among the farmers under study which is a healthy development. It is further noted that the share of institutional credit in the total farm credit increases with the increase in farm size, being 84% for marginal farms, 88% for small farms, 94% for medium farms and 100% for large farms. The role of

short-term crop loan for purchase of seeds, fertilizers, payment of wages of hired labour and water charges etc. and about 62% is the investment credit for purchase of farm animals, installation of tube-wells and pump sets and purchase of tractors. Size-wise analysis of data revealed that proportion of crop loan was the highest on small farms (about 51%) and the lowest on medium farms (about 30 percent), it being about 35 and 37% respectively on marginal and large farms. In case of term loans the proportion was lowest (49%) for the small farms and highest (70%) for the

Table 1: Per farm availability of institutional and non- institutional credit in different farm size- groups

Farm size-group	No. of cases	Institutional credit	Non- institutional credit	Total
Marginal	87	10193(84.04)	1936(15.96)	12129(100.00)
Small	72	13058(87.93)	1792(12.07)	14850(100.00)
Medium	29	33444(94.14)	2082(5.86)	35526(100.00)
Large	12	56822(100.00)	—	56822(100.00)
All	200	17394(90.67)	1789(9.33)	19183(100.00)

Note: Figures within brackets indicate percentage to total in each size-groups

Table 2: Availability of credit per farm from different institutional agencies in different farm size groups

Farm sizeGroup	Institutional Agencies		Total
	Commercial Banks	Cooperative Societies	
Marginal	10193 (100.00)	—	10193 (100.00)
Small	13058 (95.66)	592 (4.34)	13650 (100.00)
Medium	33444 (96.89)	1071 (3.11)	34515 (100.00)
Large	56822 (94.84)	3092 (5.16)	59914 (100.00)
All	17394 (96.91)	554 (3.09)	17948 (100.00)

Note: Figures within brackets indicate percentage to total in each size-groups.

non-institutional credit is largely confined to marginal and small farmers.

Table 2 shows that per farm availability of institutional credit showed positive correlation with farm size. Of the total borrowing about 97% was availed from commercial banks and only about 3% from co-operative societies. Size-wise analysis shows that the share of the Bank finance in the total loan was 100% on marginal farms, about 96% on small farms, about 97% on medium farms and about 95% on large farms. Co-operative societies accounted for 3 to 5% of the total loan in case of small, medium and large farmers. Thus it is apparent that the farmers contracting loan from the commercial banks almost entirely depend on the banks for their credit requirements.

Availability of Bank credit

Table 3 shows that of the total loan available to the sample borrower farmers about 38 percent is the

medium farms, it being 62 and 65% for the large and marginal farms respectively.

Purpose-wise Availability of Term Loan From Commercial Banks

Table 4 shows that of the total term loan available from commercial banks about 25% is for the purchase of milch animals, about 7% for the purchase of draft animals, about 17% for tubewell/pump set installation and about 51% for the purchase of tractor. Considering the purpose-wise loan by farm size groups, it is seen that milch animals constitute the most important purpose (about 60%) in case of marginal farmers while tractor loan constitute the most important purpose in case of medium and large farmers and its proportion being about 82% in case of medium farmers and about 88% in case of large farmers. In case of small farmers milch animals and tractor are almost equally important purposes accounting respectively for 33 and 35% of

Table 3: Availability of crop loan and term loan from commercial banks in different farm size groups
(Rupees per farm)

Farm size groups	No. ofcases	Crop loan	Term loan	Total loan
Marginal	87	3520 (34.53)	6673 (65.47)	10193 (100.00)
small	72	6614 (50.65)	6444 (49.35)	13058 (100.00)
Medium	29	9998 (29.89)	23446 (70.11)	33444 (100.00)
Large	12	21152 (37.22)	35670 (62.78)	56822 (100.00)
All	200	6631 (38.12)	10763 (61.88)	17394 (100.00)

Note: Figures within brackets indicate percentage to total in each size-group.

Table 4: Item-wise availability of term loan (investment loan) in different farm size groups.

Farm Size -group	Item-wise availability of term loan				Total
	Milch animals	Draft animals	Tubewell/ Pumpset	Tractor	
Marginal	343548 (59.65)	104360 (18.12)	128032 (22.23)	—	575940 (100.00)
Small	153000 (32.97)	29535 (6.37)	119560 (25.77)	161900 (34.89)	463995 (100.00)
Medium	35400 (5.20)	12500 (1.84)	75600 (11.12)	556440 (81.83)	679940 (100.00)
Large	15000 (3.50)	—	37605 (8.79)	375440 (87.71)	428045 (100.00)
All	546948 (25.46)	146395 (6.82)	360797 (16.80)	1093780 (50.92)	2147920 (100.00)

Note: Figures within brackets are percentage to total in each size groups.

Table 5: Per farm utilization of crop loan and term loan in different farm size groups.

Farm Size -group	Crop loan			Term loan		
	Productive	Unprodu-ctive	Total	Productive	Unprod-uctive	Total
Marginal	2964 (84.20)	556 (15.80)	3520 (100.00)	5576 (83.56)	1097 (16.44)	6673 (100.00)
Small	5664 (85.64)	950 (14.36)	6614 (100.00)	5943 (92.22)	501 (7.77)	6444 (100.00)
Medium	8771 (87.73)	1227 (12.27)	9998 (100.00)	23189 (98.90)	257 (1.10)	23446 (100.00)
Large	18984 (89.75)	2168 (10.25)	21152 (100.00)	35592 (99.78)	78 (0.22)	35670 (100.00)
All	5759 (86.85)	872 (13.15)	6631 (100.00)	10221 (94.96)	542 (5.04)	10763 (100.00)

Note: Figures within brackets indicate percentage to total in each size-groups.

the total term loan.

Utilization of Bank Credit

The success of credit institutions depends on the availability of credit and its proper utilization. Agricultural credit, if utilized for productive purposes, creates its own means of repayment and this leads to further flow/expansion of credit, and its diversion for unproductive purposes, though sometimes inevitable, is undesirable. Table 5 shows the productive and unproductive utilization of crop loan and term loan

available from banks in different categories.

Table 5 shows that about 13% of the crop loan, varying from 10 to 16% in different farm size groups and 5 percent of the term loan, varying from 1 to 16% in different farm size groups (it being negligible in case of large farms) was diverted to unproductive purposes. The extent of diversion for unproductive purposes has an inverse relation with the farm size both in case of crop loan as well as in case of term loan.

Repayment and Over dues of Loans

Table 6 shows that of the total 200 bank borrowers 104 or 52% are defaulters. Though the extent of default is quite high in all categories of

Table 6: Number of defaulter farmers of bank loans

Farm Size	Crop Loan			Term Loan			All		
	No. of Borrowers	No. of Defaulters	% of Defaulters	No. of Borrowers	No. of Defaulters	% of Defaulters	No. of Borrowers	No. of Defaulters	% of Defaulters
Marginal	54	26	48.15	33	20	60.61	87	46	52.87
Small	38	17	44.74	34	19	55.88	72	36	50.00
Medium	12	5	41.67	17	10	58.82	29	15	51.72
Large	4	2	50.00	8	5	62.50	12	7	58.33
All	108	50	46.30	92	54	58.70	200	104	52.00

Table 7: Percentage of over dues of loans to amount due in different farm size groups

Farm Size	Crop Loan		Term Loan		Tractor	Total
	Milch animals	Draft animals	Tubewell / Pumpset			
Marginal	56.00	53.04	47.35	53.08	—	52.02
Small	53.03	50.95	52.91	46.09	67.02	50.06
Medium	37.98	46.00	37.59	39.95	60.97	58.30
Large	39.02	43.81	—	35.97	58.01	47.97
All	47.74	51.25	44.44	57.41	61.50	54.06

the lowest in case of small farmers. It is further noted that extent of defaulters is about 46 percent in case of crop loan, ranging from 42 to 50% in different farm size groups, and about 59% in case of term loan ranging from 56 to 63% in different farm size groups. Thus extent of defaulters is higher in all farm size groups in case of term loans as compared to crop loan.

Table 7 shows that on the whole the percentage of crop loan over dues to demand was about 48

percent. Size-wise it is noted that the position of crop loan over dues in case of marginal and small farmers was almost similar. In case of term loan the overall average percentage of over dues is about 54 percent ranging from 52% in case of marginal farmers to 48 percent in case of large farmers. It is also noted that except in case of draft animals, the percentage of over dues for all other items is in inverse relationship to farm size.