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Financing to Agriculture under Priority Sector by Public Sector Commercial Banks: Trends, Issue and Strategies

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Abstract

Prior to nationalization of major commercial banks in 1969, financing of agriculture was considered to be the responsibility of co-operative credit institution and the commercial banks tended to shy away from financing this sector. There was also no proper direction from the RBI to commercial banks in regard to agriculture finance. They were mainly concerned with financing of large and medium scale industrial sector. The Government initiated measures for social control over banks in 1967-1968 with a view to securing a better adaptation of the banking system to the needs of economic planning and it is playing more active role in aiding sectors like agriculture. The present Study of this paper is to evaluate the agriculture advance and its share in adjusted net bank credit by public sector banks for better understand of public sector banks role in economic growth with ground level sectors development. The paper also throw light on the issues which arise due to agriculture sector advances and also suggest some Strategies to sought these issues. The period from 2005-2016 has been chosen to study.

Key Words: *Agriculture Advances, Issues, Strategies.*

Introduction

Before 1969 commercial banks had largely neglected agriculture on the ground that rural credit was to be undertaken by cooperative credit societies and banks. Accordingly, they remained largely indifferent to the credit needs of framers for agricultural operations and for land improvement. This was regarded as a basic reason for the failure of planning in the agricultural sector and consequently for the failure of general planning. But now the scope and extent of priority sector lending has undergone a significant change in the post-reform period with several new areas and sectors being brought under its purview while there had been demands to include

new areas, such as infrastructure, within the ambit of priority sector. A need has therefore, been felt to review the concept and the segments of priority sector.

Development of agriculture is a virtual pre-condition of sectoral diversification and hence of development itself. A growing surplus of agricultural produce is needed in the country to increase supplies of food and agricultural raw materials at non- inflationary prices, widen the domestic market for industrial goods through increased purchasing power within the rural sector, facilitate inter- sectoral transfers of capital needed for industrial development and increase foreign exchange earnings through agricultural exports. No economic strategy can succeed in our country which does not recognize the central role of agriculture in supporting broad- based and equitable development.

The country has so far built up reasonably good infrastructures and ensured a flow of credit to the rural areas in quantitative terms. What is needed now is quality and an all-out effort to bridge the awing gap between credit demands and supply that will become evident in the coming years.

In December 1968, the Governor of Reserve Bank of India had pointed out hitherto, for various reasons; commercial banks have not played a significant role in providing agricultural credit. The policy in fact was to encourage co-operatives rather than commercial banks to operate in this sector. With the radical transformation of agriculture the position has changed completely. Modernizing Indian agriculture requires massive financial assistance and the co-operative sector alone will not be able to meet this demand. There is a credit gap which has to be filled in jointly by the co-operatives and the commercial banks. They have, therefore, a complementary role to play. However, it is important to realize that the flow of credit from the banking system to agriculture depends not merely on the willingness of the banks to lend and of the agriculturists to borrow; there must be an organizational framework appropriate to the task as well as the requisite technical competence to evaluate and process the loans.

The situation on the side of end use of farm credit by the borrowers was still worse. The problem of agricultural credit arises essentially from the fact that majority of the farmers fall in the category of small farmers who generally lack adequate training and managerial competence.

They need credit but they are not credit worthy. They are also scattered over the whole country. To remedy this alarming condition in the field of agricultural credit the 'Rural credit Survey Committee' made a number of vital recommendations for building up a strong and integrated system of rural credit. The Union Finance Minister announced in his Budget speech reiterated his government's form commitment to ensuring that agriculture, agro processing and rural development are given top priority in the design of economic policy. Now, whatever other vital outputs they may be to boost agricultural production, the importance of credit can not be underemphasized. Availability of credit is a critical element in any strategy of agricultural modernization. According to Central Budget 2015 – 2016, a target of credit Rs. 8,50,000 crores has been fixed for the year 2015- 2016 for agriculture as compared to Rs. 8,00,000 crores in 2014- 2015 which increased by 6.25 percent.

Description of Eligible Categories for Agriculture under Priority Sector

The lending to agriculture sector has been defined to include (i) Farm Credit (which will include short-term crop loans and medium/long-term credit to farmers) (ii) Agriculture Infrastructure and (iii) Ancillary Activities. A list of eligible activities under the three sub-categories is indicated below:

Farm credit

A. Loans to individual farmers [including Self Help Groups or Joint Liability Groups) i.e. groups of individual farmers, provided banks maintain disaggregated data of such loans] and Proprietorship firms of farmers, directly engaged in Agriculture and Allied Activities, *viz.,* dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture. This will include:

(i) Crop loans to farmers, which will include traditional/non-traditional plantations and horticulture and, loans for allied activities.

(ii) Medium and long-term loans to farmers for agriculture and allied activities (*e.g*. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.)

(iii) Loans to farmers for pre and post-harvest activities, *viz*., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.

(iv) Loans to farmers up to Rs.50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.

(v) Loans to distressed farmers indebted to non-institutional lenders.

(vi) Loans to farmers under the Kisan Credit Card Scheme.

(vii) Loans to small and marginal farmers for purchase of land for agricultural purposes.

B. Loans to corporate farmers, farmers' producer organizations/companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture and Allied Activities, *viz.*, dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture up to an aggregate limit of Rs. 2 crore per borrower. This will include:

(i) Crop loans to farmers which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities.

(ii) Medium and long-term loans to farmers for agriculture and allied activities (*e.g.* purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.)

(iii) Loans to farmers for pre and post-harvest activities, *viz*., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.

(iv) Loans up to Rs. 50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.

Agriculture infrastructure

i) Loans for construction of storage facilities (warehouses, market yards, godowns and silos) including cold storage units/ cold storage chains designed to store agriculture produce/products, irrespective of their location.

ii) Soil conservation and watershed development.

iii) Plant tissue culture and agri-biotechnology, seed production, production of bio-pesticides, bio-fertilizer, and vermi composting.

For the above loans, an aggregate sanctioned limit of Rs. 100 crore per borrower from the banking system, will apply.

Ancillary activities

(i) Loans up to Rs. 5 crore to co-operative societies of farmers for disposing of the produce of members.

(ii) Loans for setting up of Agriclinics and Agribusiness Centres.

(iii) Loans for Food and Agro-processing up to an aggregate sanctioned limit of Rs. 100 crore per borrower from the banking system.

(iv) Loans to Custom Service Units managed by individuals, institutions or organizations who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers, combines, etc., and undertake farm work for farmers on contract basis.

(v) Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi-Purpose Societies (LAMPS) for on-lending to agriculture.

(vi) Loans sanctioned by banks to MFIs for on-lending to agriculture sector as per the conditions specified in paragraph 19 of these Master Directions.

(vii) Outstanding deposits under RIDF and other eligible funds with NABARD on account of priority sector shortfall.

Targets/Sub-Targets

18 percent of ANBC or credit equivalent amount of Off- Balance Sheet Exposure, whichever is higher.

Review of Literature

Angadi (1983) observed the consideration of Priority sector lending in general and agriculture advances in particulars in some states because of repaid branch expansion, deposit mobilization, privileged cropped area, adoption of high yielding variety etc.

Patel (1996) analyzed the progress of commercial banks regarding various components of the priority sector lending i.e. agriculture, small scale industries and other priority sector advances comprised of rural artisans, transport operators, education etc. The study found that tendency declined from 100 percent for small holding group households to 70.15 percent for medium holding household.

Sahu and Rajasekhar (2005), in their research paper, analyzed the trends in credit flow to agriculture by scheduled commercial banks during 1980-81 to 1999-2000. They observed that the share of credit to agriculture in total bank credit for all the bank groups declined

significantly, especially after banking sector reforms in spite of many efforts. They analyzed that scheduled commercial banks provided large quantum of funds to better-off farmers and to the activities earning high interest income only. They established the negative relationship between agriculture credit and investment in government security, credit subsidy and proportion of credit provided by the co-operative. They recognized that increasing lending rate reduced the credit disbursed to agriculture by scheduled commercial banks and affected the average quality of their loan portfolio so they suggested not to increase the interest rate to offset losses from defaults or to meet the lending cost, but to strengthen the quality of credit delivery system and ensure prompt repayment of loans for supporting the agriculture sector.

Uppal (2009), in his research paper, evaluated the performance of public, private and foreign banks in India and analyzed the target achievement by them during 2006-07. He found that priority sector advances of public and private sector banks were higher than foreign banks. He observed that public sector banks were unable to achieve the target of priority sector, while private sector banks have achieved the target. Private sector banks could not achieve the target for weaker section. Foreign banks could achieve the targets for priority sector, small scale industries sector and export sector. He further, found that NPAs of public sector banks was highest followed by private sector banks and foreign banks. Main reason for more NPAs in public and private sector banks was found to be more NPAs in agriculture sector. He examined various issues related to priority sector like, low profitability, more NPAs, Government interference, high transaction cost, etc. He also suggested various strategies to overcome these issues.

Ahmed (2010) considered different factors that may affect the scheme of bank financing to priority sectors. The study found that 97% variation in bank financing of agriculture in the three districts of Barak valley Assam was explained by independent variable. Positive interest rate is shown under • coefficient while business volume of bank was negative at the same, but both were not statistically significant. The study suggested that proper recovery of loan schemes should be used otherwise banks will have to face liquidity crisis for recycling the fund.

Sharma (2012) analyzed the similarity of practice of priority sector lending for private as well as public sector banks and also studied which one is more committed. The result indicated that total lending amount by the two sectors differ from each other but the proportion of the amount was almost similar.

Objectives of Study

1. To study and analyze the agriculture sector lending by public sector commercial banks.
2. To study the issues and prepare strategies to enhance the Agriculture lending.

Research Methodology

This study is based on secondary data, which is collected from the statistical table and annual report on trend and progress in banking produced by Reserve Bank of India. The researcher has applied the statistical tools like percentage analysis, trend analysis and exponential growth rate to analysis and to interpret the results. The period from 2005-2016 has been chosen to study.

Results and Discussions

Table: Agriculture Advances under Priority Sector and its share in Adjusted Net Bank Credit by Public Sector Commercial Banks:(Rupees in Billion)

Year	Agriculture Advances	Trend %	Share of Agriculture in Adjusted Net Bank Credit %	Trend %
March 2005	1304.75	100	18.2	100
March 2006	1543.14	118	15.2	82
March 2007	2050.91	157	15.6	86

March 2008	2486.86	191	18.2	100
March 2009	2979.37	228	17.6	97
March 2010	3707.29	284	17.6	97
March 2011	4149.90	318	16.6	91
March 2012	4783.00	367	15.9	87
March 2013	5306.00	407	15.0	82
March 2014	6873.00	527	17.0	93
March 2016	9047.72	693	18.4	101
Average	**4021.09**	**308**	**16.8**	**92**

Sources: (1) RBI, Report on Trend and Progress of Banking in India, 2005 to 2016.

(2) RBI, Statistical Table Relating To Banks in India, 2005 to 2016.

Analysis

Table indicates the agriculture advances under priority sector and the share of agriculture advances in adjusted net bank credit. The agriculture advances have been raising from Rs. 1304.75 billion in 2005 to Rs. 9047.72 billion in 2016. On the other side the share of agriculture advance in adjusted net bank credit is increased from 18.2% in 2005 to 18.4% in 2016.The trend analysis shows a growth rate of 693% with average growth rate of 308% and trend analysis of agriculture advance share in adjusted net bank credit shows a growth rate of 1% with an average decline rate of 8 % over the years from 2005 to 2016.

Major Issues

The Major Preferences of RBI to agriculture advances under priority sector have created various issues for the public sector bank groups. These issues are considered as important as they required quick resolution. These major issues are discussed below:

Low profitability

Though banking is not a high profit area in most countries, but the term profitability is considered as an important parameter to measure the actual performance of banking sector like other sectors. The profitability has been affected by a wide range of factors such as increasing proportion of deposit resources under statutory liquidity pre-emption at lower interest, the shift of savers' preferences to long-term deposits and the incidence of non-performing assets. The profitability has been particularly low in banking sector in India as well. One of the important reasons for declining profitability of banks has been their increasing involvement in providing mandatory credit entailing rigid target setting and the concessionality.

High NPAs

There are some persons who borrow from the bank and do not repay the loan. This increases non-performing assets, popularly known as NPAs of the banks. The NPAs of banks create several problems and may decline the banking performance. Thus the credit in priority sector has created fear among the banks and, discourages them to go slow in disbursement of credit. The banks always try to identify the proposals which may create high NPAs of banking.

Government interference

As an important factor influencing the banking performance, the government interference in the working of the banks especially in public sector banks is one of the major problems of bank in which the interfere of any government body may cause the several problems before the branch managers and it affects the overall working of bank as well. This becomes the prime reason resulting distribution of loans in the hands of the rich rather than weaker section of the society.

Transaction cost

Another important and major issue for banking organizations exists in terms of the transaction cost. The sanctioning and monitoring of large number of small advances is time consuming and manpower intensive and thus adding to the transaction cost. The problem is further compounded by the deficiencies in pre-sanction and bunching of applications at the last moment by the sponsoring agencies in the case of lending under poverty alleviation programmes. These deficiencies have resulted in the lowering of the overall quality of credit and the effectiveness of its delivery.

Strategies: Some of the widely accepted Strategies for different issues are discussed below:

For Profitability Improvement:

On the basis of the preceding analysis and also taking into consideration the recommendations of the various banking commissions, committees and study groups the following measures need to be adopted to improve the profitability:

1. Improving profitability environment:

Profit in banks lock any other entity is determined in accordance with matching of cost with revenue. Profitability, which can be measured a ratio of profit earned to assets, deposits working funds, advances, income and expenses can, thus, be improved through (i) improving operational efficiency. (ii) Reducing operating costs and (iii) increased earnings. While operational efficiency can be improved working methods and adoption of improved technology, the operational cost can reduced and earnings can be maximized through (i) adoption of cost control techniques, (ii) effective manpower planning and (iii) improved fund management.

2. Recourse to profit planning:

Profit planning is a systematic approach towards maximizing earnings and minimizing operating cost. The branch managers would be motivated to make a better trade off decisions between costs and revenues. On the cost side branches can improve efficiency through (i) pushing for low cost loan. (ii) Effective utilization of resources available to mobilize maximum deposits, (iii) improves customer service, (iv) exercise better control over addition of new staff,

(v) appropriate linkage of wager, costs and business. On the revenue side also branches can take several measures to improve performance through (i) optimize advances mix, (ii) accelerate realization of outstanding, (iii) prevent leakage of income, (iv) proper cash management.

Measures to Improving Recovery Rate of NAPs:

For the improving recovery rate of NPAs, banks should follow the following measures:

1).Subsidy benefits and repayment incentives help in improving the recovery rate.

2). Setting up of monitoring and recovery cell also helps a lot in it.

3). Bed – debt settlement procedure is very expensive & time consuming .By simplifying it, banks get good response.

4). Central & State Government should give assurance to write off dues to borrowers.

5). Lending and recovery staff should be motivated by words or incentives time to time.

6). Banks should made co-ordination with other credit and non credit agencies.

7). State Government and commercial banks should exchange their views on this topic & fixes accountability for recovery.

8). Recovery Budgets and wholesome financing should be done.

Cost Consciousness:

The most important aspect of profit planning is that the entire banking staff should imbibe profit and cost consciousness at all levels. Cost effective functioning at all levels of organization is crucial in banks today. The establishment expenses constitute about one – fourth of the total operating cost and a regular monitoring of such expenses after segregating it into controllable and non- controllable items would go a long way in keeping it under check. Large expenditure involved in overtime payments must be carefully watched. A new wave of mechanization and computerization is sweeping the banking industry. Capital on this in the initial years would be heavy. The banks, therefore, deserve to be given depreciation allowance. The increasing incidence of non- performing asset is a serious drag and cells for effective remedies.

Discretionary powers

All Branch Managers of banks should be vested with discretionary powers to sanction proposals from agriculture sector without interference of the government. In such proposals, the Managers should use their discretionary power with analyzing the factors relating to this agriculture sector.

Conclusion

Thus, the study concludes Public sector Commercial Banks are playing a significant role in Indian Financial System and are regulating by Reserve Bank of India. The advances to Agriculture under priority sector by the Public Sector Banks are gradually increased from 2005 to 2016 without any deviations. On the other side Share of priority sector in Adjusted Net Bank Credit is also steadily improving over the years. This shows the appreciable performance of Public Sector Banks. RBI also played a spectacular role in reformation and supervisory of Banks, as time to time over the years. It is a need of the hour to find out solutions for these problems otherwise progress of the public sector commercial banks will cease. If the proper agriculture sector advances are given they will be helpful in reducing the poverty level.

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