

## A STUDY OF AGRICULTURAL FINANCE BY COMMERCIAL BANKS IN INDIA

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### ABSTRACT

*Agricultural finance possesses its usefulness to the farmers, lenders and extension workers. The economic principles of farm financial management facilitate in obtaining control over capital and its efficient use. The investment analysis pertaining to income, repayment capacity and risk bearing ability determine the amount of capital a farm business can profitably and safely use. Hence, the farmer can determine his credit worthiness and can put forth his loan application with confidence to lender. The present study an attempt to analyze the agriculture advances by commercial banks. This study is based on secondary data. The analysis was made by the application of trend analysis; calculate ratios and chi-square test with time series analysis. Major finding of the study is that agriculture lending by Commercial Banks in India has failed to reach the target which given by RBI during the study period.*

**KEYWORDS:** *Commercial Banks, Agricultural finance, Financial Management, Investment Analysis.*

### Introduction

Credit is one of the critical inputs for agricultural developments. It capitalizes farmers to undertake new investments and adopt new technologies. The importance of agricultural credit is further reinforced by the unique role of Indian agriculture in the macroeconomic framework along with its significant role in poverty alleviation. Realizing the importance of agricultural credit is being emphasized since the beginning of planned development era in India. India is home to 22 percent of the world's poor. Such a high incidence of poverty is a matter of concern in view of the fact that poverty eradication has been one of the major objectives of the development planning process. Indeed poverty is a global issue. Its eradication is considered integral to humanity's quest for sustainable development. Reduction of poverty in India is, therefore, vital for the attainment of international goals.

A commercial bank is a type of bank that provides services such as accepting deposits, making business loans and offering basic investment products. Commercial banking also refers to a bank or a division of a bank that mostly deals with deposits and loans from members of the public. The share of commercial banks in total institutional credit to agriculture is almost 48 percent followed by co-operative banks with a share of 46 percent and RRBs about 6 percent but studies have shown that many of the ordinary people have no access to institutional credit. The growth rate of deposits in commercial banks in India is around 16 percent as per the announcement made in the annual policy statement for the year 2008-09, RBI advised banks in May 2008 to classify overdrafts up to Rs. 25,000 (per account) against "no-frills" accounts in the rural and semi-urban areas as indirect finance to the agriculture sector under the priority sector advances with immediate effect.

Commercial banks in India since nationalisation are providing finance to weaker sections under priority sector lending (PSL). In this system banks have some targets and sub-targets of deploying funds and credit to preferred and desired sections and sectors of the economy, basically the rural. India lives in numerous villages, scattered throughout the country. Rural areas form nearly 70% of India's population and have historically accounted for more than half of Indian consumption. Even with increasing urbanization and migration, it is estimated that 63% of India's population will continue to live in rural areas and will continue to remain vitally important to the Indian economy. The rural population in India comprises the core of Indian society and represents the real India. According to the 2011 census there are 6,40,867 villages in India and about 83.3 crores of Indian population live in these villages among 121 crores of total population.

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Like other industries agriculture also requires capital. Small farmers and marginal farmers need credit since their capital is locked up in their loans and stock. They need funds to meet their operational expenses. Then credit need is high at the time of crop season. Millions of farmers are depending upon marginal and subsistence farming for distribution or at times even to continue the production process successfully and economically. Due to these reasons they depend mostly on credit even for normal agricultural operations and have to pay a part of their income by way of interest later. The present study propose to highlight the agricultural credit extended by the commercial banks in india. The repayment performance of the borrowers the commercial banks aim at intensive coverage of selected areas for meeting the priority sector credit needs especially the agricultural credit requirements and ensuring effective supervision over the use of loans.

### **Review of Literature**

The all India rural debt and investment survey studied the role of commercial banks for all states and all India. It was found that the contribution of commercial banks was comparatively more significant in India. A committee (1969) appointed by the reserve bank of India to review the working of lead bank scheme in the states of Gujarat and Maharashtra, has been critically reviewed and come to the conclusion as besides offering suggestions for effective functioning of the lead bank forming district consultative committees. It advocated a standing committee to be formed in the reserve bank of India to critically examine the overall progress of the scheme "the study group(1969) on organizational framework concludes that "the hitherto working as watertight compartments without any understanding the relationship even common areas and activities the onus of bringing together and their operations lies with lead banks".

The national commission on agriculture (1976) examined the requirements of institutional credit for covering the new agricultural strategy of agricultural development and all aspects of rural development including production, marketing, and transport processing. The commission stressed greater involvement of commercial banks in financing agricultural development. It was suggested that the share of commercial banks in agricultural advances should increase from 8.8% in 1974 to 15% in 1988 and a greater weightage must be given to the needs of small and marginal farmers and provision of credit to them on preferential terms in respect of both interest charges and quantum of advances to enable them to modernize agriculture. The commission also made suggestion for improvements in farmer's services societies in the light of their record of performance.

Raghupathi (1979) has conducted a survey on the lead bank program and policies and concluded thus – unless the state or central government takes up the task of building up of infrastructure very little would probably be done by the lead bank responds to the social and economic impulses an adhoc basis without proper planned strategy in tune with the overall planning in an integrated regional development.

Rangrajan committee (2008) on financial inclusion stated that "financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost".

### **Objectives of the Study**

- To understand the concept of Agriculture finance.
- To examining the volume and trend of agricultural finance provide by selected bank.
- To analyze the disbursement of agricultural credit by the commercial banks and know about that bank should achieve target or not.

### **Research Methodology**

- **Population of the Study**  
In context of India, 93 commercial banks are in operation. These 93 commercial banks are regard as population.
- **Sample Size**  
All 93 commercial bank has been taken for the study.
- **Source of Data**  
This study mainly depends on the use of secondary data that consists of annual report of the all commercial Banks. However besides the annual reports various other sources of data have also been used for the study i.e. newspaper, magazine, Economic journals and RBI reports, NABARD report etc.

- **Period of the Study**

The researcher has undertaken the study for seven year i.e. 2015-16 to 2017-18.

**Tools and Techniques**

The following tools and techniques were employed to analyze the data with reference to fulfill the objectives of the study.

- Trend analysis
- Ratio analysis
- Chi-Square test

**Hypothesis of the Study**

For the present study the researcher has formulated Null hypothesis. Hypotheses were tested with the help of statistical tools. The statements of hypotheses were as under.

**H<sub>0</sub>:** There is no significant difference between the actual ratio and expected ratio of total agriculture advance to adjusted net bank credit of commercial banks during the study period.

**H<sub>0</sub>:** There is no significant difference between the actual ratio and expected ratio of direct agriculture advance to adjusted net bank credit of commercial banks during the study period.

**H<sub>0</sub>:** There is no significant difference between the actual ratio and expected ratio of indirect agriculture advance to adjusted net bank credit of commercial banks during the study period.

**Result and Discussion**
**Calculation of Trend Percentage Analysis for Total Agriculture Advances (Amount in crore)**

Year	Total Agriculture Advance (RS)	Total Agriculture Advance (%)	Variation
2016	10947	100	-
2017	12377	113.06	+13.06
2018	13412	122.51	+22.51

Source: Annual report of central bank of India

The above table and figure represents the trend percentages of total agriculture advances by Commercial Banks in India for the period 2015-16 to 2017-18. Here, for the calculation of trend percentage statement, the initial year 2015-16 has been consider as base year. In case of total agriculture advance 100% in the base year (2015-16). Which is increased to 122.51% in the year 2017-18? It shows that increased 22.51% during the study period. It indicated that bank should try to provide more advances to agriculture sector.

**Calculation of Trend Percentage Analysis for Direct Agriculture Advances (Amount in Crore)**

Year	Direct Agricultural Advances (RS)	Direct Agricultural Advances (%)	Variation
2016	8829	100	-
2017	9924	112.4	12.4
2018	10302	116.68	16.68

Source: Annual report of RBI

The above table and figure shows the trend percentages of direct agriculture advances by Commercial Banks in India for the period 2015-16 to 2017-18. Here, for the preparation of trend percentage statement, the initial year 2015-16 has been taken as base year. A direct agriculture advance by bank was increased year by year during the study period. It was increased to 112.4% in the year 2016-17. In the year 2017-18 it was increased by 15.68 as compared to base year. In the year 2017-18 it was increased by 4.28% as compared to previous year. During the study period it was increased by 16.68%.

**Calculation of Trend Percentage Analysis for Indirect Agriculture advances (Amount in crore)**

Year	Indirect Agricultural Advances (RS)	Indirect Agricultural Advances (%)	Variation
2016	354	100	-
2017	476	134.46	34.46
2018	596	168.36	68.36

Source: Annual report of RBI

The above table and figure shows trend percentages of indirect agriculture advances by Central Bank of India for the period 2015-16 to 2017-18. Here, for the preparation of trend percentage statement, the initial year 2015-16 has been consider as base year. The trend of indirect agriculture advance was increased in the year 2016-17 and 2017-18 by 34.46% and 68.36% respectively as compared to base year.

**Calculation of Various Ratios (%)**

Year	Total Agriculture Advance Ratio	Direct Agriculture Advance Ratio	Indirect Agriculture Advance Ratio
2016	16.27	13.89	2.38
2017	16.03	13.33	2.70
2018	16.14	13.14	3
Averages	16.146	13.45	2.69

Source: Compute from annual reports of RBI

The ratio of direct agriculture advances to adjusted net bank credit for the period 2016-16 to 2017-18 is display in table. It is observed that, on average, the ratio is 16.146%. The ratio is highest in the year 2017-18 is 03 % and lowest in the year 2015-16 is 2.38%. This ratio shows the mix trend during the study period. The above table represent ratio of indirect agriculture advances to adjusted net bank credit for the period 2016-16 to 2017-18. It is observed that, on average, the ratio is 2.69%. The ratio is highest in the year 2017-18 is 3.0 % and lowest in the year 2015-16 is 2.38%. This ratio shows the mix trend during the study period.

**Hypothesis Testing****Result of Chi – Square Test for the x2 Test of the Various Ratios**

Ratios	x2 Calculated Value	x2 Table Value	Result (Ho Accept / Reject)
Total agriculture advance to adjusted net bank credit.	0.001	5.991	Ho accept
Direct agriculture advance to adjusted net bank credit.	0.022	5.991	Ho accept
Indirect agriculture advance to adjusted net bank credit.	0.071	5.991	Ho accept

Note: Degree of freedom 2 at 5 % level of significance.

**Analysis**

Total agriculture advance to adjusted net bank credit: Here, calculated value of x 2 test is 0.001. The table value of x2 at 5 % level of significance and where degree of freedom is 2 is 5.991. Hence, the calculated value is less than table value. So the null hypothesis (Ho) is accepted. There is no significant difference between the actual ratio and expected ratio of total agriculture advance to adjusted net bank credit of Commercial Banks in India during the study period. Means the result is as per expectation.

Direct agriculture advance to adjusted net bank credit: Here, calculated value of x 2 test is 0.022. The table value of x2 at 5 % level of significance and where degree of freedom is 2 is 5.991. Hence, the calculated value is less than table value. So the null hypothesis (Ho) is accepted. There is no significant difference between the actual ratio and expected ratio of direct agriculture advance to adjusted net bank credit of Commercial Banks in India during the study period.

Indirect agriculture advance to adjusted net bank credit: Here, calculated value of x 2 test is 0.071. The table value of x2 at 5 % level of significance and where degree of freedom is 26 is 5.991. Hence, the calculated value is less than table value. So the null hypothesis (Ho) is accepted. There is no significant difference between the actual ratio and expected ratio of indirect agriculture advance to adjusted net bank credit of Commercial Banks in India during the study period. Means the result is as per expectation.

**Finding of the Study**

- Researcher found that there is no significant difference between the actual ratio and expected ratio of total agriculture advance to adjusted net bank credit of Commercial Banks in India during the study period.
- Researcher has also found that there is no significant difference between the actual ratio and expected ratio of direct agriculture advance to adjusted net bank credit of Commercial Banks in India during the study period.
- There is no significant difference between the actual ratio and expected ratio of indirect agriculture advance to adjusted net bank credit of Commercial Banks in India during the study period.

**Limitations of the Study**

- This study is mainly based on secondary data, data taken from the published annual reports, website etc.
- The statistical techniques have their own limitations. They also apply to this study.
- The researcher has covered All 93 Commercial Banks in India bank for the study.
- The researcher is confined to the agricultural finance only.
- Personal view differs from one person to other.

**Conclusion**

The study reveals that the bank credit in India to agriculture sector has been increased in its quantum during the study period. The credit provided by the bank has increased its advances. But an effort has to be taken by bank to reduce its outstanding, so that the recovered bank credit should be pumped in to agriculture sector further for its growth.

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