

# Critical Analysis of Role of Credit Policies of Banks in Agricultural Development

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## Abstract

The paper is a study of role of credit in agricultural development; while it explains the importance of credit in agriculture sector, it also enunciates the objectives set for such policies and highlights its implementation. The study concludes that the objectives are not achieved as they should have been. This paper puts forward the problems related to credit finance in agricultural sector and gives suggestions to make the situation better.

**Keywords:** Agricultural Development, Credit, Rural Banking.

## Introduction

It is the commonly accepted view that economic development, interpreted as sustained growth, is synonymous with industrialization. There are economists, however, who do not agree with this view. Jacob Viner, for instance, argues that a high degree of industrialization is not necessary for raising the per capita income of a country. This can be achieved also by improving agriculture without having any great recourse to the development of industries. Mainly agricultural countries are generally found to be poor, not because they are agricultural but because their agriculture is backward. Though a case can certainly be made out for equal stress on agriculture and industry for economic development, historically however, low incomes of underdeveloped regions have invariably been associated with agriculture and high incomes of developed regions with the presence of modern industries. Thus, in practice, economic development has come to be identified with industrialization alone. India, a country with a low living standard, is heavily dependent on agriculture. The importance of agriculture in Indian Economy is too well known and predominant inspite of all the advancement and developments which have taken place in industrial and technological field right from the days of planned development in our country.

## Role of credit in agricultural development

The role of credit in agricultural development is instrumental but instances of actual adoption and implementation of such a programme are generally lacking despite considerable expansion in the agricultural credit granted by commercial banks to farmer.

Even after more than two decades of nationalization not much improvement in the actual realization of the objectives of farm credit programme has been observed. A number of hurdles in the successful implementation of full package of organized and integrated farm-credit have been observed. In this study, the some disturbing facts were noted; there was lack of well trained staff in nationalized banks to undertake the new responsibility of maintaining and operating an efficient agricultural credit service. Also there was lack of dedication to and identification with the farming community, on the part of an average bank worker, in meeting the credit needs and helping him to improve its farm-economy. The branch managers are held personally responsible for the full recovery of loans which, in actual practice, makes them very cautious, orthodox to give security-oriented loans only. Lack of properly organized supporting rural development activities and desired co-ordination between nationalized bank and such agencies was also found. Even if it were assumed that the new farm loan policy was to be implemented by the nationalized commercial banks and they had sufficient well-trained, dedicated and socially committed staff also, who could handle the farm credit service efficiently with an elastic approach and objective or agricultural developments and helping the famers to help themselves, it will not be possible to achieve any better results in the absence of matching efforts by these agencies.

The agricultural extension service has to improve and develop proper coordination with banks and other rural development agencies, such coordination is generally lacking. There was lack of national policy in respect of investment in human resources, so, another area of major thrust has to be in general education of farmers and their woman-folk. Whatever development activity is offered to them should be of their own choice. It will be the job of an efficient agricultural extension service, supported with adequate socio-economic agricultural research, to provide necessary information to the farmer to help him to take the right decision regarding farm technology and means to obtain them (i.e. credit).

Managerial training is the weakest link in the chain of development programme, the importance of which for an average farmer is unfortunately not appreciated by majority of our scientists, politicians and administrators. In fact with an overwhelming majority of cultivators being small and marginal and general scarcity of agricultural inputs, the need for proper management of these resources is still more pressing to make both ends meet for farmers as well as the nation.

Thus, a well coordinated programme of development calls for an effective coordinated effort by agricultural credit service, extension service, input supply, marketing research and development activities, education of farmers and their training in farm planning and management. Another area which requires lot of attention is that customer service complaints of poor customer service which were heard throughout the currency of loan. Some of the following suggestions should go a long way in improving the customer service to agriculturist borrowers:

- a) Each rural branch of public sector banks should prominently display in its premises, the kinds of service offered, eligibility criterion for availing these facilities and the requirements/ papers/documents etc, which are to be submitted along with applications before it can be considered. All this information should be displayed in regional language and should be, in addition to usual handouts prepared for distribution to public.
- b) As in agricultural extension service, the banks also have to offer intensive agricultural credit package, Each customer (of loan) should invariably be issued a passbook showing his attested photo, credit-limit fixed by bank and the extent to which they have been availed, rate of interest and other items which are payable by the farmer (like evaluation, inspection charges etc.), repayment schedule and recoveries made against these, along with amounts and dates. This passbook should also have a column for giving the category of farmer, which will indicate the type of assistance, benefits and privileges and concessions he is entitled to from other agencies. The branch should also give the registration number of credit card.

### **Exchange of credit information**

The problem of issuing no dues certificate can be by-passed by issuing a 'Credit Card to every farmer on which all the loan transactions taken from any bank will be recorded in addition to his credit rating and farm inventory and lands owned. All the bank in such a situation has to do is to look at the card and find out the position of dues against the borrower. The card will be supplied and maintained by a central registry maintained at district level. The cost can be recovered from the borrower. All the banks giving loaning facility to a farmer will have to report the transactions to this registry and ensure that their entry is marked on the card. The registry will also see that the card is periodically updated. Once the system comes in to existence all that the loan giving institution is to do is to refer to the card before the application is entertained. In case of doubt, the entries can always be verified from central registry. In case the borrower applying for the loan is from outside the district or expected to have dealing outside the district, the card should be referred to the registry of that district. This system might be cumbersome to maintain, but the burden can be easily reduced if the help of mini-computers is taken. We are sure that the cost of such computers will be more than offset in a very short time. The expenses can even be shared by banks operating and various developments agencies in the district involved in disbursement of priority sector credit through banks.

### **Suggestions to speed up recovery**

1. Area approach and package approach to help exercise effective supervision of over the credit use.
2. Realistic scales of Finance,
3. Close supervision and follow up to make borrower conscious of the need to repay the loan.

4. This should be made clear to the borrower that loan is not a subsidy and will have to be repaid back. Repayment schedule should be carefully explained to him in the witness of mutual acquaintance of the bank and the borrower.
5. Careful watch over the recovery behaviour and tailor the recovery strategy accordingly.
6. One agency approach should be encouraged, a group of villages should be fed by one specified credit agency and no other agency should act in the area.
7. Training of bank staff in farm business performance to enable them to write out the investment scope and recovery plan based on increase in earnings.

At present, the permission to refer the case of willful defaulters for recovery under U.P. Agricultural Credit Act is generally being granted by the controlling offices of nationalized commercial banks. Since declaring borrower a willful defaulter is generally a subjective assessment, it results in a unnecessarily protracted correspondence. The power to refer the cases, especially in those branches where the staff is equipped with technical qualification staff, should vest with branch management, at least to the extent they are allowed to sanction the loan.

In spite of all these precautions, certain real persistent overdue accounts persist and are not considered by even deposit insurance and credit guarantee corporation. These will have to be written off as a last resort, the eligibility to be written off should be determined by a high-powered body specially set up for the purpose. This body should evolve a formula whereby the loss on account of an account written off should be absorbed by state and central governments jointly which should be allowed to have a representative each in the body but not the controlling or decision-making powers. The body should be independent of government and its decisions binding on the government. On their part the government, should make necessary provisions in their budget to take care of the funds needed to write off the extreme cases. The body to be appointed by President of India, by an Act, should be independent of executive arm of Govt.) purely a political in nature and should be made up of objective experts nominated by Union Ministers of Agriculture and Finance, State Government, Public Sector banks, Reserve Bank of India Co-operative Bank, National Bank for Agricultural Refinance and Development (NABARD), farm finance experts and an observer from planning commission.

### **Miscellaneous suggestions**

To make the rural lending a profitable business:

1. We need most, structural spin off, a totally separate commercial banking organizational structure for rural banking, a market-oriented strategy, an independent rural banking care of bankers with their distinct and promising career paths and simpler, systematic designs to suit retail rural banking so that it is possible to serve a large number of low volume accounts at a faster rate and at low cost.

2. Adequate and prompt supply of credit should be made available at competitive rates of interest. Alternatively, the medium and large farmers could be charged concessional rates of interest so that a cross subsidization takes place within the agricultural sector and overall rate of return from agricultural lending is on a cost plus basis.
3. At present, banks play the role of purveyors of credit in rural areas. This role needs a drastic change. Banks ought to be purveyors as well as re-coverers of credit in rural areas.
4. Policy makers should consider rural banking as development oriented activity and not a mere welfare activity. Bankers must approach rural banking with a marketing approach and not with a target fulfilling approach.
5. Rural banking should be handled by bankers who are left free, who can transcend bureaucracy and use their entrepreneurial abilities.

## Conclusion

If above suggestions are followed, the day is not far when rural banking will become the most profitable banking sector in India. It could be said that the records of commercial banking in molding itself to national policy objectives were quite impressive and unique in the annals of world banking. There is also a talk of consolidation but it should not mean stagnation. Expectations of public from banking system have recorded a phenomenal increase, Bank credit is being viewed as a panacea for all economic ills. The record of social obligation of banks is being overplayed. Social banking should not mean a mask for covering bank's inefficiency. While it is true that promotional activities of banks in the initial stages cause the rate of return to go down somewhat, it should be the endeavour of banks to convert social investments into economic investments in course of time. Thus the future will be a challenging one yet full of hope. But it allows no grounds for complacency on behalf of Public Sector Banks. One of the most challenging issues facing these banks in regard to agricultural credit is of considerable gap between the total agricultural credit needs of the country and the ability of banking sector to meet it.

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