DISTINCTIVENESS OF INSTITUTIONAL SOURCES OF AGRICULTURAL CREDIT IN KERALA – A BORROWER LEVEL ANALYSIS

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Abstract

In India credit in agricultural sector is highly critical due to the scarcity of funds faced by the agriculturists. The Reserve Bank of India and Government of India have, from time to time, given number of programmes, policies and initiatives for the enrichment of the agricultural sector, which led to the various agricultural revolutions. As a result, in India, agricultural credit growth has been significant over the years. The banks and other financial institutions as a mediating force for agricultural credit occupy a crucial role in this context. Even though the performance of banks and other financial institutions in the country is highly noteworthy, the agricultural credit system is filled with varying issues affecting both the lenders and borrowers. There arises a need for having a better performance in agricultural credit system and hence all the adverse factors affecting the borrowers and lenders are to be wiped out in its strict sense. Therefore, the appropriate authorities have to assume the agricultural credit as a major concern so as to arrive at workable solutions and policy initiatives for the betterment of the society in general and agricultural sector in particular.

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

INTRODUCTION

The role of agriculture in the country is highly crucial not only due to its contributions towards almost all the spheres of the economy directly or indirectly but also on the issues prevailing in the sector. The statistics of ILO reveals that employment in agriculture sector as percentage of the total employment was approximately 44 per cent in the year 2018. The sector has been protected by many means including provision for distribution of institutional credit facility to the agriculturists. As a result, in India, agricultural credit growth has been significant over the years. Nevertheless, there remain problems with respect to agricultural credit such as regional disparity, extent of coverage, improper utilisation and so on. Moreover, the agricultural credit system is not effective as it is backed by many problems of varying nature. A detailed analysis of the present characteristics of the agricultural credit disbursed by banks is considered as a platform to identify the problems and thereby arriving at practical solutions and initiatives by the policy makers.

SIGNIFICANCE

Institutional sources of agricultural credit occupy a central role in the agricultural credit delivery system. This is not only on account of the clear cut specifications on the part of Government as to agricultural credit but also on the lack of finance by the agriculturists to invest in their agricultural endeavour. A proper channelisation of credit without issues only can enrich the sector. However, the agricultural credit system is having its own issues from the point of view of bankers, borrowers and society at large. In order to examine these issues there is a need of analysing in detail the present system as well as the forces affecting agricultural credit so s to arrive at arrive at workable solutions and policy initiatives. Against this background a widespread analysis from the level of borrowers of agricultural credit is being attempted as to the distinctiveness of agricultural credit disbursed by the banks in the State of Kerala.

OBJECTIVES

The main objectives of the study are given below.

1. To analyse the different nature and types agricultural credit availed by the agricultural borrowers.
2. To analyse the interest charged by the banks and cost of borrowings associated with the agricultural credit.
3. To analyse the security offered, margin money requirements and time taken to avail agricultural credit from banks, and
4. To compare the various aspects of agricultural credit between commercial, co-operative and RRBs.

REVIEW OF LITERATURE

Palanivelu identified the problems faced by the respondents in availing and repaying loans, viz. biased attitude of the officials, want of more documents for collateral securities, expecting commission, delay in sanctioning the loan, inadequate quantum of loan amount, stringent action taken against the weaker sections, and loans not sanctioned for the required period. Ramesh Golait attempts to analyses the issues in agricultural credit in India. It reveals that the flow of investment credit to agriculture is constrained by host of factors such as high transaction costs, structural deficiencies in the rural credit delivery system, issues relating to credit worthiness, lack of collaterals in view of low asset base of farmers, low volume of loans with associated higher risks, high man power requirements etc. Mahadeva Murthy and Veena state that timely receipt and utilization 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 with in a period of four weeks after making the applications to the bank.

Mathew Joseph, in the study 'Financial Inclusion for Inclusive Growth' reveals that many regions and many classes of farmers are completely outside the institutional credit delivery systems. High interest rates and a serious debt overhang still affect millions of farmers. John. K. Mathew made a study on agricultural financing by commercial banks in Kerala, which reveals that; (i) majority of the borrowers availed the loan on security of the land (ii) about half of the respondents availed the loan amount with in a period of 10 days, (iii) large majority of the borrowers opined that the rate of interest changed by the commercial banks is reasonable, and (iv) 40 per cent of the borrowers have reasonable or high processing fee with regard to their agricultural credit.

METHODOLOGY

The study is analytical type based on primary data mainly, which was collected from the borrowers of agricultural credit with the use of a structured interview schedule. The study depends on Stratified Random Sampling Technique for the selection of sample borrowers. Principally the whole State of Kerala is divided in to three regions, namely, northern, central, and southern. Appropriate sample size is taken for the respondent borrower group by giving equal representations to the three categories of banks. Appropriate formula was used for determination of sample borrowers of agricultural credit. The banks selected for the study includes commercial banks, co-operative banks and regional rural banks. Accordingly a total of 450 borrowers were identified for the present study by giving equal representation to all the three regions and the three groups of banks under study. The banks selected for the study includes commercial banks, co-operative banks and regional rural banks. The mathematical and statistical tools of Percentage, Mean, Standard Deviation, Chi-square, ANOVA and Post Hoc ANOVA tests were used for analysing the data.

HYPOTHESES

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

1. $H0_{1:}$ There is no significant association between type of banks and nature of credit availed by the agricultural borrowers.
2. $H0_{2:}$ There is no significant association between types of bank and types of credit availed by the agricultural borrowers.

3. $H0_{3:}$ There is no significant difference among the type of banks with regard to overall cost of borrowings of agricultural credit.
4. $H0_{4:}$ There is significant association between type of banks and margin money requirement of the bank.

RESULTS AND DISCUSSIONS

The important variables as to the present method of bank credit to agriculture are analysed under this head from the point of view of borrowers.

1. Bank Wise Nature of Credit Availed

The borrowers used to raise agricultural finance from banks either by crop or term credit. The bank wise analysis of the nature of credit availed by the sample borrowers are given in Table 1. It is clear from the table that more than two-third of the borrowers depend on term credit, in which co-operative bank occupies first position (74.67%) followed by RRB (70%) and commercial bank (62%). However, crop credit is availed by 31.11% of the total borrowers, where the share of commercial bank is comparatively higher (38%) than RRB (30%) and co-operative bank (25.33%). In order to establish whether there is any association between type of banks and nature of credit Chi-square test is applied and it reveal a 'P' value (0.057), which is more than 0.05. Hence the hypothesis is accepted at 5% level of significance and it is established that there is no significant association between type of banks and nature of credit availed by the sample borrowers.

Table 1

Bank Wise Nature of Credit Availed

Nature of Credit	Name of the Bank			Total	Chi Square	P Value
	Com. Bank	RRB	Co-op. Bank			
Crop	57 (38%)	45 (30%)	38 (25.33%)	140 (31.11%)	**5.744**	**0.057**
Term	93 (62%)	105 (70%)	112 (74.67%)	310% (68.89%)		
Total	150 (100%)	150 (100%)	150 (100%)	450 (100%)		

Source: Primary Data

2. Bank Wise Type of Credit Availed

The sample borrowers were asked to state the type of credit they availed from banks classifying them in to General Agricultural Loan (GAL) and Agricultural Gold Loan (AGL). Table 2 depicts that largest majority (83.33%) of the borrowers availed the General Agricultural Loan, whereas only 16.67% of the borrowers availed Agricultural Gold Loan. The bank wise analysis states that only 11.33% of the borrowers of co-operative bank depend on AGL, whereas 18.67% borrowers of commercial bank and 20% borrowers of RRB depend on AGL. The Chi-square test reveals a higher 'P' value (0.095) than 0.05, hence the hypothesis is accepted at 5% level of significance. It establishes that there exists no significant association between types of bank and types of credit availed by the sample borrowers.

Table 2
Bank Wise Type of Credit Availed

Type of Credit	Name of the Bank			Total	Chi Square	P Value
	Com. Bank	RRB	Co-op. Bank			
GAL	122 (81.33%)	120 (80%)	133 (88.67%)	375 (83.33%)	4.704	0.095
AGL	28 (18.67%)	30 (20%)	17 (11.33%)	75 (16.67%)		
Total	150 (100%)	150 (100%)	150 (100%)	450 (100%)		

Source: Primary Data

3. Bank Wise Rate of Interest Charged

The rates at which the credit is availed by the sample borrowers are analysed bank wise and the result is given in Table 3. It becomes pertinent from the table that 90% of the borrowers availed the credit at a rate which is lower than 8%, of which 43.78% borrowers were at 'up to 4%' interest and 46.22% borrowers at '5% to7%' category of interest. The rest of the categories of interest occupies 4.22% and 5.78% borrowers respectively for '8% to11%' and 'above 11%' categories of interest. The bank wise analysis shows that majority of the borrowers of commercial bank (61.33%) and RRB (54.7%) availed the credit at a rate which is 'up to 4%' interest. However, 76.67% borrowers of co-operative bank have availed the credit at a rate which is in between '5% to 7%' category of interest.

Table 3
Bank Wise Rate of Interest Charged

Rate of Interest	Name of the Bank			Total
	Com. Bank	RRB	Co-op. Bank	
Up to 4%	92 (61.33%)	82 (54.67%)	23 (15.33%)	197 (43.78%)
5%-7%	36 (24%)	57 (38%)	115 (76.67%)	208 (46.22%)
8%-11%	7 (4.67%)	5 (3.33%)	7 (4.67%)	19 (4.22%)
Above 11%	15 (10%)	6 (4%)	5 (3.33%)	26 (5.78%)
Total	150 (100%)	150 (100%)	150 (100%)	450 (100%)

Source: Primary Data

4. Bank Wise Opinion of Borrowers as to Cost of Borrowings

The respondent borrowers were required to mark their opinion as to the identified elements of cost of borrowings under five point scaling and the scores were assigned as 1, 2, 3, 4 and 5 respectively for 'very high', 'high', 'medium', 'low' and 'very low'. Finally, they were totalled, averaged and ranked in the order of mean scores so obtained. The ANOVA test is applied to analyse whether there is any significant difference among the opinions of the borrowers of different banks as to the cost of borrowings and the result of the same is narrated in Table 4.

Table 4
Bank Wise Opinion of Borrowers as to Cost of Borrowings (ANOVA)

Cost of Borrowings	Mean Values				F value	P value	Action
	Com. Bank	RRB	Co-op. Bank	Total			
Application Form Fee	3.75	3.52	3.76	3.68	0.701	0.496	Accept
Processing Fee	3.72	3.51	4.26	3.83	8.445	0.000	Reject
Intermediation Charge	4.35	4.15	4.46	4.32	1.408	0.246	Accept
Transportation Cost	4.19	3.87	3.97	4.01	1.916	0.148	Accept
Documentation Charge	4.06	4.09	3.99	4.05	0.161	0.851	Accept
Registration Charge	4.46	4.53	4.37	4.45	0.391	0.677	Accept
Unauthorised Payments	4.44	4.40	4.45	4.43	0.030	0.971	Accept
Overall Cost	4.14	4.01	4.18	4.11	0.727	0.484	Accept

Source: Primary Data

It can be observed from the table that the 'P' value of overall cost of agriculture is more than 0.05 (0.484), hence the hypothesis is accepted at 5% level of significance. Therefore it can be concluded that there is no significant difference among banks with regard to overall cost of borrowings of agricultural credit.

It is also evident from the table that, for all the elements of cost of borrowing except 'Processing Fee' the 'P' values are more than 0.05, thereby revealing that there is no significant difference among the opinion of the borrowers of the types of banks as to these elements of cost of borrowings. But the 'P' value of processing fee is zero, indicating that there exists a significant difference among the borrowers of the banks as to the opinion of the same. In order to be more specific about this difference, Post Hoc test is conducted and its result is given in Table 5. It states that even though the ANOVA result reveals significant difference in the mean processing fee as a cost of borrowings of all the banks as a whole, no difference exist between commercial bank and RRBs (P= 0.511). The difference exists only between co-operative bank with commercial bank (P=0.012) and RRBs (P=0). As the mean value of co-operative bank (4.26) is higher than other banks, the processing fee of co-operative bank is lower as compared to other banks.

Table 5
Banks and Processing Fee - Post Hoc Test (Tukey HSD)

(I) Name of the Bank	(J) Name of the Bank	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Lower Bound
Com. Bank	RRB	.209	.189	.511	-.24	.65
	Co-op. Bank	-.543*	.189	.012	-.99	-.10
RRB	Com. Bank	-.209	.189	.511	-.65	.24
	Co-op. Bank	-.752*	.189	.000	-1.20	-.31
Co-op. Bank	Com. Bank	.543*	.189	.012	.10	.99
	RRB	.752*	.189	.000	.31	1.20

*Significant at 5% level

5. Bank Wise Security Offered by the Borrowers

In order to sanction agricultural credit the lenders usually demand certain items as securities. The security which have been offered by the borrowers to avail the credit is given in Table 6, which states that 321 (71.33%) of the total borrowers have given land as the security, in which co-operative bank occupies highest share (78.67%) followed by commercial bank (68%) and RRB (67.33%). Gold as security is given by 82 borrowers (18.22%) in which lower contribution is occupied by co-operative bank (12%) than RRB (18.67%) and commercial bank (24%). A total of 29 borrowers have given shares (6.44%) as their security in which RRB's share is the highest (8.67%) and the share of commercial bank and co-operative bank is the same (5.33%). FD Receipt, LIC Policies, and Salary Certificates were offered by a very nominal number which ranges from 0.67% to 0.89% of the total borrowers. It is also notable that 1.78% of the borrowers availed the credit without giving any thing as security against their credit.

Table 6

Bank Wise Security Offered by the Borrowers

Security Offered	Name of the Bank			Total
	Com. Bank	RRB	Co-op. Bank	
Land	102 (68%)	101 (67.33%)	118 (78.67%)	321 (71.33%)
Gold	36 (24%)	28 (18.67%)	18 (12%)	82 (18.22%)
Shares	8 (5.33%)	13 (8.67%)	8 (5.33%)	29 (6.44%)
FD Receipt	0 (0%)	2 (1.33%)	2 (1.3%)	4 (0.89%)
LIC Policies	1 (0.67%)	2 (1.33%)	0 (0%)	3 (0.67%)
Employees Salary Certificate	0 (0%)	2 (1.33%)	1 (0.67%)	3 (0.67%)
No security	3 (2%)	2 (1.33%)	3 (2%)	8 (1.78%)
Total	150 (100%)	150 (100%)	150 (100%)	450 (100%)

Source: Primary Data

6. Bank Wise Margin Money Requirement Faced by Borrowers

Banks in certain cases may fix some amount as margin money to be contributed by the borrowers towards the cost of project in order to sanction the credit. The margin money requirement faced by the borrowers of all the banks is noted in Table 7. The table states that the borrowers under the study were required to comply with margin money requirement only in 7.33% cases. Out of this, co-operative banks demanded it against 10.67% borrowers, RRBs against 8% borrowers and commercial banks against 3.33% borrowers. The test result (x^2) reveals that there is significant association between type of banks under study and margin money requirement as the 'P' value arrived at is less than 0.05 (P= 0.048).

Table 7
Bank Wise Margin Money Requirement Faced by Borrowers

Margin Money	Name of the Bank			Total	Chi Square Value	P Value
	Com. Bank	RRB	Co-op. Bank			
Required	5 (3.33%)	12 (8%)	16 (10.67%)	33 (7.33%)	6.082	0.048
Not Required	145 (96.67%)	138 (92%)	134 (89.33%)	417 (92.67%)		
Total	150 (100%)	150 (100%)	150 (100%)	450 (100.0%)		

Source: Primary Data

7. Bank Wise Time Taken to Disburse Credit

In order to have proper utilisation of credit by the borrowers, the credit should be made available to the borrowers in prompt time. The respondents were asked to give the period of time taken by banks to disburse the credit and the same is given in Table 8. It appears from the table that 31.11% of the borrowers availed the credit within one week of submitting their application, of which RRB's share is only 23.33%. However 35.78% borrowers state that two weeks' time was taken by banks to avail the same. 15.33%, 8.44%, 2.44%, and 6.89% of the borrowers availed the credit within a period of 3, 4, 5, and 'more than 5 weeks' respectively.

Table 8
Bank Wise Time Taken to Disburse Credit

Time taken (In weeks)	Name of the Bank			Total
	Com. Bank	RRB	Co-op. Bank	
1	51 (34%)	35 (23.33%)	54 (36%)	140 (31.11%)
2	54 (36%)	46 (30.67%)	61 (40.67%)	161 (35.78%)
3	24 (16%)	40 (26.66%)	5 (3.33%)	69 (15.33%)
4	10 (6.67%)	17 (11.33%)	11 (7.33%)	38 (8.44%)
5	6 (4%)	3 (2%)	2 (1.33%)	11 (2.44%)
>5	5 (3.33%)	9 (6%)	17 (11.33%)	31 (6.89%)
Total	150 (100%)	150 (100%)	150 (100%)	450 (100%)

Source: Primary Data

CONCLUSION

The role of banks in agricultural financing is highly worth mentioning due to the fact that agricultural sector is facing the critical issue of shortage of finance for their agricultural operations. A proper identification and correction of these issues are of great significant in the present day context, which only can put forward practical solutions as initiatives. It comes to the conclusion that borrowers have different experiences in many respects as to the different elements of agricultural credit comprising favourable or not. So it can also be concluded that the appropriate authorities have to assume it as a major concern so as to arrive at workable solutions and policy initiatives for the betterment of the society in general and agricultural sector in particular.

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