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A STUDY ON RISK PERCEPTION OF COMMERCIAL BANK TOWARDS AGRICULTURAL FINANCE WITH SPECIAL REFERENCE TO ALAPPUZHA DISTRICT

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ABSTRACT

Agriculture is the foundation of a country like India where Kerala especially Kuttanad in Alappuzha district is called the rice bowl of Indian economy. Most of the agricultural land in Kerala is dying due to the non-availability of finance to support farming activities and due to lack of interest of local community towards agrarian activities. Only 30% of local community approaches commercial banks and organised financial institutions to avail credit facilities, rest are still under the clutches of local moneylenders. It is mainly because of lack of awareness of farmers towards various schemes of finance offered through banks or due to poor service of commercial banks. Banks always classify agricultural loans and credit under high-risk category or Non-performing category from their experience of default in payment of interest and principal from the part of farmers. The present study is an attempt to study the risk perception of commercial banks towards agricultural finance and perception of farmers towards various finance related matters in connection with agriculture.

KEYWORDS

agriculture, commercial banks, finance, risk perception.

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INTRODUCTION

Indian economy is an agricultural based economy as it provides food, clothing and other basic necessities for the entire society. It plays a crucial role in the economic life of the Indian society. In the Indian economy, agriculture contributes one-third of the national income. 50-70 percentage of export directly or indirectly originates from agriculture sector and it provides employment to around 60 percent of the workforce. It plays an inevitable role in the economic development and planning of the Indian economy.

To meet the various credit requirements of the farming community, the Government of India has initiated several policy measures and support schemes that are disbursed through multi-agency network consisting of Commercial Banks, Regional Rural banks and cooperatives. Before making any financial decisions, credit analysis should be done by banks and institutions as part of the screening process. The risk profile of borrowers that is trust worthy borrower with low credit risk would be granted loans while a high-risk borrower would be denied. A good pre-credit risk assessment helps financial institution on loan pricing, determining the loan amount, credit risk management and ensuring prompt and timely loan repayment by the borrower. Pre- Credit analysis also includes determining the financial strength of the borrower, estimating the probability of default and reducing the risk of non-payment to an acceptable level.

Realizing the importance of agriculture finance in fostering agricultural growth and promotion, the emphasis on the institutional framework for agricultural finance is being emphasized since the beginning of planned development era in India and still working on it.

REVIEW OF LITERATURE

Prasad (1969) in his study on, "Capital Investment in Agriculture-A Study in Regional Variations" classified the factors responsible for variations in the investment pattern into internal and external factors. The internal factors included those on which the individual has control like cropping pattern, type of farming, the resource position and the progressive nature of the cultivator. External factors are those that create opportunities or the necessary infrastructure conducive to the individual for investing capital in agriculture such as, construction of irrigation projects and provision of cheap credit.

Paradhasarathi (1978) in his work "Agricultural Finance by Commercial Banks Technicalities" stated that over dues had to be analysed by finding the reasons, which forced the loan to become overdue or debt. The causes might be the factors, which were controllable in nature as unsound lending policy, inadequate supervision by bank personnel, poor management by the farmers, or factors, which are uncontrollable in nature such as crop failure due to natural calamities.

Ashok Kumar, Pandey and Sushita Kaul (1987) in their article "Study of Growth and Disparity in Agricultural Advances by Commercial Banks" stated the number of commercial bank branches and their advances to agriculture in Kerala have growth with a compound growth rate of 10.5 per cent and 28.49 per cent respectively during 1969 and 1982. They also found that the per hectare flow in agricultural credit from commercial banks in Kerala increased from Rs. 28.70 during 1969 to Rs. 714.11 during 1982.

Bhat (1995) in his article "Agricultural Borrowers from Banks - A Profile and Policy Implications" has made and attempt to present the profile of the agricultural borrowers from commercial banks, RRBs and cooperative credit societies in Dakshina Kannada District of Karnataka. A high degree of inequalities exists in the ownership of land. The data reveals that 64.2 per cent of the sample beneficiaries are small farmers and 9.2 per cent are big farmers. The study shows that the inequality in the distribution of income is greater 127.8 than the distribution of land 90.4 among beneficiaries. He has suggested that, the cost of institutional credit to the target group should be lower than the cost of credit to the non-target group of borrowers, non interest cost of institutional credit to the target group should be reduced and it is essential to device new measures and schemes of lending to the target group against securities other than land.

S. Gandhimathi and S. Vanitha (2010) in their study "Determinants of Borrowing Behaviour of Farmers – A Comparative Study of Commercial and Cooperative Banks", analysed that the preference of farmers between commercial and cooperative banks for borrowing has been studied with the objectives of finding distribution of institutional credit across various categories of farmers and to assess the coverage and quantum of credit and socio-economic factors which tell on the borrowing behaviour of farmers towards commercial and cooperative banks. In the study, based on 100 farmer borrowers, the discriminant analysis has been carried out. The study has offered some suggestions also for a better access of farmers to institutional credit.

SIGNIFICANCE OF THE STUDY

To insulate farmers against the risks in agriculture, government has launched several schemes such as National Agricultural Insurance scheme and Weather index based crop insurance scheme. But their coverage seems to be limited among the farmers due to lack of full information. Likewise institutional finance is instrumental in acquiring productive form assets and development of irrigation facilities. But the recovery of loans granted through various institutions is become a difficult task which requires collective effort of banks and loaners.

STATEMENT OF THE PROBLEM

'Agriculture is the back-bone of Indian economy'. The agricultural sector is important for food security, employment generation and economic growth. But it is showing a downward trend. Green revolution in the early stage did augmented the food grain production but became a cause for unsustainable agriculture due to lack of knowledge base. In Kerala, especially in Alapuzha District agriculture and farming activities are the most overriding sectors of the economy.

Intitutional support is essential for the promotion and development of agricultural sector. Farmers approach banks and cannot get loan from the banks due to the reason of holding small sized land. Due to non availability of credit, lack of institutional support and substandard inputs, farmers have committed suicide at the age of 40-50. At the time of independence the most important source for agricultural credit was money lenders. Money lenders accounted for as much as 71.6 percent of rural credit during this period. The almost total dependence of the farmers on the money lenders, enabled them to dictate terms and exploit farmers in a number of ways like money lenders charged high rate of interest and also forced the farmers to sell their produce to them at lower prices.

The government of India mandated commercial banks to give credit facilities to the agricultural sector of the country in order to expand the scope of farm operations, adoption of new technologies, enhance optimal use of farm inputs and increase agricultural production and hence increase attainment of food self-sufficiency. Unfortunately inspite of the importance of loan in agricultural production, its repayment is fraught with a number of problems especially in the small holder farming. The poor repayment of loan has affected so many financial institutions to the extent of causing them to liquidate. Over the years, farmers have been found to be insensitive or unresponsive on repayment of agricultural loan obtained from the banks.

Because of the above cited importance, it is worthwhile to conduct a study on credit risk faced by commercial banks in Kerala with respect to agricultural finance with special reference to Alapuzha district.

RESEARCH OBJECTIVES

1. To analyse the risk perception of commercial banks towards agricultural finance with reference to Alapuzha district.
2. To study the socio-economic condition of the farmers availing agricultural loans from banks through various schemes.
3. To analyze whether there is any difference in the perception of commercial banks regarding agricultural finance and other form of finance.
4. To identify the various credit schemes followed by the commercial banks and the loans sanctions under various schemes.
5. To understand the risk mitigation measures implemented by the Government.

METHODOLOGY

The following methodology is adopted for conducting the present study. The study is an analytical one based on primary as well as secondary sources of data

SOURCES OF DATA

Both primary and secondary data are to be used for the study. Primary data is to be collected directly from commercial banks and farmers in Alappuzha district by using questionnaire and interview schedule. Secondary data is to be collected from published books, journals, magazines and websites.

POPULATION

The population for the study consists of commercial banks and farmers of Alapuzha District, Kerala.

SAMPLE

Random sampling method is adopted for selecting the sample population. There are 20 different kinds of commercial banks and around 122 branches in Alapuzha district. 5 branches of 12 banks ie.60 banks have been selected, representing different kinds of banks and data have been collected from 240 respondents (12 banks*20 framers).

TOOLS FOR ANALYSIS

For the purpose of analyzing and interpreting the data, percentages are to be used.

RESULTS AND DISCUSSIONS

Data collected from the commercial banks were

1. State bank of India
2. Bank of India
3. Canara Bank
4. Corporation Bank
5. Indian Overseas Bank
6. Central Bank of India
7. Bank of Baroda
8. Punjab National Bank
9. Syndicate bank
10. Union Bank of India
11. Oriental bank
12. UCO bank

TABLE 1: NATURE OF FARMERS

Type of farmers	Below 10 years	10-20 years	Above 20 years	Total
Traditional	20	120	20	160
Non traditional	20	45	15	80
Total	40	165	35	240

Source: Primary data

Interpretation: out of 240 farmers 160 are traditional farmers and rest are non-traditional.

TABLE 2: NATURE OF OWNERSHIP

Nature of land	Below 5 acres	5-10 acres	Above 10 acres
Own land	60	10	10
Leasehold	70	20	30
Tenant farming	10	10	-
Share cropping	20	-	-

Source: Primary Data

Interpretation: The above table shows the categorisation of farmers on the basis of nature and size of agricultural land

TABLE 3: SIZE OF CULTIVABLE LAND

Size of land	Below 2.5 acres	2.5-5 acres	Above 5 acres
Own land	40	30	10
Leasehold land	80	10	22
Teasant farming	10	10	-
Share cropping	20	-	-

Source: Primary Data

Interpretation: Table shows the size of cultivable land on the basis its nature.

TABLE 4: CROPPING PATTERN

Pattern	Below 2.5 acres	2.5-5 acres	Above 5 acres
paddy	100	30	30
vegetables	10	20	25
Tuberous	20	10	10

Source: Primary Data

Interpretation: Paddy is the main crop cultivated by the farmers

TABLE 5: REMEDIES TO AVOID DEFAULT PAYMENT

Remedies	Number	Percentage
Prior assessment of borrower	20	33
Collateral security	20	33
Crop insurance	16	28
Reminder	2	3
penalty	2	3
rewards	-	-
Total	60	100

Source: Primary Data

Interpretation: Banks can reduce the possibility of non payment of dues by resorting remedial measures

FIGURE 1

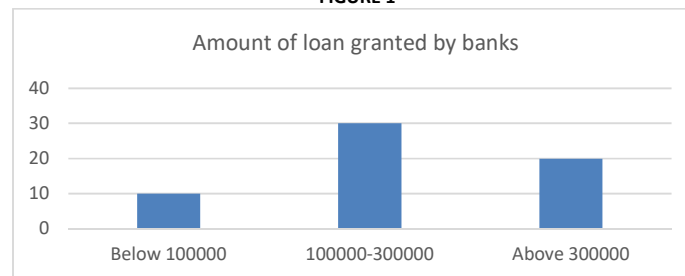


FIGURE 2

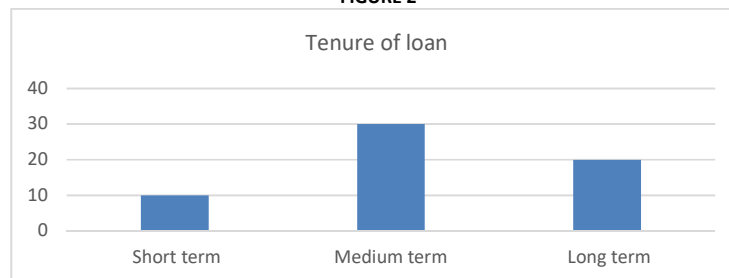


FIGURE 3

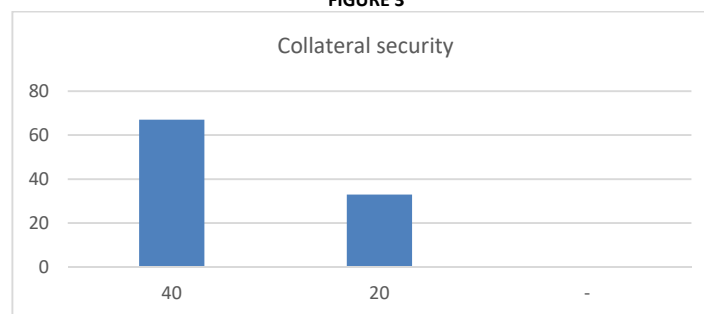


FIGURE 4

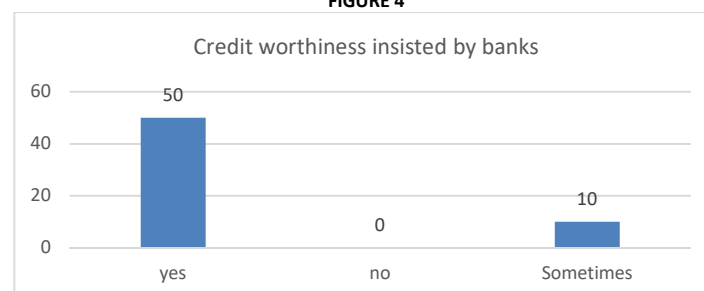


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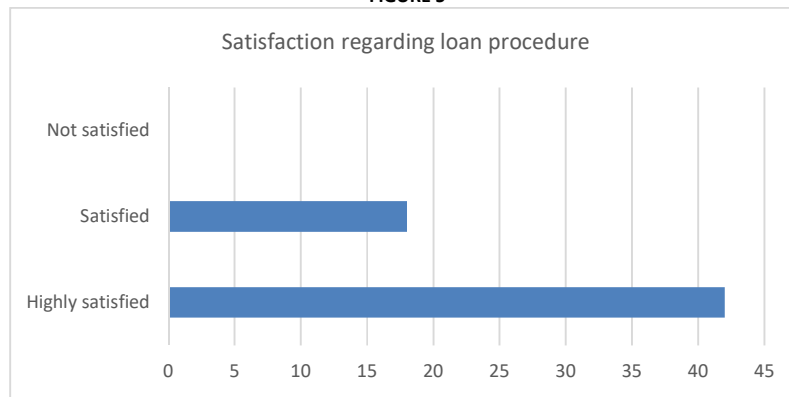


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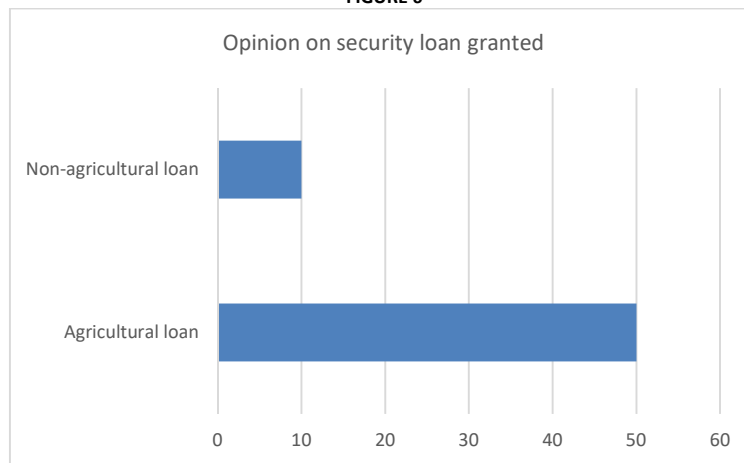


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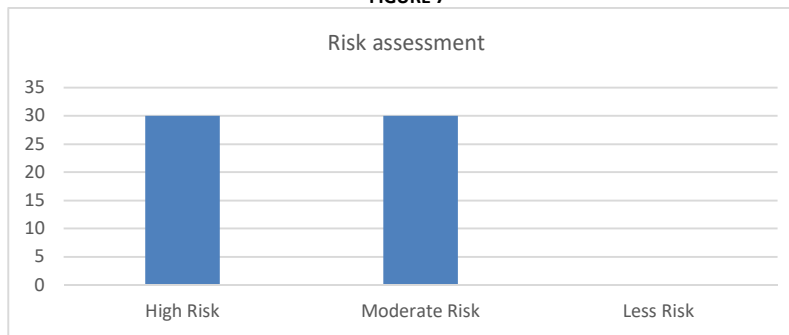


FIGURE 8

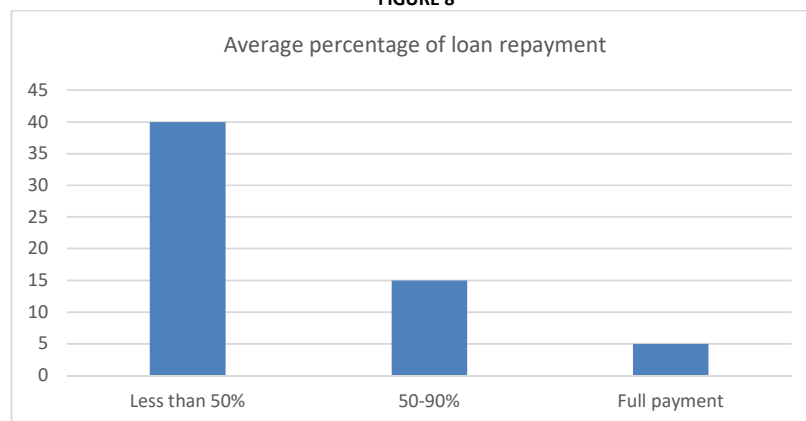


FIGURE 9

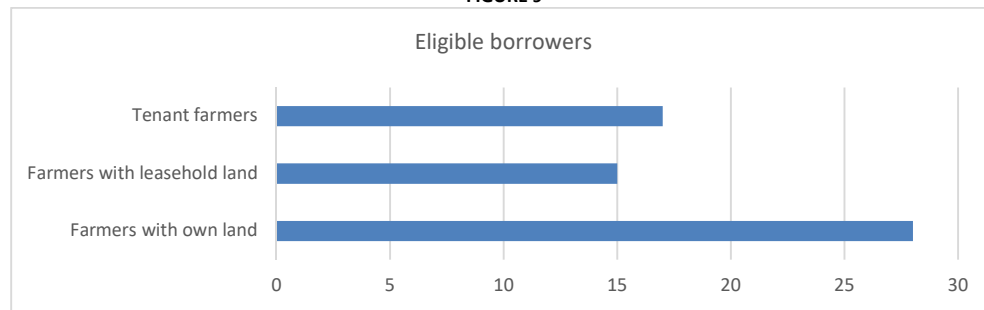


FIGURE 10

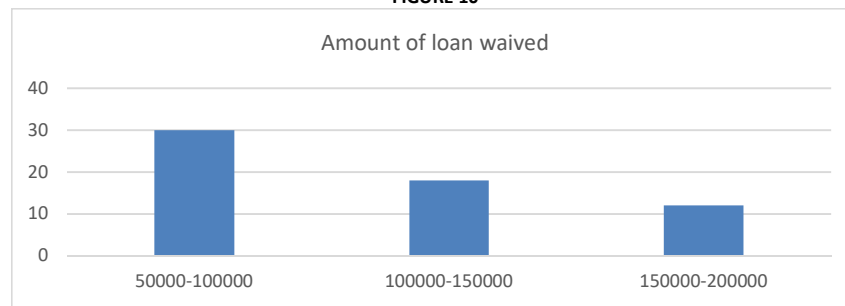


FIGURE 11

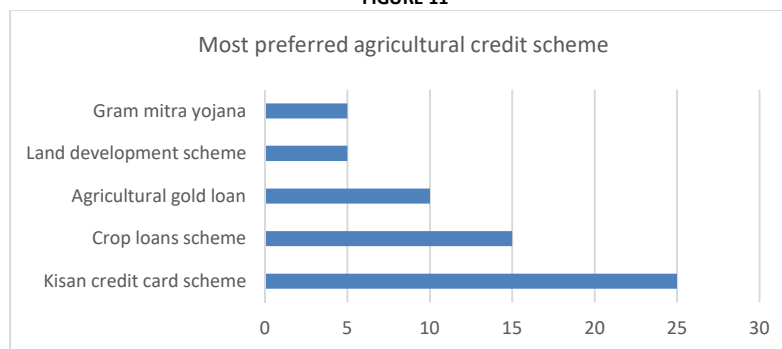
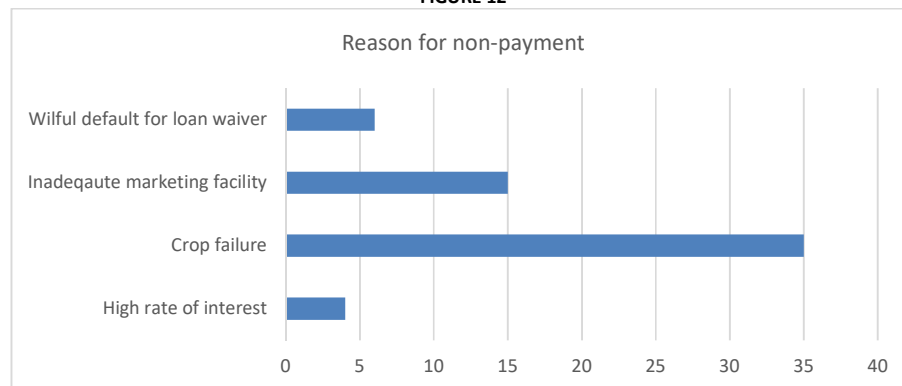


FIGURE 12



FINDINGS

The study was conducted among 60 branches of 12 banks. Among the 122 branches of 20 commercial banks and among 240 farmers. 5 branches of 12 banks were selected for the study to ease the availability of data

1. 5 branches of SBI, Bank of India, Canara Bank, Corporation Bank, Indian Overseas Bank, Central Bank of India, Bank of Baroda, Syndicate Bank, Union Bank of India, Oriental Bank of Commerce, UCO bank, were selected for the study.
2. 50% of banks prefer to give Rs. 100000-300000 as agricultural loan and 33% has given loan exceeding Rs. 300000.
3. Medium term loans are preferred by most of the commercial banks to secure their loan amount.
4. 67% of banks charges below 5% interest for most of the agricultural credit schemes offered.
5. 83% of banks always prefer to insist on bringing margin money for raising loans.
6. 67% of banks prefer collateral security at the time of availing loan, if loan amount exceeding Rs. 50000 and sometimes it is not mandatory for those farmers who have good track record with the bank.
7. 83% of banks assess credit worthiness of borrowers before granting agricultural credit.
8. 83% of banks are of the opinion that farmers are well aware about various schemes offered by the banks, 17% thinks that awareness level is nil.

9. 70% of banks thinks that farmers are satisfied with the loan procedures followed in their banks it is because most of the banks offer 'Help Desk 'facility for ill-literate farmers.
10. 83% of banks think that Non-agricultural loans are much secured than agricultural credit and 50% of them thinks that agricultural loans are highly risky and the other half thinks that they have moderate risk.
11. In the opinion of banks, very less percentage of farmers makes full settlement of their dues in time.
12. Banks grants loans mainly for development of agricultural alns. 13% grants for purchasing the agricultural land, 35% grants loan for purchasing fertilizers and seeds. Some banks grants loans even for paying-off the earlier debts of farmers.
13. 47% banks secure their loan by granting credit to farmers with own land, 28% grant loans to leasehold tenants, 25% to tenant farmers.
14. 50% are of the opinion that farmers sometimes make prompt payment which will depends upon the amount of loan and risk factor associated with their farming activities.
15. 50% of banks thinks that farmers are satisfied with the interest rates charged on various schemes, 33% thinks that farmers are highly satisfied in the interest rate offered on various agricultural credit schemes.
16. 92% banks undertake follow-up actions to secure their loans from becoming Non-performing asset.in order to avoid these banks always sends reminders and notices to ensure prompt and timely payment.
17. Most of the banks have waived agricultural loan once in 10 years.
18. 42% of banks thinks that their customers are highly satisfied in their services.
19. Banks thinks that crop failure is the main reason for non-payment of agricultural credit
20. Majority of the banks charge penal arte of interest from the default farmers.
21. 75% of banks have availed assistance from government in connection with agricultural credit.
22. 33% of banks thinks that prior assessment on credit worthiness of borrower and by means of collateral can reduce agricultural loans to become NPA. 28% thinks that farmers themselves can secure from losses by means of crop insurance. Reminders and rewards can reduce willful default of farmers to an extent.

SUGGESTIONS

From the findings drawn from the study, Followings suggestions are made.

SUGGESTION TO BANKS

1. The agriculture finance should be provided to fairly long period and it should be provided at lower rate of interest.
2. The finance should be granted against collateral security of borrowers.
3. Banks should make effort to establish a close relation with the borrowers.
4. Banks should conduct meeting in the villages of farmers to educate them regarding the various schemes offered by the banks.
5. Bank officers should render necessary advisory services to the borrowers. This post finance follow up action act as a check on finance utilisation.
6. Farmers should be provided guidance for improved farming techniques, balanced fertilisation, use of water saving devices and proper plant protection measures.
7. Viable schemes for soil and water conservation on water-shed basis should be formulated and implemented through bank finance in order to bring more area under cultivation and to increase the productivity of land.
8. The loans should be advanced only to the needy and deserving farmers who have high degree of integrity and are equipped with honest sense of financial management.
9. Publicity of agricultural finance schemes should be arranged through media like radio, television etc.
10. Banks should take efforts to send reminders and notices to ensure the prompt payment of borrowers
11. Banks should simplify their loan procedures so that farmers get access to Banks.
12. Banks should insist margin from borrowers while granting loans.
13. Prior assessment of credit worthiness and previous track record of borrowers can reduce risk in connection with agricultural credit.
14. Banks should advice farmers to undertake crop insurance policy to hedge them against crop failures.
15. Banks should waive loans of only trustworthy and high indebted farmers to avoid suicide and other life threatening issues.

CONCLUSION

The present study was conducted to analyse the attitude and perception of commercial banks in Kerala, particularly in Alappuzha district towards various credit facilities offered to farmers. It has been recognized that banks considers credit assistance for farming activities attract a substantial amount of risk from their earlier experience. Due to various factors such as crop failure, lack of availability of rain, lack of adequate marketing facilities farmers are unable to make prompt payment of their dues, which may ultimately increases their indebtedness and finally results in suicides, which is a social injustice to the mankind. Banks are taking efforts to avoid such evil effects through loan waiver scheme, crop insurance etc. It is to be concluded that government should redefine agricultural and credit policies such a way that farmers are get benefitted through various subsidies and concessions.

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