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Role of commercial banks in Agricultural and Rural Development

■ Dr. B.R. Dahe

Abstract:

It seems that Commercial banks are playing a vital role in the progress of the Agricultural and rural Development. The nationalized bank concentrated their attention on large cultivators and other special category farmers such as those engaged in raising high-yielding varieties of food grains. Commercial banks are financing co-operative societies to enable them to expand their production credit to the farmers. More especially, they increasingly finance co-operatives engaged in the marketing and processing of agricultural produce or in activities ancillary to agricultural such as dairy farming, poultry farming etc. in this connection; the state bank of India and its subsidiaries are already playing and active role in financing co-operative marketing and processing.

Introduction:

An important argument in support of bank nationalization was that commercial had kept themselves aloof from the problems of agricultural and had remained largely indifference to the credit needs of farmers for agricultural operations and land improvement. When social control of banks introduced in 1967, a rapid expansion in bank branches in rural areas was started. By July 1969, all commercial banks had over 1860 branches in rural and semi-urban areas; this number had increased to over 47,190 by March 2002 there are now over 16 million agricultural borrowing accounts with commercial banks amounting to Rs. 63,080 corers, as compared to only 0.2 million accounts with total outstanding advances to the extent of about Rs. 160 crore's in June 1969. A large number of village co-operatives are among the borrowers, some of them borrowing from other financial agencies as well.

Objectives of the Research Study:

1. To study the Role of Commercial Banks in Agricultural rural Development.
2. To study the Need and Importance of Commercial banks in Agricultural and rural Development.

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Research Methodology:

For the present research paper the secondary sources are used in which, economic survey of India, Indian banking system, Indian Economy, research papers, newspapers, relevant books and websites etc. statistical data retrieved from websites and analyses it.

Direct Finance by commercial banks:

At the time of nationalization, it was clearly conceded that the commercial banks did not have the necessary experience or the personnel to deal with the farmers directly, while the co-operatives had been specializing in rural Credit since the beginning of the country. Even then, the nationalized banks were expected to go vigorously in support of the farmers in general and the small cultivators in particular. In the initial stages for obvious reasons, the nationalized bank concentrated their attention on large cultivators and other special category farmers such as those engaged in raising high-yielding varieties of food grains. At present short term crop loans account for nearly 42 to 45 per cent of the total loans disbursed by the commercial banks to farmers. Term loans for varying periods for purchasing pump sets, tractors and other agricultural machinery, for construction of wells and tube-wells, for development of fruit and garden crops, or leveling and development of land for the purchase of plough animal, etc. are provided. These term loans account for about 35 to 37 per cent of the total loans disbursed by commercial banks. Finally, commercial banks extend loans for such activities as dairying, poultry farming, piggery, bee keeping, fisheries and others-these loans account for 15 to 16 per cent. Region wise, southern region accounts for the bulk of the credit disbursed by commercial banks viz., 52 per cent of the total credit extended.

Indirect finance by commercial Banks:

Even though the scope direct financing by commercial banks would be limited for some years to come, there is considerable scope for indirect financing by commercial banks. For instance, commercial banks are financing co-operative societies to enable them to expand their production credit to the farmers. More especially, they increasingly finance co-operatives engaged in the marketing and processing of agricultural produce or in activities ancillary to agricultural such as dairy farming, poultry farming etc. in this connection; the state bank of India and its subsidiaries are already playing and active role in financing co-operative marketing and processing.

Commercial banks are providing indirect finance for the distribution of fertilizers and other inputs.

Commercial banks extends credit to manufacturing or distribution firms and agencies and co-operatives engaged in the supply of pump sets and other agricultural machinery on a hire-purchase basis. They finance the operations of the food corporation of India, the state government and other in the procurement, storage and distribution of food grains.

Finally commercial banks increasingly subscribe to the debenture of the central land development banks and also extend advances.

Commercial Banks and Small Farmers:

It has been estimated that nearly 70 per cent of farmers owning less than 2 hectares of land are not getting bank credit; only large landowners have been found creditworthy and suitable for bank advances. But such a situation cannot continue for long. Under the direction of the planning commission, small Farmers development agencies (SFDAs) have been set up to identify small farmers and workout economically viable schemes of agricultural development. Commercial banks have to group them into various categories for credit support so as to enable them to become viable cultivators. For instance, in areas where the subsoil water table is high, the small cultivators have to be helped by bank to convert his dry holding into wet holding. With a pump set loan, the cultivators can change the cropping pattern into double or even multiple cropping activity. As regards small cultivators near urban areas and with irrigation facilities, commercial banks can help them to go in for poultry farming and maintaining one or two vegetable cultivation or combine it with small milch cattle.

RBI Guidelines for the Financing of Agricultural by Commercial Banks:

As far back as 1970, RBI circulated among all commercial banks a circular entitled "guidelines for the financing of agriculture by commercial banks" so that the rational, the policies and procedures for making agricultural loans might be clear to commercial banks.

a. Credit norms and scales of finance: Commercial banks should extend "credit not only to already viable cultivators for further increasing their surpluses but more important to marginal and potentially viable cultivators."

b. Margin for security: Banks were asked to be liberal their loans to the farmers, and were asked to keep as low a margin on the loans as possible. Most commercial banks were keeping 25 percent margin on the loans given to the cultivators.

c. Securities against loans to cultivators:

As lending was production-oriented, a mere change or hypothecation of crop should be sufficient for short term loans. Besides, pledge of produce, bank could also accept such securities as hypothecation of machinery, mortgage of land by deposit of title deeds, pledge of gold ornaments, guarantee of one or two solvent parties, etc.

d. Recovery of defaults:

Commercial banks should evolve a suitable set of rules and procedures to determine the circumstances in which defaults might be condoned on account of crop failures and the manner in which the farmer-borrower might be given relief, as for example, by the extension of the loan or its conversion from a short-term to a medium-term loan.

e. Need for coordination:

In the initial stages of the entry of commercial banks in the field of rural finance, there was unavoidable duplication; it was found that more than one commercial bank as well as cooperative society had financed the same purpose and against the same security. Such duplication would have to be avoided.

New Guidelines on Farm Credit, 1998:

- Free interest rates on farm loan.
- Scrap 18% target for agricultural lending.
- Modify service area approach.
- Offer farmers a composite credit package.
- Devise a liquid savings package.

Conclusion:

It seems that Commercial banks are playing a vital role in the progress of the Agricultural and rural development. Commercial banks are financing co-operative societies to enable them to expand their production credit to the farmers. More especially, they increasingly finance co-operatives engaged in the marketing and processing of agricultural produce or in activities ancillary to agricultural such as dairy farming, poultry farming etc. Commercial banks are providing indirect finance for the distribution of fertilizers and other inputs. Commercial

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