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FINANCIAL INTERVENTION AND CHANGES OF LIVELIHOOD PROMOTION THROUGH COMMERCIAL BANKS IN TIRUPUR DISTRICT OF TAMILNADU

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ABSTRACT

The institutional Credit in conjunction with modern agricultural technologies has ushered agricultural development across Indian regions. About 70 per cent of the population has been directly or indirectly depending on agricultural and allied activities. The moderate credit supply by the lending institutions enabled quick infrastructural growth across Indian regions and thereby improved level credit absorption capacity. In institutional finance to agriculture, Commercial banks including RRBs now are emerging in top ranking. There is a moan of release for the rural poor from the dreaded control of money lenders. NABARD as an apex institution of indirect financing to agriculture the progress achieved in refinancing is praiseworthy. Recent data reveals that 66% of householdsin rural areas are still away from getting banking facilities. Financial inclusion is very essential andcredit has played a vital role in agricultural development yet regional and the farm-category wise disparity has also taken place. Though financing of agriculture by commercial banks has proved its value in changing the economy of farmers by increasing their income and the system m is not free from some problems. This study is an attempt to find the problem faced by farmers and suggest some framework changes regarding problems and sound financing system for the near future.

KEYWORDS: *Institutional Finance, Priority Sector, Financial Inclusion, Refinance, Agriculture, Households*

INTRODUCTION

The prosperity of the country depends on the agriculture sector. It plays a deliberate role in the economic life of the Indian society. In Indian economy, agricultureis the most important sector and agriculture sector accounts for 18 per cent of India's gross domestic product (GDP) and provides employment to 50 per cent of the country's workforce. India is the world's largest producer of agriculture products. The necessities of finance in the farming sector, very few farmers will have capital of their own to spend in agriculture. Thus, a need to take place to provide credit to all those farmers who have need of it. Small and marginal farmers need credit since their capital is locked up inloans and stock though the need is high at the time of crop season. Thousands of farmers are depending upon marginal and survival farming due to low yield. In fact, some of the states with better natural resource base have progressed well while some others lagged far behind. Similarly, a few farmers with enhanced resource endowments and access to financial and other institutions have marched faster while others could not do. Moreover, a variety of lending institutions together withthe liberal deployment of credit through various ongoing schemes including micro-financing saved rural dwellers. The commercial banks including regional rural banks (RRB's) provide both short term and mediumterm loans for agriculture and allied activities. The National Bank for Agriculture and Rural Development (NABARD)is the apex institution at the national level for agriculture finance and provides refinance assistance to the above agencies.

CATEGORIES OF AGRICULTURAL CREDIT

- · Short term
- · Medium term
- · Long term

Short term credit between 3 months to 15 monthsit is seasonal and used for operational expenses. This kind of credit is required by all farmers.

Medium-term credit between 15 months to 5 years for the purchase of cattle, small agricultural implements, repairs, and constructional wells etc.

Long term credit needs are essential for the stable improvement on lands, digging tube wells, purchase of larger agricultural implements and machineries like a tractor, harvesters,etc and repayment of old debts. The period of such credit extent beyond 5 years. Commercial banks provide two types of loan. Crop loan is a short term loan, stands due for reimbursement instantly after the harvesting of the crop whereas investment loan is a long term loan required for the purpose of capital formation on land.

Commercial Banks and Rural Credit

Government and RBI views in respect of agricultural credit policy can be divided into two categories

Period Before 1970

Before 1970 the government was dedicated to the exclusive development of cooperatives as a major source of institutionalcredit in rural areas.

Period Since 1970

Two major developments tookplace; the first was the green revolution in the wake of the adoption of the new agricultural technology. The second was the nationalization of 14 Commercial Banks in July 1969 (six more commercial banks was nationalized in April 1980). Multi-Agency Approach (MAA) was established regarding agricultural and rural credit. Institutions known as Regional Rural Banks and the farmer's service societies were also set up during this period.

The role of commercial banks in rural credit was very significant as evidenced from the all India Rural Credit Survey Report. The Government of India expects that the nationalized banks should play an important role in rural finance by vigorously expanding their branches rural areas directly financing the farmers. Now, direct loans are given to the farmers by the nationalized banks for purchasing pump-sets, tractors, agricultural machinery, construction of wells, leveling and development of land, purchase of cattle, and cattle feed, poultry farming, and also raising high yielding varieties of food grains. In order to bring even small farmers under thefold of agricultural credit extended by the banks, Small farmer's Development Agencies have been registered in some districts as per the direction is given by the planning commission.

Guidelines of RBI to Commercial Banks on Farm Credit

RBI issued guidelines to schedules commercial banks to take appropriate steps for the flow of credit to the farm sector. This was done on Government's directive to RBI and also to NABARD to re-schedule all loans to farmers following crop failure in several parts of the country. The banks have been active in pursuit of the RBI set target to take banking services to every village with a population of 2,000 or more. The share of rural deposits in total deposits has gone up significantly from 3 per cent in 1969 to about 15 percent presently, indicating the greater stress laid on rural banking. Aggregate deposits in 2014-15 formed as high as 67.9 per cent of the national income whereas the corresponding ratio was only 17 per cent in 1969. This indicative of the fact that bank deposits have been growing at a rate much faster than the rate of growth of national income. It has become the most spectacular innovation in the commercial banking sector. Commercial banks shifted their focus from traditional need-based lending to the broad-based portfolio retail lending has become a mainstream business and an important contributor to their profitability.

Table 1: Number of Commercial Banks in Tamil Nadu (At the end of March 2015)

Bank Group	Bank Offices
Nationalized Banks	5078
State Bank of India and its Associates	1291
Foreign Banks	32
Regional Rural Banks	448
Private Sector Banks	2592
Total	8678

Source: Quarterly Statistics on Deposits and credit of Scheduled Commercial Banks, March 2015

The above indicates that there were 5078 nationalized banksand 32 foreign banks and 2592 private sector banks operating for providing credit to agriculture, industry and rural areas. There were totally 8678 Commercial banks operating in various districts of Tamilnadu for rural growth and economic development.

Source: State -level Banker's Committee Tamil Nadu

Table 2: Major Sector-Wise Allocation Under Annual Credit Plan(ACP) By Districts 2014-15 (At the End of March 2015) (Rs.in Crores)

District	Allocation			
	Farm Sector	Non-Farm	Other Priority Sector	Total
Coimbatore	4336.01	4168.00	1722.00	10226.01
Tiruppur	2150.38	4239.64	720.17	7110.19
Erode	3233.00	1653.00	1123.00	6009.00
Tiruchirappalli	2921.48	600.75	1126.67	4648.90
Karur	1181.83	696.13	463.19	2341.15
Salem	2437.59	439.91	1133.34	4010.84
Namakkal	1841.00	506.00	720.00	3067.00
Dharmapuri	1958.53	229.72	595.42	2783.67
Krishnagiri	2063.67	561.06	485.60	3110.33

The above table shows major sector-wise allocation and achievement of Commercial Banks in different districts of Tamilnadu. Coimbatore district has allotted high amount than others and Tiruppur got Rs. 7110.18 crores next to Rs.10226.01 cores in total and lowest allocation including farm, non-farm sector and other prority sector for Karuris Rs.2341.15 crores.

OBJECTIVES OF THE STUDY

1. To study the socio -economic conditions of farmers in the sample area
2. To study the role and performance of commercial banks financing to agriculture.
3. To identify the problems faced by farmers in getting agricultural finance by commercial banks

REVIEW OF LITERATURE

Chinna s.s. (2002) observed that the Commercial Banks were persuaded to provide more and more credit to the agriculture sector, but it has been observed that Commercial banks could not sanction due to different factors. Furtherstated that hence the 14 nationalized Commercial banks with the objective to give an easy and cheap loan to the farming society. The Commercial and Cooperatives banks have to follow the instructionsof the RBI. A low rate is charged for the short-term credit and high rate is charged for long term credit.

Misra J.P.and Maurya S.K. (2006) examined that the use of capitalin agriculture is an important Factor in increasing agricultural production and productivity. They have made an attempt to analyze the impact of commercial banks finance, on income and employment of the farmers and examine the cost of borrowing, repayment performance and problems of over dues. The capital formation in agriculture as well as modern input us is largely on credit.

Aravazhi and V. Selvanathan (2008)analyzed the problems of the borrowers and lenders in lending and recovery of crop loan in their article titled “Holistic Approach to Lending and Recovery of Loan”

R.C.Rajamani (2009) in his article entitled, “ Agriculture and Rural Development” examined that the responsibility of Government in farm credit disbursement and also analyzed that this special concentration on agriculture and rural development must inspire great effort by India’s farmers to cultivate more and contribute a high percentage.

Seena P.C (2015) this paper express the management of agricultural credit in India and the effect of various banking sector restructuring on agriculture. She pointed outthat the performance of agricultural credit in India expose on the whole flow of institutional credit has greater than over the year, there are numerous gaps in the systemlike insufficient provision of credit to small farmers, restricted deposit mobilization and intense dependence on borrowed funds. Efforts are required to address and set right these issues. Banking sector reforms like fixing prudential norms, reduced SLR, banking diversification all affect the Indian agricultural sector.

P. Sathish of the National bank for Agricultural and Rural Development (NABARD) in his important analysis on repositioning RRBs as the chief arm of the agricultural credit assistance equipment in India to highlight on mounting the act of RRBs with the reason of attractive banking services to the village to cover up such categories of rural masses, which till now were measured firm by other institution particularly the commercial banks. He stated the view that connection between fund banks and RRBs needs to be changed. The time has come in general leadership and advice of NABARD.

RESEARCH DESIGN AND METHODOLOGY

Primary data are collected through a questionnaire from the sample area. Purposive discussion with banks staff is conducted regarding problems and remedial measures. Secondary data from various committee reports RBI bulletin are collected from a research point of view. A sample unit of 80 borrowers from sample area (kangayam block) in Tiruppur district financed by various commercial banks are collected and this unit is further stratified in small, medium, and large farers in the ratio 3:2:1 weightage is given according to their numbers in universe (total). Borrower farmers through questionnaire were asked about some problems mentioned in questionnaires to answer with preference order. Data are collected, classified and tabulated moreover result is presented in tabular form.

LIMITATIONS

The major limitations of the study follow

- The study is prepared by both primary and secondary data and documents published by the government. Therefore, any manipulation in secondary data will direct to wrong analysis.
- The study does not cover all the issues of Commercial banks because of time constraint but an attempt is made to cover all the important issues in this study.
- The results can be contradictory if it is obtained from the source of information.

ANALYSIS AND INTERPRETATION OF DATA

Data received through the questionnaire are analyzed in three different categories. A.Problems of marginal and small farmers B. Problems of marginal farmers C. Problems of large farmers. Almost al marginal and small farmers responded about problems and there high rank problems are pointed out like a high rate of interest on the loan, lack of financial knowledge about bank products and plans and awkward process of getting loans and lack of security and collateral. Marginal farmers are responded their problems rank wise as cumbersome process of getting a loan, lack of financial knowledge and high rate of interest. Bank personnelis not cooperate with them reported by this group. Responded major problems of large farmers are a cumbersome process of getting the loan, bank personnel is not cooperative, lack of financial knowledge and high rate of interest. Some common problems faced by all the three groups of farmers are a cumbersome process of getting the loan, high rate of interest and bank personnel is not cooperative

Table 3: Problem Faced by Small Farmers (Rank Wise)

High rate of interest on the loan	I
Lack of financial knowledge	II
Cumbersome process of getting loan	III
Bank personnel is not cooperative	IV
Lack of security of collateral	V
Fear factor about recovery process	VI

Table 4: Problem Faced by Marginal Farmers (Rank Wise)

Cumbersome process of getting the loan	I
High rate of interest on loan	II
Lack of financial knowledge	III
Bank personnel is not cooperative	IV
Fear factor about recovery process	V

Table 5: Problem Faced by Large farmers (Rank Wise)

Cumbersome process of getting loan	I
Bank personnel is not cooperative	II
Lack of entrepreneurship in agriculture sector	III
High rate of interest on loan	IV
Loan amount is not sufficient	V

SUGGESTIONS AND CONCLUSIONS

The above study reveals that there are many studies are vague at the macro level on agricultural finance by Commercial banks but study at the micro level about problems faced by farmers is out of vague and need of real-time approach. The present study is an attempt in this regard and will serve support for future policymakers. All categories of farmers have responded high-interest rate and cumbersome process of getting the loan. Policymakers must simplify the procedure of agriculture credit, the interest rate for marginal and small farmers should be reduced and about the problem of lack of cooperation by bank officials, training college of bank officers should provide compulsory rural oriented training. Education about financial knowledge (financial inclusion) to marginal farmers is spread through NGOs and educational institutions. Role of government must be adhesive to infrastructure development like road, transport, irrigation, and electricity. Micro financing (bank linkage) is the right step for financial inclusion. Recovery procedure of bank amongstrural poor should be reduced through education and image of the bank be presented in rural society as a friend, philosopher, and guide.

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