

Agricultural Credit Initiatives and Service Quality: Rural Banking Perspective

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Abstract

India's rural and agricultural growth is significantly influenced by regional rural banks. RRBs are important rural finance organizations that are in charge of providing various forms of agricultural credit to rural communities. Rural Regional Banks since its founding in 1975, [RRBs] have been essential to rural India's economic growth. Through its extensive network, the RRBs have expanded their influence into India's rural areas. Farmers mainly depend on institutional loans, faces problems like complicated processes, delays, poor service etc. These difficulties may have intensified during the COVID-19 pandemic, examines how well have RRBs handled the crisis and borrower services and borrowers view on service quality.

Keywords: Agricultural credit, KGB, Service Quality, Rural Banking

Introduction

India's rural population is heavily indebted and vulnerable to credit market exploitation due to high interest rates and difficult access to credit. The creation of Regional Rural Banks (RRBs) was suggested by the Narasimham committee on rural credit because they would be more suited to serve rural communities' requirements than commercial or cooperative banks. By offering credit and other services to support the growth of agriculture, trade, industry, and other related activities, regional rural banks aim to strengthen the rural economy. Since their establishment in 1975, the Regional Rural Banks have grown in significance as unique organizations that act as catalysts for the development of rural communities. RRB Act of 1996 specify that the RRBs were created to develop the rural economy by providing financial help for the development of agriculture, trade, commerce, industry, and other productive activities, particularly to small and marginal farmers, agricultural laborers, artisans, and small entrepreneurs and for matters connected therewith and incidental thereto.

The Indian economy is heavily dependent on agriculture. The growth of industries like tea, sugar, and textiles is largely dependent on agriculture. The availability of inputs from the agricultural sector is critical to the success of these agro-based companies. Wayanad's agriculture is currently dealing with a number of issues. For a variety of factors, agricultural production and goods have substantially declined over time. The high number of farmer suicides in the area, which were linked to farming losses, made headlines. Numerous micro and macro level factors, such as policy changes, institutional factors, socioeconomic factors, geographical peculiarities, the effects of climate change, inadequate investment in agriculture, and inadequate infrastructure facilities, have been identified as causes of agricultural failure in this area. Small and marginal farmers as well as agricultural laborers in Wayanad District can obtain affordable and generous credit facilities from RRBs. The rising cost of production and falling prices of produce, coupled

with globalization and decline in agricultural credit, are creating unsustainable debt burdens for farmers, leading to farmer suicides (Vandana Shiva, 2005), stated that a comprehensive policy needs to be developed, taking into account all aspects related to agricultural reforms, rural credit system, agricultural insurance, crop rotation, employment opportunities and the role of Panchayat Raj institutions. The emerging role of banking in agriculture and allied sectors and private-public partnership in agricultural credit (Deepak Kumar, 2005), study noted that government policies are forcing banks to provide more credit to the agricultural sector and that banks are getting involved in agricultural clinics and marketing of agricultural products. It was suggested that the need of the hour is to utilize the existing resources and make banks more involved in the agricultural sector.

Giving priority sectors credit at concessional interest rates would assist farmers in implementing new technology and promote investment to boost agricultural productivity (Gagan Bihari Sahu et al. 2005), pointed out that banks suffered significant losses when loans were disbursed without first evaluating the borrowers' viability, feasibility, and entrepreneurial experiences. Emphasize how important it is for farmers to have institutional credit, highlighted that the government policies and involvement have played a critical role in the development of agricultural lending in India (Gourav Vallabh et al., 2006). Rural development and agriculture are essential components of India's development plans, programs aimed at reducing poverty and improving rural infrastructure are intended for the most vulnerable segments of society (Selvakumar, 2010)

Statement of the problem

The rural economy depends heavily on agriculture, and increasing agricultural production and farmers' standard of living requires prompt access to institutional financing. Regional Rural Banks (RRBs), have launched a number of agricultural credit initiatives to help rural farmers particularly kisan credit card. Despite these initiatives, many farmers still have trouble obtaining and making good use of official loans particularly in Covid-19 pandemic period. Not only the availability of credit but also the quality of service is one of the main concern, need to examine the agricultural credit initiatives of financial institutions and service quality of a rural banking.

Objectives of the Study

1. To assess the RRBs target and achievement in agricultural credit during Covid-19 pandemic period.
2. To examine the Perception of agricultural loan beneficiaries on the quality of service provided by Kerala Gramin Bank in Wayanad.

Hypotheses of the Study

H1: The perception on quality of services provided by RRBs are independent of the Revenue division and category of agricultural loan beneficiaries.

Agricultural Credit in India

Over the past fifty years, agricultural growth has received a lot of attention, particularly under different five-year plans. Farmers have access to bank credit in two forms: short-term credit for financial crop production programs and medium-term/long-term credit for capital investments in agriculture and related activities, such as land development, which includes land acquisition, minor irrigation, farm mechanization, diary development, poultry animal husbandry, fisheries, plantations, and horticulture.

Rural Banking and Agricultural credit

The Indian banking industry has served as the foundation of the country's economy. The improvement of the rural sector is the only way to achieve our nation's economic development. Farmers, agricultural workers, craftspeople, etc. make up this group. Seventy percent of people in a developing nation like India work in agriculture. Specialized financial institutions were established to efficiently address the demands of the rural sector. In the Indian financial sector, regional rural banks are regarded as an innovative one. In order to promote agriculture, trade, commerce, industry, and other productive sectors in rural areas, RRBs offer improved loan facilities to small and marginal farmers, agricultural laborers, craftsmen, and small business owners.

Agricultural credit initiatives: Institutions wise: In India, agricultural credit accessibility is through a multiagency system that consists of scheduled commercial banks, RRBs, and cooperative banks.

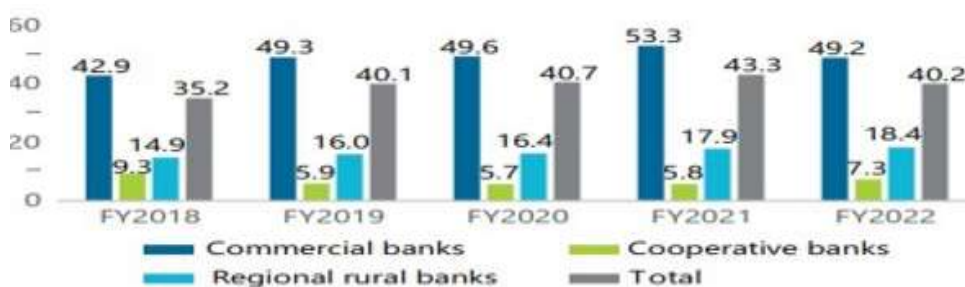
Table 1. Institutional credit : Share of term loan in total agriculture credit

Financial Year	Commercial Banks (%)	RRBs (%)	Cooperative Banks (%)	Total (%)
FY2018	42.9	14.9	9.3	35.2
FY2019	49.3	16.	5.9	40.1
FY2020	49.6	16.4	5.7	40.7
FY2021	53.3	17.9	5.8	43.3
FY2022	49.2	18.4	7.3	40.2

(Source: NABARD Annual Report)

Table 1 gives the institution wise share of term loan in total agriculture credit from the year 2018-2022. Commercial banks hold the largest share of term loans in agricultural credit, increased from 42.9% in 2018 to a peak of 53.3% in the year 2021. RRBs share showed a steady increase that is 14.9% in the year 2018 to 18.4% in FY2022. Analysis shows the effectiveness of RRBs in providing services to agriculture sector. Cooperative banks share showing a declining trend that is from 9.3% in FY2018 to a low of 5.7% during 2020. Out of total agricultural credit the share of term loans in total increased from 35.2% in FY2018 to 43.3% in 2021 at its peak

Figure 1: shows that overall upward trend in the performance of commercial banks in agricultural term loan. It reveals the growing reliance on commercial banks for agricultural term loans. Commercial banks share decreased in the year 2022, due to increase in RRB share in the same year. RRBs performance affected the performance of commercial banks.



(Source: Table.1)

Table 2. Agricultural credit: Institutional performance (Pandemic period 2020-2021)

Agricultural credit target and achievement: Institutional performance (Covid: Pandemic period 2020-21) Rs. in Lakh crore						
Institution type	Crop loan		Term Loan		Total	
	Target	Achievement	Target	Achievement	Target	Achievement
Commercial Banks	6	5.5	4.9	6.3	10.9	11.8
RRBs	1.4	1.5	0.5	0.4	1.9	1.9
Cooperative Banks	1.9	1.8	0.3	0.1	2.2	1.9
Total	9.3	8.8	5.7	6.8	15	15.6

(Source: NABARD Annual Report)

Agricultural credit consists of crop loan and term loan. Table 2 shows the institutional wise performance in agricultural credit during Covid-19 pandemic period in terms of both term loan and crop loan during 2020-21.

Figure 2. Agricultural credit target and achievement



(Source: Table 2.)

During Pandemic period commercial banks target fixed for crop loan is 6 lakh core but achievement is Rs.5.5 lakh core. RRBs achievement for crop loan is Rs.1.5 lakh core out of target Rs.1.4 lakh core. In case of term loan RRBs achievement is Rs. 0.4 lakh core against Rs.0.5 lakh core target, good performance as compared to Co-operative Bank.

Perceptions of agricultural loan beneficiaries on quality of service provided by KGB

Revenue division (Taluk)and Category wise analysis: On the basis of amount of loan borrowed, the borrowers are divided into four categories: marginal, small, medium, and large. Those who borrow up to Rs. 50,000 are marginal borrowers, small borrowers are those who borrow between Rs. 50,000 and Rs. 300,000, categories of borrowers who borrow between Rs. 3 lakhs and Rs. 10 lakhs is called as medium , and borrowed more than Rs. 10 lakhs is comes under the category of large borrower.

Table. 3. Distribution of Sample Respondents on the Basis of Taluk and Category of Borrowers

Taluk	Marginal Borrowers		Small Borrowers		Medium Borrowers		Total	
	No	%	No	%	No	%	No	%
Mananthavady	7	30	29	34	4	33	40	33.3
Sulthan Bathery	8	33	27	33	5	40	40	33.3
Vythiri	9	37	28	33	3	27	40	33.3
Total	24	100	84	100	12	100	120	100

(Source: Survey Data)

Of the total 120 sample borrowers, 24 (20%) are marginal borrowers and 84 small borrowers (70%). The number of medium borrowers is 12 (10%). It is also noted that there are no large borrowers in the sample population who availed more than Rs. 10 lakhs.

Level of Perceptions of beneficiaries about service quality of Kerala Gramin Bank

Reliability, Regularity of service, Awareness, Promptness, Empathy and Timeliness are the various attributes related to service quality. Majority of beneficiaries have opined that the bank possess moderate level in all attributes of service quality.

Table.4. Level of Perceptions of agricultural loan beneficiaries on service quality

Level of Perceptions on service quality components						
Attribute	Excellent	Good	Moderate	Poor	Very poor	Total
Reliable	26	32	34	22	6	120
	[22%]	[27%]	[28%]	[18%]	[5%]	[100%]
Regularity of service	25	32	35	22	6	120
	[21%]	[27%]	[29%]	[18%]	[5%]	[100%]
Assurance	26	31	35	22	6	120
	[22%]	[26%]	[29%]	[18%]	[5%]	[100%]
Promptness	25	32	34	23	6	120
	[21%]	[27%]	[28%]	[19%]	[5%]	[100%]
	[21%]	[27%]	[29%]	[18%]	[5%]	[100%]
Empathy	25	31	34	23	7	120
	[21%]	[26%]	[28%]	[19%]	[6%]	[100%]

(Source: Survey Data)

Perceptions of beneficiaries about service quality of Kerala Gramin Bank- Revenue division -wise Comparison

In order to verify whether there is any Taluk-wise variation in the Perceptions of loan beneficiaries about service quality, one way ANOVA is applied and the test result found that there is significant variations in the perceptions across three Taluks (Table.5).

Result of ANOVA: H1a

Table 5. Shows the result of ANOVA of revenue division (Taluk) wise perception of agricultural loan beneficiaries on service quality of KGBs. There is significant Taluk wise variations in the perception of beneficiaries on service quality of RRBs.(P value-.000, at 1% level of significance)

**Table 5. Mean Score Difference in the Perception about service quality
One-way ANOVA(Taluk wise)**

Sl.No	Taluk	Number of Respondents	Mean	S.D	F	P. Value
1	Sulthan Bathery	40	17.25	6.68	9.833	.000 ***
2	Vythiri	40	23.65	5.59		
3	Mananthavady	40	20.25	7.02		
	Total	120	20.38	6.92		

(Source: Survey Data), *** 1% level of significance

Result of ANOVA: H1b

Table 6. Shows the result of ANOVA of category wise perception of agricultural loan beneficiaries on service quality of KGBs. There is significant category wise variations in the perception of beneficiaries on service quality of RRBs.(P value-.000, at 1% level of significance)

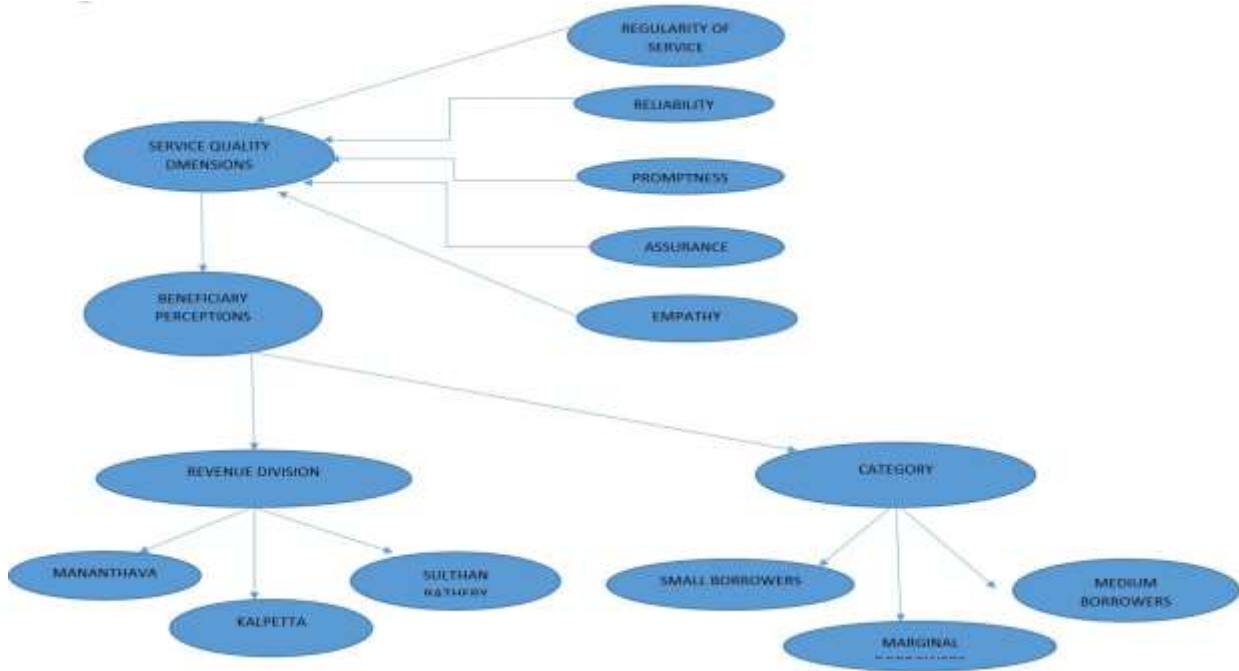
Perceptions of beneficiaries about service quality of Kerala Gramin Bank- Category-wise Comparison.

**Table 6. Mean Score Difference in the Perception about service quality
One-way ANOVA(Category wise)**

Sl.No	Category	Number of Respondents	Mean	S.D	F	P. Value
1	Marginal Borrowers	40	17.000	7.44	4.009	.000***
2	Small Borrowers	40	21.05	6.67		
3	Medium Borrowers	40	22.50	5.79		
	Total	120	20.38	6.92		

(Source: Survey Data) ***1% level of significance

Conceptual model of perception of beneficiaries on service quality of KGB(Figure. 3)



Findings

- Commercial banks share of term loans in agricultural credit, increased from 42.9% in 2018 to a peak of 53.3% in the year 2021.
- RRBs share of term loans in total agricultural credit showing an increasing trend, 14.9% in the year 2018 to 18.4% in FY2022
- Commercial banks set a target of Rs. 6 lakh core for crop loans during the pandemic, but they only achieved Rs. 5.5 lakh core. Out of the aim of Rs. 1.4 lakh core, RRB has achieved Rs. 1.5 lakh core for agriculture loans.
- In case of term loans, RRBs well performed as compared to Co-operative Bank, achieving Rs. 0.4 lakh core against Rs.0.5 lakh core aim.
- Majority of beneficiaries have opined that the bank possess moderate level in all attributes of service quality.
- There is significant variations in the perception of agricultural loan beneficiaries on quality of service of Kerala Gramin Bank across three Taluks.
- The perception of agricultural loan beneficiaries from different categories on service quality of Kerala Gramin Bank is significantly different.

Policy implications

- Agricultural finance has significantly increased India's agricultural productivity. The overall flow of institutional credit has improved over time, but there are still a number of gaps in the system, such as inadequate credit for small and marginal farmers. Improving Small and Marginal Farmers' access to credit

- Simplify loan application procedures, minimize the need for collateral and encourage lending practices.
- Financial awareness and Literacy programme should be conducted by banks. Awareness campaign help farmers to know various loan schemes, documents to be filed for obtaining loan and repayment procedures.
- Bank should focus on service quality dimensions and develop category wise service strategies.
- Adopt technology to advance rural banking and extend mobile services and digital banking in rural area.

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