

**AGRICULTURE LENDING BY PUBLIC, PRIVATE
AND CO-OPERATIVE BANKS – A COMPARATIVE
ANALYSIS**

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CONTENTS

Sl. No.	Chapter Particulars
	CERTIFICATE
	ACKNOWLEDGEMENT
	LIST OF TABLES
	LIST OF FIGURES
	LIST OF APPENDICES
	LIST OF ABBREVIATIONS
1	INTRODUCTION
2	REVIEW OF LITERATURE
2.1	Growth in lending to different portfolio of agriculture by the banks
2.2	Recovery performance in each portfolio of lending by the banks
2.3	Methods adopted for enhancement of recovery by the banks.
2.4	Costs incurred by the borrowers in borrowing for different purposes.
2.5	Problems faced by the farmers in borrowing from the banks.
3	METHODOLOGY
3.1	Description of the study area
3.2	Sampling procedure
3.3	Nature and source of data
3.4	Analytical techniques employed
3.5	Definition of terms and concept used in the study.
4	RESULTS
4.1	Growth in lending to different portfolio of agriculture by the banks.
4.2	Recovery performance in each portfolio of lending by the banks
4.3	Methods adopted for enhancement of recovery by the banks.
4.4	Costs incurred by the borrowers in borrowing for different purposes.
4.5	Problems faced by the farmers in borrowing from the banks.
5	DISCUSSION
5.1	Growth in lending to different portfolio of agriculture by the banks.
5.2	Recovery performance in each portfolio of lending by the banks
5.3	Methods adopted for enhancement of recovery by the banks.
5.4	Costs incurred by the borrowers in borrowing for different purposes.
5.5	Problems faced by the farmers in borrowing from the banks.
6	SUMMARY AND POLICY IMPLICATIONS
6.1	Objectives of the study
6.2	Findings of the study
6.3	Policy implications
	REFERENCES
	APPENDICES

LIST OF TABLES

TABLE NO.	TITLE
3.1	Salient features of the Dharwad district and the Sample taluka.
3.2	Land utilization pattern in the Dharwad district and sample taluka
3.3	Cropping Pattern of the Dharwad district and sample taluka
3.4	Irrigated Area by different sources in the Dharwad district and sample taluka
3.5	Financial Institutions in the Dharwad district and sample taluka
3.6	Taluka wise Banking Institutions and lending to Agricultural Sector in 2005-06
4.1	Outstanding balance from agricultural portfolio to Syndicate Bank branch
4.2	Number of outstanding Loan account under Agricultural portfolio in Syndicate bank.
4.3	Outstanding balance from agricultural portfolio to Karnataka Bank Ltd.
4.4	Number of outstanding loan accounts under agricultural portfolio in Karnataka Bank Ltd.
4.5	Outstanding balance from agricultural portfolio to VSS Bank
4.6	Number of outstanding loan accounts under agricultural portfolio in VSS Bank
4.7	Average annual growth in outstanding balance and loan accounts for agricultural portfolio of banks
4.8	Priority Sector Advances by Syndicate Bank
4.9	Priority Sector Advances by Karnataka Bank Ltd.
4.10	Recovery performance in agricultural portfolio of Syndicate Bank
4.11	Recovery performance in agricultural portfolio of Karnataka Bank Ltd.
4.12	Recovery performance in agricultural portfolio of VSS Bank
4.13.	Methods adopted for recovery of loans from farmers by the banks
4.14	Interest Rate charged for Agricultural loans under priority sector lending.
4.15	Loan processing charges by Banks.
4.16	Average time taken to sanction loans
4.17	Cost incurred by borrowers in borrowing loans from the banks
4.18	Opinion of Borrowers with regard to borrowing.
4.19	Aggregation of clusters of variables on the performance of banks, according to the sample beneficiaries

LIST OF FIGURES

FIGURE NO.	TITLE
1.	Map of the study area
2.	Institutional Arrangement for Agricultural and Rural Credit in India.
3.	Sampling procedure of the study.

LIST OF APPENDICES

APPENDIX NO.	TITLE
1.	Blockwise performance under district credit plan, Dharwad district for 2005-06 as on March 2006.
2.	Lending to agricultural portfolio by the banks
3.	Scale of Finance for Various Crops in Dharwad district for 2005-06

LIST OF ABBREVIATIONS

Δ	Change
VSS	Vavasya Seva Sahkaral
T. E.	Triennium Ending
K.C.C.	Kissan Credit Card
S. S. I	Small Scale Industries
OB	Outstanding Balance
A/c	Number of Loan Accounts
NABARD	National Bank for Agriculture and Rural Development
NPA	Non- Performing Assets
SHG's	Self Help Groups
KACOMP Act	Karnataka Agricultural Credit Operation and Miscellaneous Provision Act

1. INTRODUCTION

Agriculture plays an important role in the economic development of India. Agriculture is the source of livelihood of more than 65 per cent of the population in India and contributes less than 20 per cent to GDP, with a sizable share of exports. To meet the requirement of the growing population and rapid developing economy, agriculture has to grow fast and get modernized. This requires the use of high pay off inputs, adoption of high yielding varieties, fertilizers, plant protection chemicals, modernized equipments and machineries which need huge investment. The rural agricultural sector of the Indian economy is labour abundant, land poor and capital scarce. So it would be very difficult to get the benefits of modernization of agriculture without adequate credit to the farmers at reasonable interest.

Farmers' access to credit of commercial banks (public and private banks) too has been a mirage for them in the given socio-economic and political conditions in the rural areas. The small farmers are the most hapless victim of the private money lenders who are free to recover their loans by high handed and attachment of the crop of the poor farmers as well as their personal belongings, land and living quarters.

Available resource base and the capacity to generate sufficient levels of financial resource within the rural sector particularly in agricultural sector are, however limited at present. Institutional financing viewed from this angle as a principal resource of external finance to support in a planned manner.

Institutional credit enables the farmer to procure the necessary wherewithal of production and creates conducive climate for enhanced output. Since institutional credit exerts a "push effect and has a catalytic role in development process, provision of adequate, timely and liberal credit to the farmer has become an integral part of the agricultural development policy in India. As a result, agricultural credit service in the country is provided through three main channels, viz., commercial banks including private sector banks in the recent years, regional rural banks and co-operatives.

1.1 Evolution of Institutional Financing to Agriculture in India

The informal credit system plays an important role in the economy even today. Despite its desirable features like timely availability, easy access, etc., the informal credit is more costly and above all not specifically geared towards productive purposes. Considering the need to provide cheaper and development oriented credit, formal institutional system of finance for agriculture in rural India commenced with the adoption of the Co-operative Credit Societies Act in 1904. Since then the formal credit system for agriculture has passed through multiple acts and policy reforms.

In the initial stage of the formal credit system, co-operative credit structure was relied upon to solve the problems of rural credit. Development of co-operatives has been envisaged as a strategy to build strength in the people with limited means, viz., small farmers, marginal farmers, artisans and agricultural labourers. The co-operatives were not only to provide cheaper credit for production purpose, but also to act as a life support system creating a self-perpetuating local income flows for the betterment of the people. Therefore, the advocates of the cooperative movement viewed cooperative financing agencies as providers of the best and long lasting solutions to the problems of rural credit and saving mobilization.

Over the period by following the Cooperative Societies Act, various committees such as the committee on co-operation (Mclagan) in 1915, the Central Banking Enquiry Committee in 1929, Sir Malcon Darling's Report in 1934, and the Agricultural Finance Sub-Committee (Gadgil) in 1944, were appointed to assess the different aspects of the rural credit system. The committees reemphasized the need for provision of finance both short and long term, to various economic activities such as minor irrigation, animal husbandry, horticulture and other micro-industries for rural development.

However, the later committees like the Rural Banking Enquiry Committee (Sir Purushottamadas Thakurdas) in 1949, the All India Rural Credit Survey Committee (Gorwala) in 1954, the committee on cooperative credit (Mehta) in 1960 and the All India Rural Debt and Investment study in 1962, indicated that co-operative credit movement has been

unsatisfactory and the growth of the cooperatives have not been uniform across the country. The prospect of government assistance by way of loans and subsidies was an inducement in most of the cases, in starting or organizing cooperative credit societies and cooperative movement was not based on genuine felt needs of the beneficiaries. Further, it was claimed that most of the members especially poor and illiterates were ignorant about the duties, responsibilities and of the principles of cooperative movement. Only the powerful and self-centered members cornered the benefits neglecting the weaker majority.

Hence, it was pointed out that the success of the co-operative system depends a great deal on the selfless leaders with know how of efficient management who take keen interest in organizing and serving their societies. Even after these observations, the All - India Rural Credit Survey during 1951-54, which made an agency-wise estimate of rural indebtedness and the report of which is considered as a classic on the subject, insisted on co-operative movement by stating that "Co-operation has failed, but co-operation must succeed," for the development of the rural economy.

1.2 Co-ordination of Agricultural Credit at National Level

During the first Five Year Plan (1951-56), the importance of credit for accelerating agricultural production was highly emphasized by the planners and the need for building a sound formal credit system was stressed for achieving the development goals. The involvement of RBI in institutionalizing operation of cooperative credit system in terms of guidance, concessional resources and training was enlarged further and the partnership of the state governments in the cooperative credit institutions become an important feature. The problem of the non-viability of cooperative credit societies was a constant cause of concern to the policy makers. The key role of coordinating the intensive effort on the credit side was assigned to the Reserve Bank of India (RBI). Two funds, viz., the National Agricultural Credit Fund meant to provide long term loans to state partnership in cooperatives and subscription to the debentures of the Land Mortgage Banks and the National Agricultural Credits (stabilization) fund to facilitate conversion of short term cooperative loans issued by the cooperatives during the periods of natural calamities into medium term loans were constituted in the RBI.

The All - India Rural Credit Survey Committee (Gorwala), 1954, pointed out that the development of cooperative credit movement had been inadequate in coverage and recommended its reinforcement by developing a three - tier cooperative credit structure. Subsequently, the committee for cooperatives credit (Mehta), 1960 recommended the development of a strong and stable institutional framework for cooperative societies. The Working Group on Cooperative Credit in 1955, Committee on Cooperative Administration in 1963, and a number of other committees also suggested many administrative, technical and financial measures for improving the workings of the cooperatives.

Apart from assistances in the form of financial contributions to the cooperative institutions through evolving institutional arrangements, especially for refinancing of agricultural credit by RBI, the efforts of cooperatives have been supplemented by involving the State Bank of India in 1955. The objective was to extend banking facilities on a large scale, more particularly in rural and semi-urban areas as an important instrument of rural credit supplementing cooperative institutions.

During 1950s and early 1960s, emphasis was laid upon restructuring the agrarian relations, institutional building, community development and institutionalizing the operations of the co-operative credit in terms of guidance, concessional resources and training. More specifically, the need for creation of a national level institution to provide funds by way of refinance to lending institutions was felt and the Agricultural Refinance Corporation (ARC) was thus established in 1963.

1.3 Nationalization of Commercial Banks

Beginning from the fourth Five Year Plan of the country, the major focus was on technology based growth in agricultural development, which led the country to self-sufficiency in food. During this period, the rapid strides made by private investment in irrigation and farm machinery in particular were mostly facilitated by institutional credit. It was at this juncture that the multi-agency approach was devised as a mechanism to meet the growing demand for

credit. Special arrangements for supply of rural credits to meet the investment needs as well as that of the production costs were made through the adoption of multi-agency approach.

In the light of weaknesses of the cooperatives credit system, the National Credit Committee Study Group on organizational frame work for the implementation of social objectives (Gadgil) in 1968 recommended that the main aim of future national credit policy should be on involving the commercial banks in providing rural credit. However, the All-India Rural Credit Review Committee (Venkatappiah) in 1969 recognized that commercial banks are essentially urban in origin, conception and operations. As a result, they don't have the organizational machinery of the cooperatives to deal with the rural producers and also in developing organic links with the rural institutions or the opportunity to take help of official machinery in the villages. The committee had, however, wished the progressive and far-sighted banks would boldly enter rural areas for providing banking and credit services.

Following Gadgil and Venkatappiah Committees recommendation the commercial banks were made to come into the Indian rural credit scheme in a big way through the nationalization of 14 major banks in 1969. Its main objective was extension of credit coverage to sectors, which had been neglected by the banking system. This was attempted to be achieved by a massive programme of rural branch expansion and by introducing the concept of "priority sector".

Though the banking commission (Saraiya) in 1972 commented that changing the organizational pattern of rural credit too often was undesirable, it also mooted a proposal to set-up some sort of "rural banks". After assessing the unappreciable results of the cooperative credit structure and the potentials of immediate service to the rural areas by commercial banks, the Working Group on Rural Banks (Narasimham) in 1975 concluded that there was an urgent need to try out new experiments, the role of which was to supplement the other credit institutions in the field. Accordingly, the Government of India promulgated the Regional Rural Banks (RRBs) in 1975 with a view to develop sound formal rural credit system. These banks were established to provide low-cost credit service exclusively to the weaker sections of the society with equity participation from commercial banks, Central and State Governments.

The National Bank for Agricultural and Rural Development (NABARD) was established in 1982 to consolidate the various arrangements made by RBI, to promote / supervise institutions and channel credit to rural areas. Though several efforts were made to increase the flow of institutional credit for agriculture and rural development, there were mismatches in supply and demand for credit. Field studies on the subject revealed that it was mainly due to the absence of local level planning. It was felt that with the establishment of large network of branches, a system could be adopted to assign specific areas to each bank branch in which it can concentrate on focused lending and contribute to the overall development of the area. With a view to implement this approach, RBI introduced a scheme of "service area approach" for commercial banks.

During 1980s the Government of India did not confine the development programmes to achievements in aggregate growth, but extended it also to growth with equity. As a result, there were a large number of credit linked programmes (IRDPA, for instance) sponsored by the government for direct assault on poverty. During this period, the role of institutional credit no longer remained confined to relieving farmers from the clutches of money lenders, but become the principal source of supplying rural credit both for production and investment purposes and thus assumed a significant developmental role (Nanda, 2000).

The rural financing of commercial banks got a fillip due to liberalized branch licensing policy of RBI, given great thrust in favor of opening of branches in rural areas, changes in lending policies to ensure larger flow of credit to socially and economically backward sector and at concessional rate of interest. The minimum targets were presented to the banks for making rapid strides in agriculture, small scale industries and road transport, small business, professional and employed, and on the recommendation of Krishnaswami committee (1980), housing loan to weaker section was also accorded as priority sector lending.

Further, the banks have been asked to achieve the net credit of 40 per cent to priority sector, 18 per cent to Agricultural sector. Liberalized / simplified system and procedure were laid down in the form of common application form for any agricultural purpose. Based on the

recommendation made by working group (Beldev Singh Committee) liberalized margin and security norms were laid down for small and marginal farmers.

1.4 Financial Sector Reforms

In order to improve the existing shortcomings of the banking sector the committee on Financial Systems (Narasimham) was appointed in August 1991 by RBI and submitted its report in November 1991. The committee made several recommendations, which include among other things, modifying the rural banking structure, interest rates on agricultural loans and directed programmes on rural lending. Though some of the recommendations of the committee are not accepted by the government, a number of reform measures were taken on the banking sector, whose impacts have bearings on the rural lending.

The financial sector reforms, which were introduced from 1991 aimed at transforming the credit institutions into organizationally strong, financially viable and operationally sound units. The measures introduced include reduction in budgetary support and concessionality of resources, introduction of prudential norms, relating to income recognition and asset classification of RRB's and co-operative banks. The lending rates of these institutions have been also deregulated.

In the annual policy statement of the Reserve Bank of India for the year 2005-06, it was stated that "...credit growth in housing, venture capital and infrastructure has been strong while it has been sluggish in Agriculture and small industries. Further it is argued that only sector that impact large population, weaker section and are employment-intensive such as agriculture, tiny and small industry should be eligible for priority sector. Since there are several issues that need to be considered in this regard, it is appropriate that these are debated and examined in-depth, (RBI, 2005).

Agricultural credit has tripled from Rs.40,000 crore in financial year 2001 to touch Rs. 1.2 lakh crore and is projected to double by the end of next fiscal. Gross non performing assets (NPA's) of the agriculture portfolio of Indian banks had dipped from a high of 14.9 per cent in financial year 2001 to touch 6.2 per cent in financial year 2005. Agriculture sector has been growing at a compound rate of 3 percent between financial year 1994 and financial year 2001 (Anonymous, 2007).

The Government of India's target of doubling agricultural credit flow in three years (during 2004-05 to 2006-07) had actually been achieved in two years. The target of disbursement of credit worth Rs.1,75,000 crore in 2006-07 was expected to be exceeded comfortably with the likely flow being around Rs.1,95,000 crore by the end of march 2006. Until December 2006, 53.37 lakh new farmers were brought into the institutional credit system. The target for 2007-08 has been set at Rs.2, 25,000 crore. About 50 Lakh more farmers are proposed to be linked to the banking system during the next year. (Sud, 2007)

Institutional credit has been assigned a vital role in agricultural development of our country. Through rural / agricultural sector which is the main occupation of the majority of people in our country and major contributor to the National Income.

The institutional source of credit was the major source for providing credit both for crop production and investment to agricultural portfolio. In the present study economic environment characterized by deregulation of global competition, the crucial role of banks in meeting the socio-economic necessities of the farming community has been recognized. As such strengthening and promoting the credit through institutional source, i.e. banks assume greater significance.

In view to the above importance attached to financing capital to agriculture by financial institutions, the present study has been taken up in Dharwad district of Karnataka state, with the overall objective of evaluating the performance of the financial institutions i.e. banks in financing for different agriculture portfolio viz-a viz its stated objectives.

1.5 Specific Objectives of the Study

1. To analyze the growth in lending to different portfolio of agriculture by the banks.
2. To analyze the recovery performance in each portfolio of lending by the banks.
3. To study the methods adopted for enhancement of recovery by the banks.

4. To analyze the costs incurred by the borrower in borrowing for different purposes.
5. To analyze the problems faced by the farmers in borrowing from the banks.

1.6 Special Feature of the Investigation

Efficiency in the management of credit distribution to different sectors determines the profitability and viability of the bank. An analysis of the amounts lend, time spent in borrowing, interest and non-interest costs to the borrower in availing loan for various agriculture portfolios will be analyzed.

The rural banking industry has a significant role to play in the economy, and appropriate management of the challenges arising out of management of capital, portfolio, growth risks and governance will be critical to success. In the context where the operational efficiency of the banks becomes essential in ensuring adequate and timely credit flow to agriculture for diverse purposes intensive studies on credit management deserve serious consideration. There is hardly any study which has aimed at a detailed enquiry in to different aspects of credit management and recovery, and comparison between various financial institutions. Hence study has been taken up.

1.7 Limitation of the Study

Though the study tries to be comprehensive in its scope there are few limitations inherent to it. The study deals with institutional source of agricultural credit and the informal source is not assessed. Even in the institutional source of finance, the coverage of institutions and time span is restricted to the branch of the public sector bank, and/or private sector banks and/or co-operative banks for the period of not more than ten years, due to non accessibility of required information.

1.8 Presentation of the Study

The entire study is presented in six chapters. The Chapter 1 gives introductory note highlighting the rationale of the study, specific objectives, special feature of the investigation, limitation of the study and presentation of the study, while Chapter 2 represents the reviews of the studies made in the past, that are relevant to the objectives of the present investigation. Chapter 3 explains the methodology adopted in the study, including the delineation and description of the study area, sampling frame, nature and sources of data, analytical tools and techniques used. The results and discussion of the study are presented in Chapter 4 and Chapter 5 respectively. The summary and policy implications are given in Chapter 6. The concerned references are given in Chapter 7.

2. REVIEW OF LITERATURE

In this chapter, a review of past research works in the field has been compiled to enable better understanding of the research in various regions, method of analysis on the research subject. The chapter is presented under the following headings.

- 2.1. Growth in lending to different portfolio of agriculture by the banks
- 2.2. Recovery performance in each portfolio of lending by the banks
- 2.3. Methods adopted for enhancement of recovery by the banks.
- 2.4. Costs incurred by the borrowers in borrowing for different purposes.
- 2.5. Problems faced by the farmers in borrowing from the banks.

2.1. Growth in Lending to Different Portfolio of Agriculture by the Banks.

Roshan Singh *et al.* (1978) studied the pattern of flow of credit in Bichpuri development block of Agra district in Uttar Pradesh. They found that the pattern of financing agriculture was similar both at the national and district level. The proportion of bank finance to agricultural showed a steady but slow increase over a period of four years. The overall share of large farmers in total finance to agriculture was much higher as compared to the small and medium farmers in all the years (1972 to 1977). The share of small farmers showed an increasing trend mainly during the years 1976 and 1977 when deliberate efforts were made to direct the flow of bank credit in favour of small farmers.

Desai (1988) assessed the institutional credit requirement for agriculture production in 2000 A.D. and observed the growth rate of total credit between 1972-73 and 1982-83 was 17 per cent in nominal terms. The commercial bank share has more than doubled from 16.31 per cent in 1972-73 to 35.85 per cent in 1982-83. He estimated short term credit requirement by taking the total value of crop output from the cost of cultivation scheme of government of India for the period from 1974-75 to 1984-85 and found that the growth rate in agriculture advance to be 16.28 per cent.

Ramdass (1989) measured the institutional credit flow in Pondicherry and observed that the short term credit advance by the institutions had grown enormously, while the long term credit lagged behind. He suggested the need for institution to come forward to provide long term credit and utilize the saving mobilized in rural areas exclusively for rural investment.

Pradeep kumar (1993) used growth rate analysis to analyse the growth in physical and financial performance indicators of horticultural producer's cooperative marketing society limited, Bangalore. The indicators considered were membership share capital, owned funds, sales, inventories, fixed assets, current assets, total assets, current liabilities and total liabilities.

Puhazhendhi and Jayaraman (1999) concerned about the growth of agriculture advance during 1990-96, pointed out that despite the phenomenal growth in absolute terms, the proportion of amount outstanding advance to priority sector showed a declining trend from 16.9 per cent in June 1990 to 14.3 per cent in March 1996. The reversal trend was observed in 1996-97 March when the loans for agriculture constituted 16.3 per cent of net bank advances. The share of priority sector lending at all India level whose share had declined from the peak of 42.9 per cent in 1985 marginally improved to 41.7 per cent in March 1997.

Nair (2000) reviewing recent trends in rural financial intermediaries and commercial banks in India indicated that the commercial banks credit to rural areas during the late 1980's and early 1990's has shown a deceleration in growth. The relative proportion of bank credit flowing to priority sector, especially agriculture was fallen below the target of 18 per cent at a national level since the mid 1980's.

Abate (2000) studied the loan and advances to agriculture from all of the financial institutions shown significant compound growth rate over the study period. Compared to the growth in term loan (13.0 per cent), the growth in crop loan (17.2 per cent), which is a major index of agriculture production finance has shown a higher growth rate in Karnataka state

during the study period. Similarly, the growth in agricultural advances (12.5 per cent) has shown higher growth rate in direct agricultural advances (10.9 per cent). However the share of agriculture advance and weaker section had shown a declining trend during the study period. The recovery performance of agricultural advances in commercial banks, regional rural banks and co-operative banks has shown a positive trend. Only the recovery performance of primary cooperative agricultural and rural development bank had shown a declining trend. With respect to the problems encountered in Agriculture credit system mis-utilization of loan amount by borrower, willful and deliberate default by borrowers and diversion of income generated out of the investment have found prime importance in the order.

Vishvanath (2002) conducted study in the management appraisal of district central co-operative bank in Uttar Kannada District of Karnataka, found that growth in number of branches, employees and membership was positive and significant. Except borrowing (8.17 per cent) all other financial variables showed positive and significant growth. The recovery percentage for the selected Karnataka District Central Co-operative bank branch was found to be more than 90 per cent.

Zeratsion (2002) studied the performance of primary agricultural credit societies in Karnataka and found that the amount of loan advanced by primary agricultural cooperative societies increased in all the districts of Karnataka state during the study period. The total loan (short term and medium term) advanced by primary agricultural cooperative societies for the state as a whole increased, yielding a compound growth rate of 16.18 per cent, in which advances accounting to 80.32 per cent for short term and 19.68 per cent for medium term. The short term advances increased from 80 per cent of total loan in 1986-87 to 90 per cent in 1997-98 which shows the majority of lending by primary agricultural cooperative societies was in the form of short term loans.

Gosh (2005) studied that the share of allied activities in agricultural output, namely dairying, fisheries and poultry has been increasing significantly, the share of livestock in the gross value of agriculture (crop and livestock production) increased from under 16 per cent in 1970-71 to 26 per cent in 1995-96, that of fisheries went up over the same period from 1.7 per cent to 3.1 per cent. The share of non-food crop in the cropped area has increased from 25.7 per cent in the triennium ending 1971-72 to 35.1 per cent by 1999-2000.

Gosh (2005) studied that the short term credit remained nearly unchanged, significantly at about 14 per cent, the growth of long term credit slowed down from about 20 per cent in the 1970s to about 14 per cent in the 1990s which is too disturbing. Clearly, this trend is bound to have a crippling impact on the capacity of the agricultural sector to grow and prosper.

Reddy and Gupta (2006) studied the credit management in Self Help Groups(SHG's) under South Asia Poverty Alleviation Programme (SAPAP) revealed that the data on purpose wise allocation of credit showed that sample groups allocated 34 per cent, 22 per cent and 22 per cent of the total credit to small businesses, animal husbandry and agriculture respectively. Under animal husbandry members take loan to purchase milch animals, sheep and goats, under agriculture members take crop loan to purchase, plough and bullock carts. The other major purposes include domestic consumption (13 per cent) and clearing of old debts (7 per cent) and share of health and education is only three per cent. Thus the members in the sample groups have taken credit mainly (78 per cent) for productive, income generating activities during the study period.

Thanarathnam (2006) while studying the working of primary agriculture co-operative banks, analyzed the loans disbursed by the banks. He had used the annual average growth rate of different types of loans given by banks. It was found that the average annual growth rate for the period 1996-97 to 2001-02 with regard to short term loan was 2.07 per cent, for jewel loan it was 1.35 per cent deposit loan has 3.44 per cent of growth rate. It was really appreciable and it really showed the performance of the bank. According to the amount of loan dispersed by the bank, a large percentage share was taken by the jewel loan in all the six years and the amount was small with regard to deposit loan.

Ramappa and Sivasankaraiah (2007) studied that the share of agriculture loan in the total priority sector advances was considerably large and fluctuated from 73.02 per cent in 1993-94 to 76.79 per cent in 2004-05. It was also evident that of the total agriculture loan in

2004-05, crop loan alone accounted for 93.31 per cent. Among non-agriculture activities retail trade/business enterprise received large quantum of loan followed by Self Help Group's. The percentage share of non-priority sector in total outstanding advances showed increasing trend from 15.16 in 1993-94 to 34.2 in 2004-05. It signifies the change in the lending pattern of the Rayalseema Grameena bank in Andhra Pradesh.

2.2. Recovery Performance in each Portfolio of Lending by the Banks

Balishter *et al.* (1991) studied overdues of loans in agriculture from the point of view of current and old overdues, extent of wilful defaults and the reasons for non-payment. The study revealed that the affluent class of farmers was responsible for a large portion of overdues and about 90 per cent of them were wilful defaulters. The old debts constituted about 71 per cent, and needed serious concerns.

Vaikunthe (1991) studied the agricultural credit utilization and recovery performance of KCC bank, Dharwad. The study pointed out that the percentage repayment was more in the case of the farmers in the non-irrigated area compared to the irrigated area. The overdues were larger in the case of small farmers compared to medium and big farmers in the irrigated area.

Ajjan (1994) studied the performance of the three-tier structure of cooperative credit institution in Tamil Nadu in terms of their deposits, borrowing working capital, loans issued, loans outstanding for a decade (1982-83 to 1991-92). He revealed that the deposits, borrowing and working capital have increased more than 20 per cent in all the short-term and medium term cooperative credit institutions. The percentage of overdues has continuously declined from 46 to about 35 per cent during the study period reflecting the poor recovery performance. He suggested that recovery performance should be improved by drawing suitable plans.

Shollapur (1995) studied the recovery performance of Karnataka state cooperative apex bank. He revealed that the percentage of recovery to demand has declined from 94 per cent to 55 per cent in total credit and from 95 per cent to 54 per cent in agricultural credit revealing the poor performance in credit collections. The total overdues have moved from Rs. 401.26 crores to Rs. 5059.32 crores establishing a rise by 13 times. He suggested that the bank should arrange training in recovery management involving central cooperative banks and other constituents.

Shiyani and Sima (1999) while comparing performance of credit institutions in promoting agricultural development in Gujarat opined that the total overdues of agriculture and allied activities in Gujarat was as high as Rs 421.52 crore. The situation of agriculture overdues in co-operative banks was warranted and needed immediate action, as its proportion in the total overdues of all banks in Gujarat was more than 65 per cent. On to this the share of cooperative banks in the total credit flows to the agricultural sectors by all the banks was only 36 percent.

Dayanand and Shashikumar (1999) undertook comparative analysis of District Central Co-operative (DCC) Banks in Kerala with the national level performance and revealed that the state level performance was behind the national level performance with regard to membership, old funds, borrowings, loan advanced etc., where as deposits was slightly higher than national level performance. But as long as there was no considerable decrease in rate of total loan overdue, profitability of the bank cannot be improved.

Zeratsion (2002) in his study on the performance of primary agricultural credit societies in Karnataka revealed that total loan recovered by primary agricultural credit societies in the state steadily increased recording a growth of 15.37 per cent. During the study period from 1986-87 to 1997-98 the overdues increased at 3.15 per cent annually and it was not significant.

Hatai (2006) while analyzing agricultural credit and overdues in Uttar Pradesh found that out of total borrowing on marginal farms crop loan shared about 61 and 74 per cent in the west and east zones respectively. The term loan was only 25 and 38 per cent of the total borrowing in the east and west zone respectively on the marginal farms. The share of crop loans was further reduced to 32 per cent on large farms. He concluded that crop loan has

inverse relationship with the size of holding, whereas the positive relationship was observed between the term loan and the size of holdings.

Ramappa and Sivasankaraiah (2007) attempted to study the recovery performance of the Rayalseema Grameena bank in Andhra Pradesh and found recovery performance was improved as its overdues declined from 34 per cent in 2003 to 19 per cent in 2004. Sector wise analysis revealed that the repayment performance of non-priority sector was better compared to that of priority sector. Among farm activities the percentage of overdues was high (68 per cent in 2003 and 58 per cent in 2004) in case of minor irrigation. The repayment position of Self Help Groups was quite impressive as the members of these groups repaid more than 95 per cent of total demanded loans.

2.3. Methods Adopted for Enhancement of Recovery by the Banks.

Rajeev and Deb (1998) during their study on institutional and non-institutional credit in agriculture, revealed through interviews with bank officials that the recovery can be improved by assuring quick renewal of credit after repayment. They also opined that easy access to loans after one repays a previous loan plays an important role in loan recovery. Interestingly the manager of a co-operative bank, Kultighari Samabay Krishi Unnayan Samiti, Tarekeswar block Hooghli district, asserted that repayment of loans was almost 100 per cent (in spite of bad harvesting year) once he had given an assurance that a fresh loan would be immediately disbursed on repayment.

2.4. Costs Incurred by the Borrowers in Borrowing for Different Purposes.

Grewal and George (1975) attempted to estimate the real cost of credit from different agencies in Bhiwani block of Hissar district (Haryana) for 1971-72. They concluded that the overall cost of credit met by the farmers was considerably higher than that of official rate of interest. In case of short term credit from co-operatives, the cost of credit was 29.4 per cent higher than the official interest rate and in the case of commercial banks, it was 15.37 per cent higher.

Barik and Singh (1978) in their study on the cost of credit for the *Rabi* loan of large sized society in Uttar Pradesh, found that interest cost formed a major part of the credit having a share of 69.54 per cent in the total amount of credit. The non-interest cost of borrowing was 30.40 per cent of the total cost of credit and this was high mainly due to the complicated and time consuming procedure involved in advancing loans. Non-interest cost included the cost of making trips, cost of obtaining records, cost of the documents and service charges. In computing these costs, loss of time was also accounted at prevailing wage rates.

Kahlon and Singh (1984) indicated that the cost of acquisition of credit includes reasonable rate of interest, which should be reasonable, other hidden charges, which may make credit overtly expensive for farmers. They observed that, the cost of credit was more for the small loans. Further, they stated that the costs were high in under banked areas due to high cost in traveling long distances.

Srivastava and Kumar (1985) attempted to find out the cost of credit in three villages served by co-operatives and commercial banks for 67 farmers. The study showed that the cost connected with sanctioning of loans were prevalent for availing credit from institutional agencies but, were almost absent when the credit was availed from non-institutional sources like money lenders and relatives.

Muniraj (1987) studied the farm finance for development and specified the components of cost of credit. The cost of credit included rate of interest, incidental charges made to secure the records from government offices, such as nil-encumbrance certificate, certificate of possession, and expenses connected with documentation, such as stamp papers, registration charges, fee for legal advice, bank supervision charges and service charges. He further stated that cost of capital was one of the important factors to be reckoned with while taking long term investments.

Dinabandu (1988) made a study of Bhadrak block of Orissa and compared the cost incurred in borrowing by the farmers from Regional Rural Banks and co-operative societies. The study revealed that for obtaining a loan of Rs. 100 from a Regional Rural Banks and co-operative society, the borrowers had to incur a cost of Rs.19.06 and Rs. 18.54 respectively, which the author considered to be high. Therefore, to reduce the cost of credit, it was suggested that the financial institutions, especially, the Regional Rural Banks should adopt simplified procedures of lending and disburse the loans on time at the beginning of the crop season.

Jagdeesh (1988) concluded that there was not much difference in the cost incurred in obtaining loans from each of the two bank branches of Tungabhadra Grameen Bank. However, the cost of trips was the highest in the case of buffalo (0.13 %) in Basavapatna branch and it was the lowest in case of small scale enterprise (0.02 %) in Kampli branch. Similarly, the cost of obtaining records was the highest in the case of small scale enterprises (0.25%) and lowest in case of bullock and bullock cart loans (0.06%) in Kampli branch.

Poddar (1990) while studying the performance of Bijapur Grameena bank and impact of credit on resource utilization on farms in Bijapur district found that the borrower spent as much as four per cent of the loan as non-interest cost of borrowing which enhances the effective rate of interest on borrowing. A method must be developed wherein the banks may verify the records, credentials of prospective borrowers in a group, thereby helping to reduce the non-interest cost of borrowing to the borrowers in a group. He opined that the Bijapur Grameen bank has simplified the procedure to a large extent. It should further simplify the requirements so that, illiterate borrowers may comply with the procedures without resorting to non-official payments.

Singh and Sharma (1990) while studying the agricultural finance and management opined that the cost of loan was one of the important basic characteristic of a good loan and should be at a reasonable cost which involves not only interest rates but also fees for documents and services associated with grant of loan.

Pouchepparadjou (1992) found that cost of the credit was more in the case of moneylenders than the commercial banks because of exorbitant rate of interest charged by them. Farmers were happier with the commercial bank credit even though the non-interest cost was more.

Gunaste, *et. al.* (1998) worked out the cost of credit while studying the extent of borrowing, repayments and overdue of agricultural loans of farm families in Thane district in Maharashtra. The items included are traveling, boarding and lodging, certificates and interest paid on loans. The overall total cost per borrowers was Rs. 3053.76. The overall traveling expanse per borrowers was Rs.11.19, boarding and lodging expanse Rs. 50 and an average interest paid per borrowers was Rs.2978.69.

Deshpande (1998) attempted a case study of two commercial bank branches in Malaprabha command area for evaluating performance of commercial banks in financing agriculture. In this he studied the non interest cost incurred by the sample beneficiaries revealed that in almost all kinds of loans cost of records shared was the maximum in rural branch. With regard to cost towards trips to bank, beneficiaries in rural branch did not incur any cost because of proximity of bank. In case of sub urban branch, beneficiaries incurred higher cost towards trips than cost of records.

The lending norms for some of the sectors were not mandatory. However, in the process of providing credit, the major components of cost were interest cost and non-interest cost. In many of the studies it was found, major proportion of cost of credit was constituted by interest cost.

2.5. Problems Faced by the Farmers in Borrowing from the Banks.

Singh *et. al.* (1975) in their study on farmers' opinion on Small Farmers Development Agency (SFDA) project of Fatehpur district of Uttar Pradesh on various aspects of credit reported that credit was not provided in time, the amount was inadequate, rate of interest and security were high and norms of repayment were not favourable to the farmers.

Venkat Reddy (1980) analyzed the purpose wise lending pattern of commercial banks in Andhra Pradesh. The result pointed out that about 81 per cent of the crop loans were lent to the large and medium farmers, 60 per cent of land development to small and marginal farmers, 76 per cent of minor irrigation loans to large and medium farmers and about 86 per cent of the dairy loans were shared by small and large farmers. The study suggested, conclusively, the relaxation of security norms to enable farmers to reap the benefits of incremental income from different schemes.

Balishter *et. al.* (1989) attempted to find the overdue position of farmer borrowers from Bichipuri branch of State Bank of India in Uttar Pradesh in 1985-86. It was observed that 61 per cent of farmers defaulted, with overdues on advance to crop loans by the bank. Large and medium farmers accounted for 55 per cent of total overdues. Willful default was found in about 35 per cent cases. Slackness by the banks in insisting on timely repayment of loans, diversion of income for purchasing lands or other property and uncertainty about getting new loan after repayment were the main reasons for willful default.

Dandekar and Wadia (1989) evaluated development of institutional finance for agriculture in India. They studied the growth of institutional finance from Toccavi loan system. By 1985 the health of agricultural credit institutions, both cooperative and commercial banks was in a poor state in many parts of the country having willful default and overdues mounting. The waiver of agricultural loans and subsidies from the exchequer has set a bad precedence.

Rangarajan (1994) examined the credit position for the poor in India and how the poor can help themselves. A number of programmes have been designed specifically to enlarge the flow of credit to the poor through programmes like Integrated Rural Development Program (IRDP), differential rate of interest, self employment programmes for urban poor. Despite these efforts, the desired effects have not been achieved. The cumbersome lending procedure, inadequate supervision and the apathy of bank staff have been resulted in delayed and untimely credit, which had further led to large scale mis-utilization of loans and default of credit. Non governmental organizations (NGOs) and Self-Help Groups can play an important role rural credit. NGOs can act as catalysts which facilitate project formulations by bank and their effective implementation, thus becoming efficient channels during disbursal of credit to the rural poor.

Singh (1995) indicated two important issues pertaining to institutional credit in relation to agriculture. (i) How to make the institutional credit a more effective instrument of agricultural development and (ii) What type of credit support will be available for agricultural development in the post financial sector reforms. It was pointed out that institutional credit has made important contribution to the growth of agricultural output. In the context of flow of credit to agriculture, viability of investment was considered as an important aspect. It was noted that less than 50 per cent of the farmers availed the institutional credit for crop production and the amount of credit was hardly sufficient for the purchase of fertilizer alone and stressed on simplification of lending procedure

Reddy and Reddy (1996) made a case study of borrower's knowledge on farm credit and follow up action of bank officials in Khajipet mandalam of Cuddapah district of Andhra Pradesh. The results revealed that 54 per cent of the borrowers opined that the scale of finance provided by the banks was sufficient, but all the beneficiaries wanted technical guidance, 60 per cent of the borrowers opined that the loan sanctioning procedure was easy and 82 per cent of the borrowers were of opinion that the interest charged was reasonable. It was revealed that bank personnel have visited short term loan beneficiaries once during the crop season. In case of medium term beneficiaries, the bank personnel visited at their convenience. It is suggested that timely advance should be provided and bank authorities should change the procedure to suit local condition and also for providing technical guidance to borrowers.

Deshpande (1998) attempted a case study of two commercial bank branches in Malaprabha command area for evaluating performance of commercial banks in financing agriculture. Major proportion of the beneficiaries experienced pains while obtaining loan in terms of accessibility, adequacy of loans, timeliness, rate of interest, terms of repayments and staff treatment. On the contrary, the beneficiaries experienced some constraints in terms of cumbersome procedure of advance for loans, rigid norms in providing security, poor supervision and technical guidance in utilization of loans. The cluster analysis revealed that in

the rural and semi urban branch security procedure of advance and technical guidance were the priority variables in making the bank branch rating high performing branch while interest rate, timeliness of advance, accessibility of staff and the amount of loan considered for improvement in the performance of the bank. However, the loan supervision, staff treatment in both the branches was also equally important in deciding satisfactory performance.

Patil (2000) studied performance of primary cooperative agriculture and rural development banks in Dharwad district, concluded that opinion of the beneficiaries about primary co-operative agricultural and rural development bank revealed that the procedure of getting loans was cumbersome and major proportion of borrowers of horticulture sector faced this problem. The respondents expressed their difficulty in getting the documents and even if they were able to get them, it consumed lot of time and money. Some of the respondents also opined that bank officials do not give proper guidance about the required documents to produce along with loan applied. The cluster analysis revealed the opinion of borrowers that in all about 50 per cent borrowers expressed cumbersome loaning procedure. The favorable point of the bank was the good staff treatment. However 80 per cent of the borrowers expressed the delay in sanctioning of loans.

Thanarathnam (2006) while studying the working of primary agriculture co-operative bank, analyzed the loan dispersed by the bank. He found that 24 per cent of the farmers stated easy accessibility and 76 per cent of the farmers stated low rate of interest were the reasons for borrowing from co-operatives, which was a good indicator of good performance of bank. He found that difficulties in getting loans were due to the difficult procedures for 22 per cent, cost of availing loans for 16 per cent, security required for 24 per cent, untimely loans availability for 18 per cent of the farmers along with difficulties in providing documents for 20 per cent of the farmers. He opined short term loans were generally provided on personal security. Therefore, the problem of providing security as a problem could be easily remedied.

Purohit (2007) tried to evaluate the service quality management and consumer perception about the services of banking institutions in public sector commercial banks in Jaunpur district of Uttar Pradesh. It was revealed that all the services viz. location of banks, parking space in the bank premises, working hours of the bank, speed of the bank services, knowledge of the employees, behavior of the staff, courtesy of the employee, sincerity in problem solving, promptness in the services, transaction accuracy, saving interest rate, reliability of employees, understanding of your needs, individual attention of the employees and safety in transactions were rated good by the respondents; except for loaning interest rate and mortgage facilities. The respondents reported that they are overall satisfied with the services of their banks.

Deb and Rajeev (2007) while studying the credit pattern of borrowers from the formal sector in Hooghly district of West Bengal concluded that the entire set of medium farmers could avail loan within a period of one month, this percentage declined to 83 for the small farmers and 75 to the marginal ones. As these loans were crop loans, one can easily imagine the problem of disbursement. In particular, four per cent of the marginal farmers needed to wait for six months, for the disbursement of loans. He also identified that poor farmers incur high transaction cost in availing the funds as the "number of visit to the bank". While the small and medium farmers require to visit twice, as 29 per cent of the marginal farmers visited the bank premises more than five times (of such visit involves opportunity cost for the farmers) which may be due to the fact that marginal farmers were educationally backward, it was a comment on the free flow of information to the borrowers.

3. METHODOLOGY

This chapter deals with the description of the study area, sampling procedure adopted, methods of data collection, nature and sources of data used and various statistical tools and techniques employed for analyzing the data. The methodology is presented under the following major heads.

- 3.1 Description of the study area
- 3.2 Sampling procedure
- 3.3 Nature and sources of data
- 3.4 Analytical techniques employed and
- 3.5 Definition of terms and concepts used in the study.

3.1 Description of the Study Area

The present study was under taken in Dharwad district of Karnataka state during the agricultural year 2005-06.

Karnataka is the eighth largest state in India with an area of 190 lakh hectare. It is situated between 11⁰5' and 18⁰45' North latitude and between 74⁰12' and 78⁰- 40' East longitude in the southern plateau. The state receives the average rainfall of about 1139 mm. both from southwest and northeast monsoons. The temperature ranges from 14⁰C to 40⁰C. The important crops grown in the state are jowar, paddy, ragi, maize and wheat among cereals; redgram, bengalgram, greengram among pulses; groundnut, sunflower and safflower among oilseeds crops, cotton, chilli, sugarcane and tobacco among commercial crops; and mango, sapota and banana among fruit crops and coconut, arecanut and coffee among plantations.

3.1.1. Dharwad District

Dharwad district is situated in Northern part of the Karnataka (figure. 1). It lies between 15⁰15' to 15⁰35' North latitude and between 75⁰ to 75⁰20' East longitudes. The district is bound by Belgaum, Haveri, Gadag and Uttar Kannada district in North, South, East and West respectively. The district is divided in three belts geographically as Malanad, Transition and Dry regions.

Dharwad district comprises of 14 hoblis. The hoblis fall in 5 talukas of the district. Navalgund taluka falls in the northern part of Dharwad district; it is surrounded by Nargund taluka in the north, Gadag taluka in the east, Dharwad taluka in the west and part of Kundgol taluka in the south.

The total geographical area of the district is 4273 Sq. Kms. accounting 2.2 per cent of the total geographical area of the state. Navalgund taluka has an area of 1,082 Sq. Kms. The district consists of 372 villages, while Navalgund taluka consists of 58 villages.

The total population of Dharwad district as per 2001 census was 16,04,253 and that of Navalgund was 1,76,648. The density of population in Dharwad district was 377 per Sq. Kms. and that of Navalgund was 163 per Sq. Kms (Table 3.1).

The south west monsoon is the most crucial for the Dharwad district. The district has an annual average rainfall of 772 mm, as against 612 mm for the Navalgund taluka which falls under dry region.

The soils of the districts are mostly black, deep black and red sandy loam. Similar types of soil were found in Navalgund taluka. The major part of soil comprised of deep black cotton soil which is moderately rich in nutrients.

Land utilization pattern of the district and selected taluka for the year 2005-06 is presented in Table 3.2. The net area sown was 3,33,310 hectares and that of Navalgund taluka was 95,453 hectares. The area under forest was 35,235 hectares in Dharwad district and no forest cover was seen in Navalgund taluka. The fallow land accounted for 26876 hectares and 9378 hectares in Dharwad and Navalgund taluka respectively. The area not available for cultivation is 6402 hectares in Dharwad district and 69 hectares in Navalgund taluka.

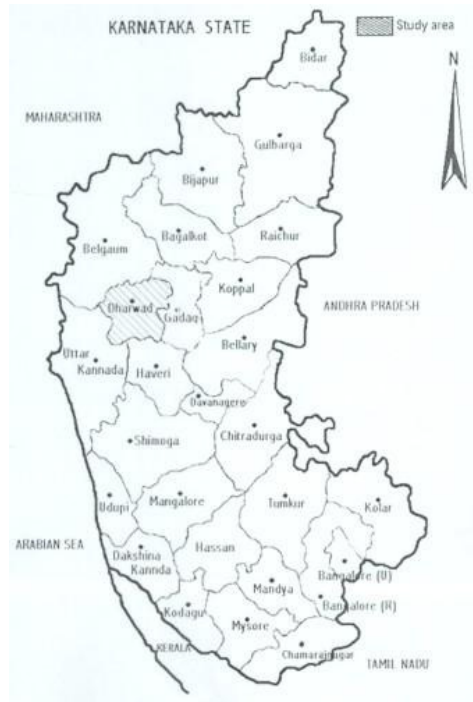


Fig. 1.1: Map of Karnataka State Showing Study District



Fig. 1.2: Map of District Showing the Study Area

Table 3.1 Salient Features of the Dharwad district and the Sample taluka.

S. N.	Particulars	Dharwad district	Navalgund taluka	Percentage to district
1.	Geographical area (ha)	427329	108218	25.32
2.	Village (No.) (2001 census)	372	58	15.59
3.	Net sown area (ha)	333310	95453	28.64
4.	Area not available for cultivation (ha)	25506	3318	13.01
5.	Other uncultivated land excluding fallow land (ha)	6402	69	1.08
6.	Fallow land (ha)	26876	9378	0.35
7.	Net irrigated area (ha)	40356	23888	59.19
8.	Gross cropped area (ha)	523470	155415	29.69
9.	Rainfall (mm)	772	612	79.27
10.	Population (No.) (2001 census)	16,04,253	1,76,648	11.01
11.	Population density (No. per Sq. Km.)	377	163	43.23
12.	Road length (in Kms.)			
	a) State highways	416.2	91.29	21.93
	b) district main roads	554.69	127.97	23.07
	c) Village roads	2778	446	16.05
13.	Communication facilities			
	a) Post offices	218	44	20.18
	b) Telephones connections	93260	5354	5.74
14.	Markets (No.)	16	6	37.50
16.	Livestock population			
	a) Cattle	193476	35114	18.15
	b) Buffaloes	89882	16825	18.72
	c) Sheep	33583	14284	42.53
	d) Goat	60946	15340	25.17
	e) Poultry	306929	12050	3.92
16.	Veterinary institutions			
	a) Primary veterinary centres	16	3	18.75
	b) Artificial insemination centres	43	6	13.95

Source: Dharwad district at a glance, 2005-06, District Statistical Office, Dharwad

Table 3.2 Land utilization pattern in the Dharwad district and the sample taluka (2005-06)

(in Ha)

S.N.	Particulars	Dharwad district	Navalgund Taluka	Percentage of district
1.	Net sown area (ha)	333310	95453	28.64
2.	Area under forests	35235	0	0.00
3.	a) Barren uncultivable land	3985	647	16.24
	b) Land put to non-agricultural use	21521	2671	12.41
	Total (a) + (b)	25506	3318	13.01
4.	Other than cultivated land			
	a) Cultivable waste land	2669	61	2.29
	b) Permanent pasture land	3571	5	0.14
	c) Area Trees and groves	162	3	1.85
	d) Total	6402	69	1.08
5.	Fallow land (Ha)	26876	9378	34.89

Source: Dharwad district at a glance, 2005-06, District statistical office, Dharwad.

Table 3.4 Irrigated Area by different sources in the Dharwad district and sample taluka

(in Ha)

S. N.	Particulars	Dharwad District	Navalgund Taluka	Percentage of District
1.	Canals	26726	23792	89.02
2.	Tanks	191	0	0.00
3.	Wells	0	0	0.00
4.	Bore wells	13212	96	0.73
5.	Other sources	227	0	0.00
	Total	40356	23888	59.18

Source: Dharwad district at a glance, 2005-06, District statistical office, Dharwad

It can be observed from Table 3.3 that oil seeds and cotton occupy major proportion (33.65%) of the total cropped area, followed by cereals (27.83%), pulses (17.71 %) and horticultural crops (20.42). The other agricultural crops like wheat, jowar paddy, bajra, maize, ragi and other cereals, fruits and vegetable crops, spices and sugarcane are being cultivated in the Dharwad district. The Navalgund taluka contributes 30.24 per cent, 45.60 per cent, 29.98 per cent, 21.02 per cent of cereals, pulses, horticulture crops, oilseeds and cotton, respectively, with 29.69 per cent share in total cropped area in the Dharwad district.

The area irrigated by different sources in Dharwad district has been presented in Table 3.4. The canals and wells formed major sources of irrigation in Dharwad district. The total irrigated area of the district came to 40,356 hectares and that of Navalgund taluka was 23,888 hectares.

The district as well as the taluka under consideration are having a good network of roads, communication facilities, markets, etc. which is the evident of good infrastructural facilities in the sample taluka. (Table 3.1)

Both poultry and dairy occupy an important place in agrarian economy as these activities are considered as major source of income. The total livestock of Dharwad district and Navalgund taluka come to 4, 29,211 and 90,112 respectively. The poultry population comes to 3, 06,929 and 12,050 for Dharwad district and Navalgund taluka respectively. Thus found that the veterinary facilities have been spread over in the district and the sample taluka. (Table 3.1)

There were 224 financial institution branches in Dharwad district at the end of March, 2006 of which, 19 bank branches operating in Navalgund taluka. Institutional framework of financial institutions in the study area is shown in Table 3.5.

3.2 Sampling Procedure

Dharwad district is predominantly an agricultural district traversed with two major rivers Tungabhadra and Malaprabha. The climates are favorable for all field crops and adoption of livestock. Three stage sampling procedure was adopted for the selection of different target group at each stage for evaluating the objectives of the study. In the first stage Navalgund taluka in Dharwad district of Karnataka state which falls within the Malaprabha river command area was selected as it has petty good numbers of bank branches and primary agricultural cooperative societies spread over in the rural and semi urban area of the taluka. Though Hubli and Dharwad taluka have more number of bank branches, majority of them were catering to the needs of loans mainly for non-agricultural purposes. Besides, agricultural credit advanced by banks and primary agricultural cooperative societies in maximum in Navalgund taluka from among the five talukas of Dharwad district (Table 3.6). Also this is only taluka in Dharwad district where all the three types of bank branches viz., public sector banks, private sector banks and Karnataka Central Co-operative (KCC) Banks are predominantly existing. Hence, Navalgund taluka was selected for the study.

Table 3.5 Financial Institutions in the Dharwad district and sample taluka as on March 31, 2006

S. N.	Particulars	Dharwad district	Navalgund taluka
1.	Commercial Banks	152	8
A	Public Sector Banks	120	7
B	Private Sector Banks	32	1
2.	Grameena Banks	52	8
3.	Urban Co-operative banks	15	2
	Total	224	19

Source: Dharwad district at a glance, 2005-06, District statistical office, Dharwad.

Table 3.6 Taluka wise Banking Institutions and Lending to Agricultural Sector in 2005-06.

S. N.	Particulars	Dharwad	Hubli	Kalghatagi	Kundgol	Navalgund
1.	Banks (No.)					
	a) Commercial Banks	45	89	5	5	8
	b) Grameena Banks	17	14	7	6	8
2.	Agricultural credit given by banks (Rs. in Lakhs)	3886.89	7223.71	1478.79	4933.65	5613.45
3.	Primary agricultural credit co-operatives	27	30	30	29	39
4.	Loans given by Primary agricultural credit co-operatives (Rs. in Lakhs)					
	a) Short term	4708.88	527.9	75.94	1304.89	1735.66
	b) Medium term	0	0	0	0	2.97

Source: Dharwad district at a glance, 2005-06, District statistical office, Dharwad and Records of Lead Bank (Vijaya Bank), Hubli.

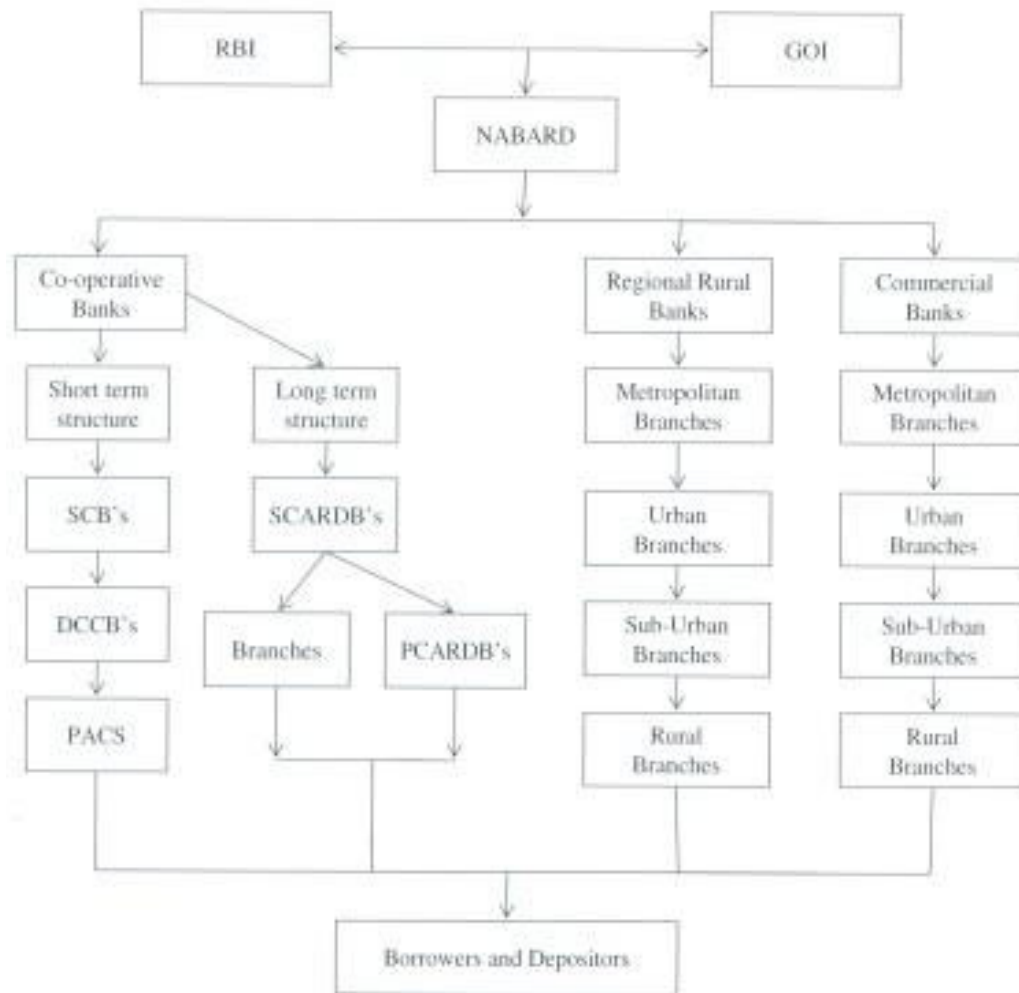


FIGURE 2. INSTITUTIONAL ARRANGEMENT FOR AGRICULTURAL AND RURAL CREDIT IN INDIA

Source: Nanda, Y. C., 2000, Role of Banks in Rural Development in New Millennium, NABARD, Mumbai.

Fig. 2. Institutional Arrangement for Agricultural and Rural Credit in India

The institutional arrangement for agricultural and rural credit in India is given in figure 2. Accordingly three banks were selected in the study area namely, Syndicate bank branch, Karnataka bank ltd. branch and Vavaysa Seva Sahkaral Bank (VSS, formally known as primary agricultural co-operative society) belonging to public sector banks, private sector and co-operative sector respectively. Flowchart showing sampling procedure is presented in figure 3.

The second stage aimed at selection of different bank branches in Navalgund taluka. Out of 19 banks branches in Navalgund taluka one bank branch of each type was selected at random from Navalgund taluka, totally three bank branches were selected, as present study is undertaken for the comparison of agricultural lending by different types of bank in Navalgund taluka of Dharwad district. Incidentally the semi-rural public sector bank selected was Syndicate bank branch, private sector bank selected was Karnataka bank ltd. branch and primary agricultural credit society under Karnataka Central Co-operative Bank in Navalgund taluka of Dharwad district.

The third stage was concerned with the selection of sample respondents. The list of beneficiaries who availed loans from the three bank branches were obtained separately. There were quite good number of farmers who availed bank loans for various purposes, namely, crop loan, farm mechanization (tractors, equipments, tube well and digging wells), land development, minor irrigation and also allied agricultural activities like horticultural crops, food processing, fisheries, forestry, poultry farming, dairy farming and livestock, non farm sector, etc. Accordingly the list of borrowers for the above said purposes were obtained from the respective bank branches. Then from the list of borrowers for each purpose proportionate sample respondent were selected randomly from each bank. Thereby 30 borrowers from each bank branch were selected for the study. So the numbers of borrowers selected for the study were 90.

Further, managers and bank officials of the selected bank branch branches were considered for eliciting the opinion on the methods adopted by the banks with regard to the recovery of the outstanding balance and overdues.

3.3 Nature and Sources of Data

For evaluating the objectives of the study, the primary data were collected by the survey using well structured, elaborate and pre-tested schedule. The primary data related to banking transaction, non-interest cost of borrowing credit and the problems faced by farmers, beneficiaries in availing the credit/loan were collected. Borrowers were personally interviewed to ensure accuracy and comprehension. For eliciting the methods adopted for the enhancement of recovery by bank, branch managers and their field officers of particular bank branch were personally interviewed and methods adopted by them were documented.

The time series data were collected for the period of 1996-97 to 2005-2006 in respect to advances to different portfolios and portfolio wise overdue position were collected from the annual reports, half yearly reports, balance sheet and other records from the branch under regional office under which the bank branch was operating.

3.3.1 Period of Study

The total period of ten years from 1996-97 to 2005-06 was considered for the purpose of comparing the performance of different bank branches for the study. But in case of Karnataka Bank Ltd. branch the duration has changed depending upon the availability of the time series data from the records of the bank.

3.3.2 Performance Indicator

The performance indicators included in the study were amount of loan advanced, overdues and recovery percentages for different portfolios of agricultural lending.

3.4 Analytical Tools and Techniques Employed

Keeping in view the specific objectives of the study, the data collected were subjected to following statistical analysis.

- 3.4.1 Tabular analysis
- 3.4.2 Growth rate analysis
- 3.4.3 Cluster analysis

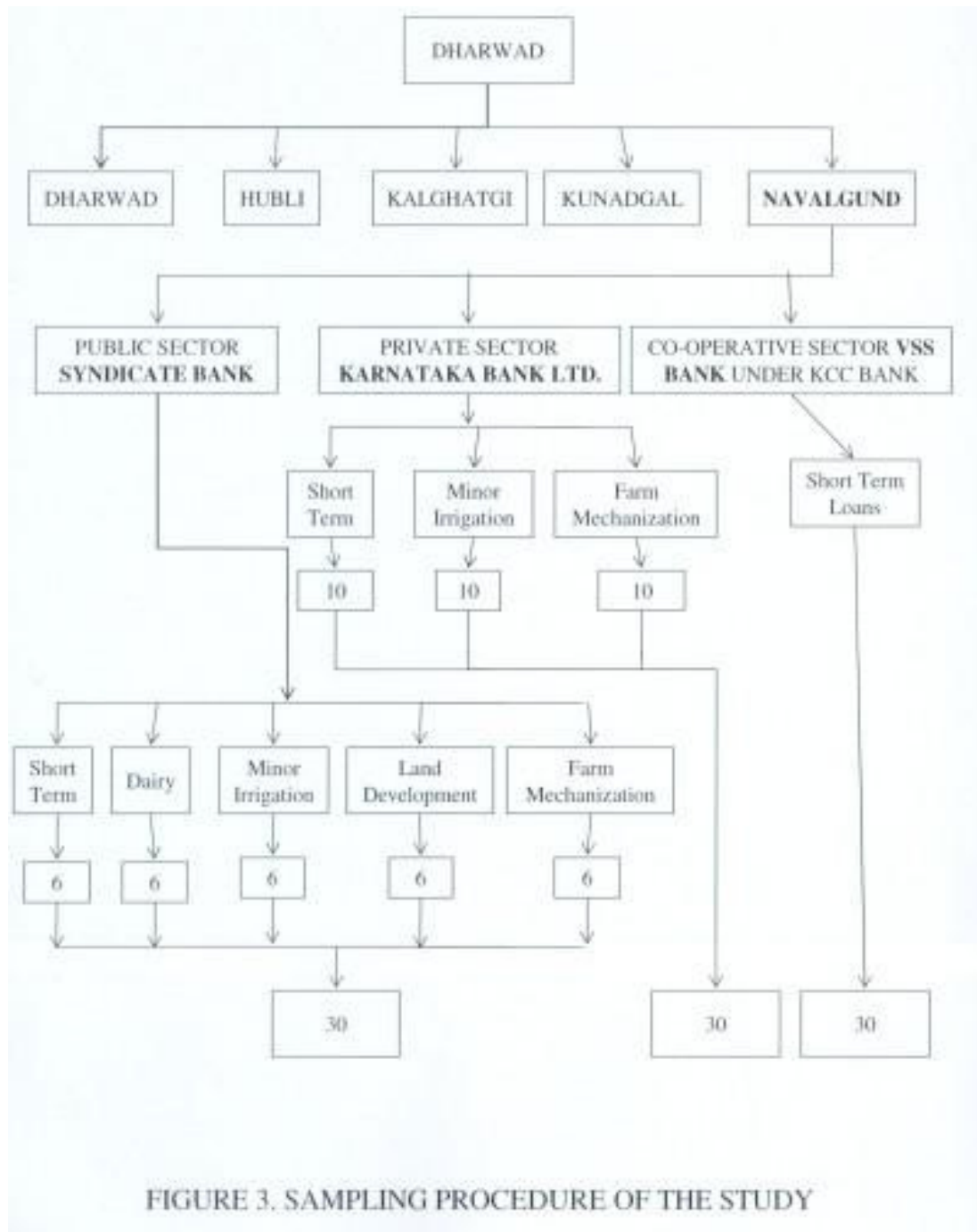


FIGURE 3. SAMPLING PROCEDURE OF THE STUDY

Fig. 3. Sampling Procedure of the Study

3.4.1 Tabular Analysis

The technique of tabular presentation was used to estimate total lending and flow of funds, advance to agriculture sector (different portfolios), recovery and overdues percentages, and non-interest cost on advance. The problems faced by the farmers in borrowing the loans on various portfolio were computed and presented as percentages. The percentages and averages were computed and compared to obtain meaningful results.

3.4.2 Growth Rate Analysis

Growth rate analysis was undertaken with the view to study the changes in agricultural credit advanced, recovery percentage and overdue performance of the selected bank branches over a period of years. The simple growth rate model was used which is also known as annual growth rate to compute annual average growth rates for the study period.

Triennium averages

Triennium averages for first three and last three years are calculated, change during the period over the first triennium averages to last triennium averages was calculated. Further annual average growth in percentages were calculated by dividing the change during the period by number of years in the study period.

3.4.3 Cluster Analysis

Cluster analysis is a form of multivariate technique which has been an important technique adopted in social and biological sciences to classify the characteristics into meaningful sets. It's a simple form of co-relation analysis which provides the measure of similarity among different variables. The analysis commences with the data set of independent variables of the samples, later on which leads to the formation of similar groups.

The technique of Cluster analysis was adopted to analyze the opinion survey of the farmers/beneficiaries of the banks in the study area, about the problems faced by them in banking operations. To begin with each variable was considered as a separate cluster. This process of grouping would be continued until single cluster was formed containing all the variables. The absolute values of correlation co-efficient were used as a measure of similarity.

In order to have a better understanding and interpretation of the cluster analysis results, the clusters were further aggregated based on the degree of similarity. The variables having similarity values greater than mean + 0.425 standard deviation were classified under high aggregate clusters. In the case of variables having similarity values between mean + 0.425 standard deviation and mean - 0.425 standard deviation were considered a medium cluster and variables having similarity values less than mean - 0.425 standard deviation were classified under low aggregate clusters. After classification of cluster into different groups, the variables having high similarity values were retained in respective clusters.

3.5 Definition of the Terms Used in the Study

Advance: The amount of loan advanced by an institution, during a particular period, year or season.

Agricultural Credit: Agricultural credit is the amount, either in cash or in kind or in both form, received from the external sources that institutional and non-institutional, to be repaid in the specific period of time to the lender, with some interest for the use of funds by the borrower. The present study considered only the institutional source. It is the credit provided for the purpose of agriculture use.

Conversion Credit: A form of rehabilitative finance under which short term seasonal agricultural loan is converted into medium term loan in case of crop failure due to natural calamities.

Credit: Financial assistance provided to the borrowers, specifically farmers, by public sector banks, private banks, co-operative banks and other financial institutions.

Demand for Recovery: The amount as stated in the demand notice issued by the financial institutions to the borrowers, requesting them to pay the dues with in the specified time.

Farm machinery: It includes tractor, trolley, threshers and harvester.

Interest cost: This was calculated on the basis of the rate of interest paid to different types of loans advanced by banks.

Land development: It refers to the activities undertaken by the farmers, beneficiaries for the development of land, such as levelling and bunding.

Minor Irrigation: It refers to the activities undertaken by the farmers, beneficiaries for digging of wells, sprinkler irrigation, drip irrigation, pipe lines, installation of pump set, etc.

NABARD: National Bank for Agriculture and Rural Development.

Non-Interest Cost: It refers to the cost incurred by the farmers, beneficiaries to obtain loan, exclusive of the interest amount charged by the banks, like amount spent for numbers of the trips made to banks, cost of availing required records, registration charges, supervision charges, legal fees, etc.

Non Performing Assets (NPA): RBI aligned repayment dates with harvesting of crops by treating loans granted for short duration crops as an NPA, if the instalment of the principal or interest thereon remains unpaid for two crop seasons beyond the due date. Loans granted for long duration crops are treated as an NPA, only if the instalment of the principal or interest thereon remains unpaid for one crop season beyond the due date. The loans for agricultural and allied activities are classified as NPA after 180 days of default.

Outstanding Balance: it refers to the cumulative quantum of credit disbursed during the period.

Overdue: The amount which was due to be paid on a particular date but was not been repaid by the borrower.

PACS: Primary Agriculture Co-operative Society.

RBI: Reserve Bank of India

Recovery: The amount of loan which was recovered up to a point of time by the financial institutions.

Seasonal Agricultural Loan (Short Term Loan): These loans are intended for the purpose of crop production. These are also called as short term loans or crop loans or agricultural production credit. These loans are repayable within period ranging from six months to 18 months in lump sum amount.

Term loan: the amount of credit made available for the purchase of pump set, bullocks, land improvement and development, irrigation activities, spray pumps, and to undertake other farm mechanization activities. The period of repayment ranges from 18 months to five years in case of primary agriculture co-operative societies and more then five years in the case of commercial banks. Term loan refers to only medium term loan in the case of PACS and it may be medium term and /or long term loan in the case of commercial banks.

4. RESULTS

The analysis of growth and magnitude of agricultural loans and advances, and their recovery in different financial institutions was the main objective of this study. To evaluate the changing status during the study period (1996-97 to 2005-06) in the Navalgund taluka of Dharwad district, with a view to deal with different facts of these objectives, the results of the study, with respect to different financial institutions, viz. public sector bank (Syndicate bank), private sector bank (Karnataka bank ltd.) and Vavaysa Seva Sahkaral Bank under Co-operative banking sector are presented under following headings.

- 4.1. Growth in lending to different portfolio of agriculture by the banks
- 4.2. Recovery performance in each portfolio of lending by the banks
- 4.3. Methods adopted for enhancement of recovery by the banks.
- 4.4. Costs incurred by the borrowers in borrowing for different purposes.
- 4.5. Problems faced by the farmers in borrowing from the banks.

4.1 Growth in Lending to Different Portfolio of Agriculture by the Banks.

The theme of this section is to show the growth in the portfolio and magnitude of agricultural advances and loans by major agricultural credit financing institutions viz. the public sector bank (Syndicate bank), the private sector bank (Karnataka bank ltd.) and the Vavaysa Seva Sahkaral Co-operative (VSS) bank under K.C.C. bank.

In order to give a full picture of the credit services, the financing institutions wise agricultural lending made under agricultural portfolio was bifurcated into short term loans and term loans and are presented in this section.

Loans and outstanding advances to agricultural portfolio during the specific year is given in the form of crop loan and term loans have been subjected for percentage change over previous year to know the growth. The quantum of outstanding advances for each year from 1996-97 onwards by each agricultural credit financing institutions were analyzed and the percentage change over previous year are presented. The portfolio wise change in outstanding agricultural advances and accounts are given in table 4.1 to table 4.7. on perusal of the results for these tables the bank wise and portfolio wise explanation are given below.

4.1.1. Syndicate Bank

Table 4.1 represents the total outstanding balance from agricultural portfolio in Syndicate bank. It may be observed from table that there was fluctuating trend in the total agricultural outstanding over year. The outstanding balance were highest in 2005-06 (Rs. 468.66 lakhs) and lowest (Rs. 152.32 lakhs) in 2000-01, and it decreased from Rs. 186.97 lakhs in 1996-97 to Rs. 152.32 lakhs in 2000-01, but further increased to Rs. 468.66 lakhs through 2005-06 with average annual growth of 10.20 per cent. The short term loans showed the fluctuating trend for outstanding advances with Rs. 77.52 lakhs in 1996-97, which increased to Rs. 100.35 lakhs in 1998-99, but declined to Rs. 68.80 lakhs in 2000-01 and again went on increasing to 293.41 lakhs in 2005-06 with average annual growth of 14.79 per cent. The contribution of short term loans varied from 41 per cent to 62 per cent of total agricultural advances, among which the share of advances through Kissan Credit Card (K.C.C.) was the highest with average annual growth of 13.56 per cent.

The fluctuating trend can be observed in outstanding balance of term loans. The outstanding balance for total term loans were highest in 2005-06 (Rs. 175.25 lakhs) and lowest (Rs. 76.20 lakhs) in 1998-99 and it decreased from Rs. 109.45 lakhs in 1996-97 to Rs. 76.20 lakhs in 1998-99, but it further increased to Rs. 175.25 lakhs in 2005-06 with average annual growth of 5.68 per cent. The outstanding balance of farm mechanization loans contributed 25 to 56 per cent of total loans which showed a decreasing trend in proportion of total term loans, with a fluctuating trend in outstanding balances. The outstanding balance was Rs. 104.72 lakhs in 1996-97, increased to Rs. 117.36 lakhs in 2005-06 registering irregular pattern, with average annual growth of 1.39 per cent. There was marginal change in outstanding balance for land development loans having percentage share of one to two per

cent during the study period in total term loans with an average annual growth of 0.93 per cent. The contribution of minor irrigation loans ranged from three to seven per cent between 2000-01 and 2005-06, among total term loans. The outstanding balance was Rs. 6.31 lakhs in 2000-01 which further increased to Rs. 33.54 lakhs in 2005-06, showing irregular trend, with average annual growth of 38.25 per cent. It is really appreciable which showed the performance of the bank.

Table 4.2 shows the number of outstanding loan accounts under agricultural portfolio. The total number of loan accounts shows marginal decrease during the study period with 830 loan accounts in 1996-97 to 717 in 2005-06, with average annual growth of -2.27 per cent, among which major contribution (67 to 82 per cent) was of short term loans for seasonal crop in the study period, with average annual growth of -3.08 per cent. Term loans contributed 18 to 33 per cent of the total agricultural accounts, with average annual growth of 0.08 per cent, among which farm mechanization loans had a major proportion. The numbers of loan account for term loan included horticultural, storage structures, dairy, farm mechanization, land development and minor irrigation loans. The farm mechanization loans had average annual growth of 0.54 per cent, while that for dairy, land development and minor irrigation loans had -2.96, -1.76 and -0.77 per cent respectively.

4.1.2 Karnataka Bank Ltd.

Table 4.3 represents the total agricultural outstanding balance by Karnataka bank Ltd. It may be seen from the table that, there was an increasing trend in the total agricultural outstanding over the years. The total agricultural outstanding balance went on increasing from Rs. 50.69 lakhs in 2000-01 to Rs. 127.62 lakhs in 2005-06 with average annual growth of 12.19 per cent. Among these, short term loans for seasonal crops contributed between 52 and 59 per cent showing increasing trend in outstanding balance with Rs. 28.89 lakhs in 2000-01 to Rs. 72.73 lakhs in 2005-06, with average annual growth of 12.23 per cent. Among the term loan farm mechanization loans contributed 31 to 35 per cent of total loans which also showed similar increasing trend, the outstanding loans increased from Rs. 15.87 lakhs in 2000-01 to Rs. 41.34 lakhs in 2005-06, with average annual growth of 13.31 per cent. The contribution of minor irrigation loans ranged from 10 to 13 per cent of total outstanding balance between 2000-01 and 2005-06 with Rs. 5.93 lakhs in 2000-01 which further increased to Rs. 13.55 lakhs in 2005-06, showing increasing trend, with average annual growth of 9.13 per cent.

In Table 4.4, the total number of loan accounts showed marginal increase during the study period with 117 loan accounts in 2000-01 to 189 in 2005-06, with average annual growth of 5.50 per cent. Among them, major contribution (90 per cent) was from short term loans for seasonal crop loan in the study period with average annual growth of 5.36 per cent. The numbers of loan account for term loan including minor irrigation and farm mechanization loans was meager (8 to 10 per cent) in total number of agricultural loans accounts with average annual growth of 6.86 per cent.

4.1.3 Vavaysa Seva Sahkaral Bank

The advance portfolio of VSS bank under KCC bank differs from commercial banks in many respects. The VSS bank are expected to provide need based credit and other facilities to the farmers, agricultural labours and entrepreneurs only for short term and medium term particularly on priority bases to the agricultural sector. The short term loan provision is the main responsibility of the VSS bank as no other co-operative institution accommodates this type of loan (other than FSS). The term loans can also be obtained by farmers through the three tier structure of co-operative organization. The percentage share of short term and term loans out of total loans provided by VSS bank for the period 1998-99 to 2005-06 are presented in Table 4.5.

Table 4.1 Outstanding Balance from Agricultural Portfolio to Syndicate Bank.

Table 4.1 Outstanding Balance from Agricultural Portfolio to Syndicate Bank.

(Amount in Rs Lakh)

Sl. No	Portfolio's	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	T. E.1998-99	T. E. 2005-06	Δ Over Previous T.E. %	Average Annual Growth %
A. Short Term Loans															
a.	Crop Over Draft	--	--	--	--	1.38 [0.91]	5.99 [3.39]	6.33 [3.47]	5.27 [2.29]	4.77 [1.15]	3.45 [0.74]	4.57	4.50	-2	-0.26
b.	Seasonal Crop Loan	--	--	--	--	24.74 [16.24]	21.53 [12.17]	17.65 [9.68]	21.12 [9.19]	5.66 [1.36]	4.26 [0.91]	21.31	10.35	-51	-8.57
c.	K.C.C.	75.26 [40.25]	94.25 [50.23]	99.1 [56.13]	86.82 [52.45]	42.61 [27.97]	59.94 [33.89]	73.67 [40.38]	107.33 [46.73]	240.3 [57.90]	285.24 [60.86]	89.54	210.96	136	13.56
d.	Others	2.26 [1.21]	1.35 [0.72]	1.25 [0.71]	1.13 [0.68]	0.07 [0.05]	0.07 [0.04]	0.09 [0.05]	0 [0.00]	0 [0.00]	0.46 [0.10]	1.62	0.15	-91	-9.05
Total		77.52 [41.46]	95.6 [50.95]	100.35 [56.84]	87.95 [53.13]	68.8 [45.17]	87.53 [49.49]	97.74 [53.58]	133.72 [58.22]	250.73 [60.41]	293.41 [62.61]	91.16	225.95	148	14.79
B. Term Loans															
a.	Horticulture	0.8 [0.43]	0.34 [0.18]	0.34 [0.19]	--	--	--	--	--	--	--	-	-	-	-
b.	Storage Structures	--	--	--	--	2.69 [1.77]	3.98 [2.25]	4.58 [2.51]	14.6 [6.36]	16.62 [4.00]	16.02 [3.42]	3.75	15.75	320	53.32
c.	Dairy	2.43 [1.30]	2.3 [1.23]	2.6 [1.47]	3.95 [2.39]	3.94 [2.59]	2.58 [1.46]	2.89 [1.58]	3.16 [1.38]	4.29 [1.03]	5.36 [1.14]	2.44	4.27	75	7.48
d.	Farm Mechanization	104.72 [56.01]	86.95 [46.34]	70.4 [39.88]	71.1 [42.95]	68.00 [44.64]	70.63 [39.93]	69.91 [38.32]	70.59 [30.73]	110.67 [26.66]	117.36 [25.04]	87.36	99.54	14	1.39
e.	Land Development	1.5 [0.80]	2.45 [1.31]	2.86 [1.62]	2.54 [1.53]	2.58 [1.69]	2.55 [1.44]	2.14 [1.17]	1.74 [0.76]	2.73 [0.66]	2.97 [0.63]	2.27	2.48	9	0.93
f.	Minor Irrigation	--	--	--	--	6.31 [4.14]	9.6 [5.43]	5.16 [2.83]	5.89 [2.56]	30 [7.23]	33.54 [7.16]	7.02	23.14	230	38.25
Total		109.45 [58.54]	92.04 [49.05]	76.2 [43.16]	77.59 [46.87]	83.52 [54.83]	89.34 [50.51]	84.68 [46.42]	95.98 [41.78]	164.31 [39.59]	175.25 [37.39]	92.56	145.18	57	5.68
Grand Total		186.97 [100]	187.64 [100]	176.55 [100]	165.54 [100]	152.32 [100]	176.87 [100]	182.42 [100]	229.7 [100]	415.04 [100]	468.66 [100]	183.72	371.13	102	10.20

Note: Figures in Parentheses indicate the Percentage Share of each Portfolio.

Table 4.2. Number of Loan Accounts under Agricultural Portfolio in Syndicate Bank.

Table 4.2. Number of Loan Accounts under Agricultural Portfolio in Syndicate Bank.

Years/ Portfolios	Short Term loans (STL)					Term loans (TL)							STL % of GT	TL % of GT	Grand Total
	Crop OD	Seasonal crop loan	SKCC	Others	Total	Hortic- ulture	Storage	Dairy	Farm Mechanization	Land Development	Minor Irrigation	Total Term			
1996-97	-	-	646 [94.72]	36 [5.28]	682 [100]	2 [1.35]	-	56 [37.84]	76 [51.35]	14 [9.46]	-	148 [100]	[82.17]	[17.83]	830 [100]
1997-98	-	-	594 [96.43]	22 [3.57]	616 [100]	1 [0.69]	-	58 [40.00]	68 [46.90]	18 [12.41]	-	145 [100]	[80.95]	[19.05]	761 [100]
1998-99	-	-	617 [97.01]	19 [2.99]	636 [100]	1 [0.68]	-	65 [44.52]	61 [41.78]	19 [13.01]	-	146 [100]	[81.33]	[18.67]	782 [100]
1999-00	-	-	457 [96.41]	17 [3.59]	474 [100]	-	-	62 [44.60]	62 [44.60]	15 [10.79]	-	139 [100]	[77.32]	[22.87]	613 [100]
2000-01	2 [0.73]	139 [50.73]	131 [47.81]	2 [0.73]	274 [100]	-	1 [0.73]	39 [28.47]	55 [40.15]	16 [11.68]	26 [18.98]	137 [100]	[66.67]	[33.33]	411 [100]
2001-02	6 [1.98]	121 [39.93]	173 [57.10]	3 [0.99]	303 [100]	-	2 [1.43]	40 [28.57]	51 [36.43]	18 [12.86]	29 [20.71]	140 [100]	[68.40]	[31.60]	443 [100]
2002-03	4 [1.27]	104 [33.12]	203 [64.65]	3 [0.96]	314 [100]	-	3 [2.33]	45 [34.88]	57 [44.19]	14 [10.85]	10 [7.75]	129 [100]	[70.88]	[29.12]	443 [100]
2003-04	3 [0.80]	122 [32.71]	248 [66.49]	0 [0.00]	373 [100]	-	8 [6.56]	43 [35.25]	54 [44.26]	7 [5.74]	10 [8.20]	122 [100]	[75.35]	[24.65]	495 [100]
2004-05	9 [2.14]	27 [6.41]	385 [91.45]	0 [0.00]	421 [100]	-	10 [5.52]	45 [24.86]	85 [46.96]	17 [9.39]	24 [13.26]	181 [100]	[67.68]	[29.10]	622 [100]
2005-06	2 [0.37]	18 [3.30]	514 [94.31]	11 [2.02]	545 [100]	-	11 [6.40]	38 [22.09]	77 [44.77]	18 [10.47]	28 [16.28]	172 [100]	[76.01]	[23.99]	717 [100]
T. E. 1998-99	4	121.33	619.00	25.67	644.67	-	2	59.67	68.33	17	21.67	146.33			791.00
T. E. 2005-06	4.67	55.67	382.33	3.67	446.33	-	9.67	42.00	72.00	14.00	20.67	158.33			611.33
Δ Over Previous T. E. %	17	-54	-38	-86	-31	-	383	-30	5	-18	-5	820			-23
Average Annual Growth %	2.78	-9.02	-3.82	-8.57	-3.08	-	63.89	-2.96	0.54	-1.76	-0.77	0.08			-2.27

Note: Figures in Parentheses indicate the Percentage Share of each Portfolio.

Table 4.3. Outstanding Balance from Agricultural Portfolio to Karnataka Bank Ltd.

Table 4.3. Outstanding Balance from Agricultural Portfolio to Karnataka Bank Ltd.

(Amount in Rs. lakh)

Sl. No	Portfolio's	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	T. E. 2002-03	T. E. 2005-06	Δ Over Previous T.E. %	Average Annual Growth %
A. Short Term											
a.	Seasonal Crop Loan	28.89 [56.99]	31.73 [57.10]	33.53 [55.34]	36.05 [52.33]	54.45 [58.92]	72.73 [55.89]	31.38	54.41	73	12.23
B. Term loans											
a.	Farm Mechanization	15.87 [31.31]	17.37 [31.26]	19.24 [31.75]	24.42 [35.45]	28.63 [30.98]	41.34 [31.77]	17.49	31.46	80	13.31
b.	Minor Irrigation	5.93 [11.70]	6.47 [11.64]	7.82 [12.91]	8.42 [12.22]	9.33 [10.1]	13.55 [10.41]	6.74	10.43	55	9.13
Total Term Loan		21.8 [43.01]	23.84 [42.90]	27.06 [44.66]	32.84 [47.67]	37.96 [41.08]	54.89 [41.11]	24.23	41.90	73	12.15
Grand Total		50.69 [100]	55.57 [100]	60.59 [100]	68.89 [100]	92.41 [100]	127.62 [100]	55.62	96.31	73	12.19

Note: Figures in parentheses indicates percentage total.

Table 4.4 Number of Loan Accounts under Agricultural Portfolio in Karnataka Bank Ltd.

Table 4.4. Number of Loan Accounts under Agricultural Portfolio in Karnataka Bank Ltd.

Years	Short Term loan	Term loan			Grand Total
	Seasonal Crop Loan	Farm mechanization	Minor Irrigation	Total Term Loan	
2000-01	107 [91.45]	6 [5.13]	4 [3.42]	10 [8.55]	117 [100]
2001-02	112 [90.32]	6 [4.84]	6 [4.84]	12 [9.68]	124 [100]
2002-03	117 [90.70]	6 [4.65]	6 [4.65]	12 [9.30]	129 [100]
2003-04	126 [89.36]	8 [5.67]	7 [4.96]	15 [10.64]	141 [100]
2004-05	149 [91.98]	7 [4.32]	6 [3.70]	13 [8.02]	162 [100]
2005-06	169 [89.42]	11 [5.82]	9 [4.76]	20 [10.58]	189 [100]
T. E. 2002-03	112	6	5.33	11.33	123.33
T. E. 2005-06	148	8.67	7.33	16	164
Δ Over Previous T.E. %	32	44	38	41	33
Average Annual Growth %	5.36	7.41	6.25	6.86	5.50

Note: Figures in Parentheses indicate the Percentage Share of each Portfolio each year.

Table 4.5. Outstanding Balance from Agricultural Portfolio to VSS Bank.

Table 4.5. Outstanding Balance from Agricultural Portfolio to VSS Bank.

(Amount in Rs. Lakh)

Sl. No	Portfolio's	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	T. E. 2000-01	T. E. 2005-06	Δ Over Previous T.E. %	Average Annual Growth %
A. Short Term Loans													
a.	Seasonal Crop Loan	19.04 [23.51]	19.04 [23.51]	47.15 [51.46]	35.55 [40.76]	21.41 [27.20]	52.55 [77.74]	53.72 [79.43]	50.25 [100]	47.15	52.17	11	1.33
B. Term Loans													
a.	Farm Mechanization	12.56 [15.51]	12.57 [15.52]	4.26 [4.65]	1.11 [1.27]	0 [00]	0.69 [1.02]	0.18 [0.27]	0 [00]	4.26	0.29	-93	-11.65
b.	Conversion Loans	49.39 [60.98]	49.39 [60.98]	40.22 [43.89]	50.56 [57.97]	57.29 [72.80]	14.36 [21.24]	13.73 [20.30]	0 [00]	40.22	9.36	-77	-9.59
Total Term Loans		61.95 [76.49]	61.96 [76.49]	44.48 [48.54]	51.67 [59.24]	57.29 [72.80]	15.05 [22.26]	13.91 [20.57]	0 [00]	44.48	9.65	-78	-9.79
Grand Total		80.99 [100]	81.00 [100]	91.63 [100]	87.22 [100]	78.70 [100]	67.60 [100]	67.63 [100]	50.25 [100]	91.63	61.83	-33	-4.07

Note: Figures in parentheses indicates percentage total.

Table 4.6. Number of Loan Accounts under Agricultural Portfolio in VSS Bank

Table 4.6. , Number of Loan Accounts under Agricultural Portfolio in VSS Bank.

Years	Short term loan	Term loan			Grand Total
	Seasonal Crop Loan	Medium Term loans	Conversion loans	Total Term Loans	
1998-99	72 [69.23]	3 [2.88]	29 [27.88]	32 [30.77]	104 [100]
1999-00	72 [67.92]	3 [2.83]	31 [29.25]	34 [32.08]	106 [100]
2000-01	98 [77.17]	2 [1.57]	27 [21.26]	29 [22.83]	127 [100]
2001-02	84 [71.19]	1 [0.85]	33 [27.97]	34 [28.81]	118 [100]
2002-03	62 [65.26]	0 [00]	33 [34.74]	33 [34.74]	95 [100]
2003-04	126 [86.90]	1 [0.69]	18 [12.41]	19 [13.10]	145 [100]
2004-05	176 [92.15]	1 [0.52]	14 [7.33]	15 [7.85]	191 [100]
2005-06	163 [100]	0 [00]	0 [00]	0 [00]	163 [100]
T. E. 2000-01	80.67	2.67	29.00	31.67	112.33
T. E. 2005-06	155.00	0.67	10.67	11.33	166.33
Δ over previous T.E. %	92	-75	-63	-64	48
Average Annual growth %	11.52	-9.38	-7.90	-8.03	6.01

Note: Figures in Parenthesis indicate the Percentage Share of each Portfolio each year.

The results in Table 4.5 indicates the loan facilities which compromised of short term and term and the outstanding balance of loans advanced from agricultural portfolio by VSS bank. It may be observed from the table that, there was decreasing trend in the outstanding balance from total agricultural portfolio over the years. The total agricultural outstanding balance went on decreasing from Rs. 80.99 lakhs in 1998-99 to Rs. 50.25 lakhs in 2005-06 with average annual growth of -4.07 per cent. Among these short term loans for seasonal crops contributed between 23.51 and 100 per cent showing increasing trend in outstanding balance of loan advanced with Rs. 19.04 lakhs in 1998-99 to Rs. 50.25 lakhs in 2005-06, with average annual growth of 1.33 per cent. The farm mechanization loans contributes one to 15 per cent of total loans which shows decreasing trend, and decreases from Rs. 12.56 lakhs in 1998-99 to Rs. 0.18 lakhs in 2004-05, with average annual growth of -11.65 per cent. The contribution of conversion loans ranges from 20 to 60 per cent of total outstanding balance between 1998-99 and 2004-05, with Rs. 49.39 lakhs in 1998-99 which decreased to Rs. 13.73 lakhs in 2004-05, showing decreasing trend, with average annual growth of -9.59 per cent.

It can be observed from Table 4.6. that the total number of loan accounts showed an increase during the study period with 104 loan accounts in 1998-99 to 163 in 2005-06, with average annual growth of 6.01 per cent. Among this major contribution (65 to 100 %) was of short term loans for seasonal crop loan in the study period with average annual growth of 11.52 per cent, while numbers of loan account for term loan including medium term loans for farm mechanization and conversion loans was 30 to zero per cent in total number of agricultural loans accounts with average annual growth of -8.03 per cent. It can be observed that the term loan account went on declining in the study period.

4.1.4 Comparison of Syndicate Bank, Karnataka Bank Ltd. and VSS Bank

A perusal of Table 4.7 reveals the growth in outstanding balance and number of accounts during the study period for various financial institutions. It can be observed that average annual growth for short term loans was 14.79 per cent, within which K.C.C showed the growth of 13.56 per cent in Syndicate bank. That for Karnataka bank ltd. was 12.23 per cent and for VSS bank was only 1.33 per cent. When numbers of accounts are taken into consideration, Syndicate bank shown average annual growth of -3.08 per cent for short term loans, while Karnataka bank ltd. shows average annual growth of 5.36 per cent and VSS bank had a growth of 11.52 per cent.

The term loans in Syndicate bank showed average annual growth of 5.08 and 0.08 per cent for outstanding balance and number of loan accounts respectively, which included loans for storage structures, dairy, farm mechanization, land development and minor irrigation loans with average annual growth of 53.32, 7.48, 1.39, 0.93 and 38.25 per cent for outstanding balance and 63.89, -2.96, 0.54, -1.76 and -0.77 per cent for number of loan accounts respectively. The average annual growth was 12.15 and 6.86 per cent for outstanding balance and number of loan accounts respectively, for Karnataka bank ltd. which includes farm mechanization and minor irrigation loans, with average annual growth of 13.31 and 9.13 per cent for outstanding balance and 7.41 and 6.25 per cent for number of loan accounts respectively.

The total loans in Syndicate bank showed average annual growth of 10.20 and -2.27 per cent for outstanding balance and number of loan accounts respectively. It was 12.19 and 5.50 per cent for outstanding balance and number of loan accounts respectively, in case of Karnataka bank ltd. and in VSS bank it was -4.07 and 6.01 per cent for outstanding balance and number of loan accounts respectively.

4.1.5. Priority Sector Advances

The priority sector advances, which include direct agriculture loans and advances, advances to SSI (Small Scale Industries), retail trade, others (road and other transport, small business, professional and salaried person, education, housing, and SHG's), etc. constitute one of the major credit policy component announced by Reserve Bank of India (RBI).

Table 4.7. Average Annual Growth in Outstanding Balance and Loan Accounts in Agricultural Portfolio of Banks.

S. No.	Portfolio	Syndicate Bank		Karnataka Bank Ltd.		VSS Bank	
		OB	A/c	OB	A/c	OB	A/c
A. Short term loan							
a.	Crop Over Draft	-0.26	2.78				
b.	Seasonal Crop Loan	-8.57	-9.02	12.23	5.36	1.33	11.52
c.	K.C.C.	13.56	-3.82				
d.	Others	-9.05	-8.57				
	Total	14.79	-3.08	12.23	5.36	1.33	11.52
B. Terms loans							
a.	Storage Structures	53.32	63.89				
b.	Dairy	7.48	-2.96				
c.	Farm Mechanization	1.39	0.54	13.31	7.41	-11.65	-9.38
d.	Conversion Loans					-9.59	-7.90
e.	Land Development	0.93	-1.76				
f.	Minor Irrigation	5.68	0.08	12.15	6.86		
	Total Term Loan	10.20	-2.77	12.19	5.50	-4.07	6.01

This table is derived form Table 4.1.1 to 4.1.6.

Table 4.8. Priority Sector Advances by Syndicate Bank.

(Amount in Rs. lakhs)

Years	Direct Agriculture	SSI	Retail trade	Other	Total Priority
1996-97	186.97 [69.65]	47.78 [17.80]	11.04 [4.11]	22.64 [8.43]	268.43 [100.00]
1997-98	187.64 [61.56]	58.5 [19.19]	32.22 [10.57]	26.46 [8.68]	304.82 [100.00]
1998-99	176.55 [58.09]	70.38 [23.16]	27.15 [8.93]	29.84 [9.82]	303.92 [100.00]
1999-00	165.54 [50.55]	64.31 [19.64]	35.81 [10.93]	61.85 [18.88]	327.51 [100.00]
2000-01	152.32 [41.50]	105.86 [28.84]	39.97 [10.89]	68.91 [18.77]	367.06 [100.00]
2001-02	176.87 [38.42]	145.29 [31.56]	50.43 [10.96]	87.72 [19.06]	460.31 [100.00]
2002-03	182.42 [31.68]	128.85 [22.38]	70.55 [12.25]	193.94 [33.68]	575.76 [100.00]
2003-04	229.7 [30.82]	176.86 [23.73]	97.54 [13.09]	241.11 [32.35]	745.21 [100.00]
2004-05	415.04 [43.39]	254.14 [26.57]	52.98 [5.54]	234.45 [24.51]	956.61 [100.00]
2005-06	468.66 [44.24]	230.75 [21.78]	94.69 [8.94]	265.26 [25.04]	1059.36 [100.00]
T. E. 1998-99	183.72	58.89	23.47	26.31	292.39
T. E. 2005-06	371.13	220.58	81.74	246.94	920.39
Δ Over Previous T.E. %	102	275	248	838	215
Average Annual Growth %	10.20	27.46	24.83	83.85	21.48

Note: Others: Road and other transport, Small business, Professional and Salaried person, education, housing, and SHG's.

Figures in parentheses indicates percentage total.

Table. 4.9 Priority Sector Advances by Karnataka Bank Ltd.

(Amount in Rs. Lakhs)

Years/ Portfolio	Direct Agriculture	SSI	Retail trade	Other	Total priority
2000-01	50.69 [20.24]	136.75 [54.61]	26.24 [10.48]	36.74 [14.67]	250.42 [100]
2001-02	55.57 [20.86]	143.87 [54.01]	28.49 [10.69]	38.47 [14.44]	266.4 [100]
2002-03	60.59 [20.91]	154.67 [53.38]	32.6 [11.25]	41.87 [14.45]	289.73 [100]
2003-04	68.89 [21.64]	167 [52.45]	36.5 [11.46]	46 [14.45]	318.39 [100]
2004-05	92.41 [26.77]	163.1 [47.25]	34.2 [9.91]	55.5 [16.08]	345.21 [100]
2005-06	127.62 [31.70]	160.1 [39.77]	46.26 [11.49]	68.60 [17.04]	402.58 [100]
T. E. 2002-03	55.62	145.10	29.11	39.03	268.85
T. E. 2005-06	96.31	163.40	38.99	56.70	355.39
Δ Over Previous T.E. %	73	13	34	45	32
Average Annual Growth %	12.19	2.10	5.65	7.55	5.37

Note: Others: Road and other transport, Small business, Professional and Salaried person, education, housing, SHG's.

Figures in parentheses indicates percentage total.

As the prime theme of this study is analysis of flow of credit to agricultural sector, the sector is given full coverage and the rest are considered and analyzed under total priority sector advances. The direct agriculture advances, SSI advances, retail trade advances and other advances and total priority sector advances are presented in Table 4.8 to Table 4.10., with percentage share and annual average growth in percentages for loans advanced.

Syndicate Bank

Table 4.8 presents priority sector advances of Syndicate bank Navalgund. As far as direct agricultural advances under priority sector is concerned, the amount advances to agriculture increase over the years from Rs. 186.97 lakhs in 1996-97 to Rs. 468.66 lakhs in 2005-06 sharing 69.65 and 44.24 percent in total priority sector advances respectively with average annual growth of 10.20 per cent, despite a declaration of Rs. 187.64 lakhs in 1997-98 though Rs. 152.32 lakhs in 1999-00, though per cent contribution of the direct agricultural advances to the total priority sector advances did not fall below 44 per cent which were the situation hence forth.

Total priority sector advances increased from Rs 268.43 lakhs in 1996-97 to Rs. 1059.36 lakhs in 2005-06 showing an increase of 2.15 times in the 2005-06 triennium ending over the previous triennium ending in 1998-99 with average annual growth of 21.48 per cent.

Karnataka Bank Ltd.

Table 4.9 shows priority sector advances of Karnataka bank ltd. Direct agricultural advances increased over the years from Rs. 50.69 lakhs in 2000-01 to 127.62 lakhs in 2005-06 contributing 20.24 per cent and 31.70 per cent of total priority sector advances in the above two periods respectively. The average annual growth registered for direct agricultural advances 12.19 per cent.

Total priority sector advances increased from Rs 250.42 lakhs in 2000-01 to Rs. 402.58 lakhs in 2005-06 showing an increase of 0.32 times in the 2005-06 triennium ending over the previous triennium ending in 2002-03 with average annual growth of 5.37 per cent.

Comparison of Syndicate Bank and Karnataka Bank Ltd.

The comparative analysis priority sector advances between Syndicate bank and Karnataka bank ltd. can be inferred from Table 4.8 and Table 4.9. As far as total priority sector is concerned, the outstanding advances increased over the years from Rs. 367.06 lakhs in 2000-01 to Rs. 1059.36 lakhs in 2005-06 in Syndicate bank, while in Karnataka bank ltd. it was only Rs. 250.42 lakhs in 2000-01 and increased to Rs. 402.58 lakhs in 2005-06, with average annual growth of 21.48 and 5.37 per cent for Syndicate bank and Karnataka bank ltd. respectively.

In case of direct agriculture advances under priority sector Syndicate bank advanced Rs. 152.32 lakhs in 2000-01 but it rose to Rs. 468.66 lakhs in 2005-06. Whereas in Karnataka bank ltd. Rs. 50.69 laths were advanced during 2000-01 which rose to Rs. 127.62 lakhs in 2005-06 with average annual growth of 10.20 and 12.19 per cent for Syndicate bank and Karnataka bank ltd. respectively. This shows that the Syndicate bank performed well as compared to Karnataka bank ltd. in direct agricultural advances during the study period.

4.2 Recovery Performance in each Portfolio of Lending by the Banks

Recovery of loans lent is as important as lending itself in any financial institution which determines its profitability. Non-recovery of funds results in locking up of funds, thereby chocking of the recycling of funds. The poor recovery of loans in the agricultural sector, for obvious reasons, is an area of anxiety and serious concern for the banks. As regards the health of the credit institutions, it is an important factor sustaining the projected levels of credit supply. In the present study the recovery performance of different financial institutions was studied in detail and the findings are presented below.

4.2.1 Syndicate Bank

The details of portfolio wise demand, recovery and overdues position of Syndicate Bank over the ten year period are presented in Table 4.10. The demand for recovery in Syndicate bank was found to be continuously increasing from Rs. 95.38 lakhs in 1996-97 to Rs. 211.48 lakhs in 2005-06 for short term loans with average annual growth of 8.92 per cent. Similarly, the demand for recovery for term loan was also found to be continuously increasing from Rs. 58.74 lakhs in 1996-97 to Rs. 292.53 in 2005-06 with average annual growth of

27.37 per cent, which collectively made up the increasing trend in demand for recovery of total loans from Rs. 154.12 lakhs in 1996-97 to Rs. 504.01 lakhs in 2005-06 with average annual growth of 16.03 per cent. The increasing trend could also be seen for recovery, from Rs. 74.79 lakhs in 1996-97 to Rs. 191.21 lakhs in 2005-06 for short term loan with average annual growth of 10.2 per cent, from Rs. 44.57 lakhs in 1996-97 to Rs. 242.48 lakhs in 2005-06 for term loans with average annual growth of 30.86 per cent. The total loan recovery was also increased from Rs. 119.36 lakhs in 1996-97 to Rs. 433.69 lakhs in 2005-06 with average annual growth of 17.63 per cent. There was fluctuating trend in recovery percentage. The recovery per cent was found lowest (78.41 per cent) in 1996-97 then increased to 88.72 per cent in 2000-01, further declined to 80.77 per cent in 2001-02 and again increased to 90.42 per cent in 2005-06 for short term loans with average annual growth of 0.69 per cent. For term loans there was also, fluctuating trend with lowest (68.18 per cent) recovery in 1999-00 and highest (82.89 per cent) in 2005-06 with average annual growth of 0.87 per cent. Obviously the recovery of total loans also showed fluctuating trend with highest recovery (86.05 per cent) in 2005-06, and lowest (77.45 per cent) in 1996-97 with average annual growth of 0.61 per cent.

The fluctuating trend can be observed in overdues position with respect to short term loans as in 1996-97 overdues were 21.59 per cent of the total demand for recovery which decreased to 11.28 per cent in 2000-01, but increased to 19.23 per cent in 2001-02 and then declined to 9.58 per cent in 2005-06 with average annual growth of -3.22 per cent which indicates the decreasing trend in percentages of overdues. Similar trend could also be noted in term loans where, maximum overdues were 31.82 per cent in 1999-00 which kept on declining till 2005-06 to 17.11 per cent with average annual growth of -2.45 per cent. The overdues percentages of total loans showed irregular trend in the study period with average annual growth of -2.29 per cent.

The above results indicate that the recovery performance of the bank was found improving during the entire course of study.

4.2.2 Karnataka Bank Ltd.

The details of portfolio wise and period wise demand, recovery and overdues position of Karnataka bank ltd. are presented in Table 4.11. The demand for recovery in Karnataka bank ltd. was found to be continuously increasing from Rs. 8.91 lakhs in 2000-01 to Rs. 30.32 lakhs in 2005-06, a except decrease to Rs. 13.58 lakhs in 2004-05 for short term loans with average annual growth of 16.44 per cent. Similarly, the demand for recovery for term loan was also found to be continuously increasing from Rs. 6.82 lakhs in 2000-01 to Rs. 20.41 in 2005-06 with average annual growth of 19.26 per cent. Both the type of loans put together had increasing trend in total demand for recovery from Rs. 15.73 lakhs in 2000-01 to Rs. 50.73 lakhs in 2005-06 with average annual growth of 17.65 per cent. There was fluctuating trend in recovery percentage. The recovery per cent for short term loans increased from 13.58 per cent in 2000-01 to 17.12 per cent in 2001-02, but was the lowest (12.42 %) in 2003-04, then further increased to 41.38 per cent in 2004-05 with average annual growth of 16.25 per cent. The fluctuating trend could also be observed for term loans with lowest (8.70 %) recovery in 2002-03 and highest (45.42 %) in 2005-06 with average annual growth of 31.77 per cent. Similarly total loans showed fluctuating trend with highest recovery (38.87 %) in 2005-06, and lowest (11.25 %) in 2003-04 with average annual growth of 20.68 per cent.

The fluctuating trend can be observed in overdues position with respect to short term loans, as in 2000-01 overdues were 86.42 per cent of the total demand for recovery which further decreased to 82.88 per cent in 2001-02 but increased to 87.58 per cent in 2003-04 and next declined to 65.53 per cent in 2005-06 with average annual growth of -2.84 per cent. Similar trend can be also noted in term loans where, highest overdues were 91.3 per cent in 2002-03 which kept on declining till 2005-06 to 54.48 per cent with average annual growth of -3.50 per cent.

Table 4.10. Recovery Performance in Agricultural Portfolio of Syndicate Bank.

(In Rs. Lakhs)

Years/Portfolio	Demand for Recovery	Recovered/Collection	Recovery %	Overdues/Balance	Overdues %
A. Short Term Loans					
1996-97	95.38	74.79	78.41	20.59	21.59
1997-98	104.39	86.7	83.05	17.69	16.95
1998-99	112.56	96.16	85.43	16.4	14.57
1999-00	123.1	106.45	86.47	16.65	13.53
2000-01	135.7	120.39	88.72	15.31	11.28
2001-02	145.08	117.18	80.77	27.9	19.23
2002-03	168.69	142.48	84.46	26.21	15.54
2003-04	182.04	159.37	87.55	22.67	12.45
2004-05	197.3	169.78	86.05	27.52	13.95
2005-06	211.48	191.21	90.42	20.27	9.58
Average	147.57	126.45	85.13	21.12	14.87
T. E. 1998-99	104.11	85.88	82.29	18.23	17.7
T. E. 2005-06	196.94	173.45	88	23.48	11.99
Δ Over Previous T.E. %	89	102	7	29	-32
Average Annual growth %	8.92	10.2	0.69	2.89	-3.22
B. Term Loans					
1996-97	58.74	44.57	75.88	14.17	24.12
1997-98	60.45	43.57	72.08	16.88	27.92
1998-99	76.83	56.71	73.81	20.12	26.19
1999-00	88.27	60.18	68.18	28.09	31.82
2000-01	89.71	67.89	75.68	21.82	24.32
2001-02	132.08	104.35	79.01	27.73	20.99
2002-03	147.01	115.67	78.68	31.34	21.32
2003-04	178.95	137.94	77.08	41.01	22.92
2004-05	261.12	211.45	80.98	49.67	19.02
2005-06	292.53	242.48	82.89	50.05	17.11
Average	138.57	108.48	76.43	30.09	23.11
T. E. 1998-99	65.34	48.28	73.92	17.06	26.08
T. E. 2005-06	244.19	197.29	80.31	46.91	19.68
Δ Over Previous T.E. %	274	309	9	175	-25
Average Annual growth %	27.37	30.86	0.87	17.5	-2.45
Total Loans					
1996-97	154.12	119.36	77.45	34.76	22.55
1997-98	164.84	130.27	79.03	34.57	20.97
1998-99	189.39	152.87	80.72	36.52	19.28
1999-00	211.37	166.63	78.83	44.74	21.17
2000-01	225.41	188.28	83.53	37.13	16.47
2001-02	277.16	221.53	79.93	55.63	20.07
2002-03	315.7	258.15	81.77	57.55	18.23
2003-04	360.99	297.31	82.36	63.68	17.64
2004-05	458.42	381.23	83.16	77.19	16.84
2005-06	504.01	433.69	86.05	70.32	13.95
Average	286.14	234.93	81.28	51.21	18.72
T. E. 1998-99	169.45	134.17	79.06	35.28	20.93
T. E. 2005-06	441.14	370.75	83.85	70.39	16.14
Δ Over Previous T.E. %	160	176	6	1	-23
Average Annual growth %	16.03	17.63	0.61	9.95	-2.29

Table 4.11. Recovery Performance in Agricultural Portfolio of Karnataka Bank Ltd.

(in Rs. Lakhs)

Years/Portfolio.	Demand for Recovery	Recovered / Collection	Recovery %	Overdues /Balance	Overdues %
A. Short Term Loans					
2000-01	8.91	1.21	13.58	7.7	86.42
2001-02	9.58	1.64	17.12	7.94	82.88
2002-03	12.57	1.76	14	10.81	86
2003-04	17.79	2.21	12.42	15.58	87.58
2004-05	13.58	5.62	41.38	7.96	58.62
2005-06	30.32	10.45	34.47	19.87	65.53
Average	15.46	3.82	22.16	11.64	77.84
T. E. 2002-03	10.35	1.54	14.9	8.82	85.1
T. E. 2005-06	20.56	6.09	29.42	14.47	70.58
Δ Over Previous T.E. %	99	297	97	64	-17
Average Annual growth %	16.44	49.42	16.25	10.69	-2.84
B. Term loans					
2000-01	6.82	0.62	9.09	6.2	90.91
2001-02	6.61	0.79	11.95	5.82	88.05
2002-03	9.88	0.86	8.7	9.02	91.3
2003-04	10.47	0.97	9.26	9.5	90.74
2004-05	19.37	6.15	31.75	13.22	68.25
2005-06	20.41	9.27	45.42	11.14	54.58
Average	12.26	3.11	19.36	9.15	80.64
T. E. 2002-03	7.77	0.76	9.91	7.01	90.09
T. E. 2005-06	16.75	5.46	28.81	11.29	71.19
Δ Over Previous T.E. %	116	622	191	61	-21
Average Annual growth %	19.26	103.67	31.77	10.16	-3.5
Total Loans					
2000-01	15.73	1.83	11.63	13.9	88.37
2001-02	16.19	2.43	15.01	13.76	84.99
2002-03	22.45	2.98	11.67	19.83	88.33
2003-04	28.26	3.18	11.25	25.08	88.75
2004-05	32.95	11.77	35.72	21.18	64.28
2005-06	50.73	19.72	38.87	31.01	61.13
Average	27.72	6.99	20.69	20.79	79.31
T. E. 2002-03	18.12	2.41	12.77	15.83	87.23
T. E. 2005-06	37.31	11.56	28.61	25.76	71.39
Δ Over Previous T.E. %	106	379	124	63	-18
Average Annual growth %	17.65	63.14	20.68	10.45	-3.03

4.2.3 Vavaysa Seva Sahkaral Bank

The details of portfolio and period wise demand, recovery and overdues position of VSS bank are presented in Table 4.12. The demand for recovery in VSS bank was found to have continuously fluctuating trend, increased from Rs. 20.92 lakhs in 1998-99 to Rs. 45.58 lakhs in 1999-00, but declined to Rs. 31.96 lakhs in 2000-01, again increased to Rs. 44.68 lakhs in 2001-02, but declined again in 2002-03 and then increased to Rs. 68.20 lakhs in 2005-06, for short term loans with average annual growth of 6.34 per cent. Similarly, the demand for recovery for term loan was also found to be fluctuating trend. The demand for recovery was Rs. 4.00 lakhs in 1998-99, increased to Rs. 12.55 lakhs in 1999-00, but declined a bit (Rs. 12.53 lakhs) in 2000-01 and then went on increasing to Rs. 58.9 lakhs in 2002-03, again declined to Rs. 14.36 lakhs in 2005-06 with average annual growth of 25.64 per cent. Both the types of loans together had increasing trend in total demand for recovery from Rs. 24.92 lakhs in 1998-99 to Rs. 82.56 lakhs in 2005-06, except a meager decline in 2000-01 lakhs with average annual growth of 10.74 per cent.

There was fluctuating trend in recovery percentage for total loans. The recovery per cent increased from 31.98 per cent in 1998-99 to 70.53 per cent in 2001-02, was lowest (39.01 per cent) in 2001-02 then increased to 98.45 per cent in 2002-03 but further declined to 90.26 per cent in 2003-04, and again increased to 97.71 per cent in 2005-06 for short term loans with average annual growth of 8.06 per cent. The recovery of terms loans also showed continuously a fluctuating trend. It decreased to 28.61 per cent in 1999-00 from 84.25 per cent in 1998-99 and was lowest during 2003-04 (0.57 %), but improved to 37.70 per cent in 2004-05 and ultimately decreased to 4.39 per cent in 2005-06 with average annual growth of -9.51 per cent, which shows the poor performance of VSS bank regarding recovery of terms loans. The recovery of total loans showed fluctuating trend, with highest of 81.48 per cent recovery in 2005-06 and lowest of 30.67 per cent recovery in 2003-04 with average annual growth of 1.40 per cent.

4.2.4 Comparison of Syndicate Bank, Karnataka Bank Ltd. and VSS Bank.

It can be observed from the Table 4.10 to Table 4.12 the recovery in Syndicate bank for short term loans was good which ranged from 78 to 90 per cent of total demand for recovery during the study period. While in Karnataka bank ltd. it ranged from 12 to 41 per cent which was too dismal and showed poor performance of the bank regarding recovery. The VSS bank registered good recovery (more than 90 %) in the terminal period of study for short term loans. The recovery percentage for term loans ranged from 68 to 82 per cent in Syndicate bank, while in Karnataka bank ltd. it ranged from 9 to 45 per cent being higher in ending period of the study. The recovery of term loans in VSS bank was low in the later period of the study.

The total loan recovery in Syndicate bank ranged from 77 to 86 per cent in the study period, with higher proportion of recovery in the ending years. Similar trend could be seen in Karnataka bank ltd. in which recovery percentages for total loans ranged from 11 to 38 per cent. Similarly there were higher recovery percentages in the ending years of the study in VSS bank which ranged from 33 to 81 per cent.

4.3. Methods Adopted for Enhancement of Recovery by the Banks.

As and when the credit becomes overdue, banks adopt various methods to recover the pending amount of loan which is also called as overdue. To collect the overdues bankers are adopting various strategies, as overdue or NPA (Non Performing Assets) are the signs of bad health of the banks and as well as for the economy.

The methods adopted by the bankers for the recovery of loans are described in Table 4.13. First step adopted by Syndicate bank is to send a computer generated notice or simple notice to the borrower as the amount becomes overdue whereas, Karnataka bank ltd. and VSS bank send the ordinary notice to the borrower.

Table 4.12. Recovery Performance in Agricultural Portfolio of VSS Bank.

(In Rs. Lakhs)

Years/Portfolio	Demand for Recovery	Recovered/Collection	Recovery %	Overdues/Balance	Overdues %
A. Short Term Loans					
1998-99	20.92	6.69	31.98	14.23	68.02
1999-00	45.58	30.56	67.05	15.02	32.95
2000-01	31.96	22.54	70.53	9.42	29.47
2001-02	44.68	17.43	39.01	27.25	60.99
2002-03	16.76	16.5	98.45	3.9	1.55
2003-04	25.78	23.27	90.26	2.51	9.74
2004-05	54.45	49.5	90.91	2.95	9.09
2005-06	68.2	66.64	97.71	1.56	2.29
Average	38.54	29.14	73.24	9.61	26.76
T. E. 2000-01	32.82	19.93	56.52	12.89	43.48
T. E. 2005-06	49.48	46.47	92.96	2.34	7.04
Δ Over Previous T.E	51	133	64	-82	-84
Average Annual growth %	6.34	16.65	8.06	-10.23	-10.48
B. Term Loans					
1998-99	4	3.37	84.25	0.63	15.75
1999-00	12.55	3.59	28.61	8.96	71.39
2000-01	12.53	8.23	65.68	4.3	34.32
2001-02	27.64	6.85	24.78	20.79	75.22
2002-03	58.9	8.34	14.16	50.56	85.84
2003-04	51.04	0.29	0.57	50.75	99.43
2004-05	23.34	8.8	37.7	14.54	62.30
2005-06	14.36	0.63	4.39	13.73	95.61
Average	25.55	5.01	32.52	20.53	67.48
T. E. 2000-01	9.69	5.06	59.51	4.63	40.49
T. E. 2005-06	29.58	3.24	14.22	26.34	85.78
Δ Over Previous T.E. %	205	-36	-76	469	111.87
Average Annual growth %	25.64	-4.5	-9.51	58.61	13.98
C. Total					
1998-99	24.92	10.06	40.37	14.86	59.63
1999-00	58.13	34.15	58.75	23.98	41.25
2000-01	44.49	30.77	69.16	13.72	30.84
2001-02	72.32	24.28	33.57	48.04	66.43
2002-03	75.66	24.84	32.83	50.82	67.17
2003-04	76.82	23.56	30.67	53.26	69.33
2004-05	77.79	58.3	74.95	19.49	25.05
2005-06	82.56	67.27	81.48	15.29	18.52
Average	64.09	34.15	52.72	29.93	47.28
T. E. 2000-01	50.96	24.99	56.09	17.52	43.91
T. E. 2005-06	61.54	49.71	62.37	29.35	37.63
Δ Over Previous T.E %	86	99	11	68	-14
Average Annual growth %	10.74	12.36	1.4	8.44	-1.79

Note: Term loans include: Medium term conversion loans and Medium term loans.

Table 4.13. Methods Adopted for Recovery of Loans from Farmers by the Banks.

Syndicate Bank	Karnataka Bank Ltd.	VSS Bank
<p>First step adopted by banks is to send a computer generated notice or simple notice to the borrower as the amount becomes overdue. If then also the borrower doesn't responds then bank sent the registered notice.</p>	<p>First step adopted by banks is to send the ordinary notice to the borrower as the amount becomes overdue. If borrower did not respond then bank sends the Registered Notice. Next step taken by the bank in regard to recovery of loan is that, bank official (marketing and sales officer or Branch manager) personally tries to contact the party.</p>	<p>Similarly, VSS Bank sends the ordinary notice to the borrower as the amount becomes overdue. Next, bank official personally tries to contacts the party. Meanwhile they also regularly conduct farmers meeting in village, to create awareness among farmers about regular repayment of loans. If borrower did not respond then bank sends the registered notice.</p>
<p>Next step taken by the bank in regard to recovery of loan is that, bank official (marketing and sales officer or Branch manager) personally contacts the party. If borrower doesn't respond then banks sends a legal notice. Thereafter if the borrower doesn't responds then banks register the case under KACOMP Act and under extreme cases banks suit files in the court. The banks are also following the procedure of replacement of old loan in case of three years of consecutive drought years, and thereby converting the short term loans in medium term loans also known as conversion loan.</p>	<p>If the borrower doesn't responds then banks sends a legal notice. Thereafter if the borrower doesn't responds then banks register the case under KACOMP Act and under extreme cases banks suit files in the court. Banks are also following the procedure of Replacement of old loan in case of three years of consecutive drought years, and thereby converting the short term loans in to medium term loans.</p>	<p>If the borrower doesn't responds then banks sends a legal notice. Thereafter if the borrower doesn't responds then banks register the case under KACOMP Act and under extreme cases banks suit files in the court. Banks are also following the procedure of replacement of old loan in case of three years of consecutive drought years, and thereby converting the short term loans in to medium term loans.</p>
<p>The bank charges penal interest of two per cent when the farmers are unable to pay the loans in their difficult times and requests the bank to extend the time for repayment.</p>	<p>The bank charges penal interest of two per cent when the farmers are unable to pay the loans in their difficult times and requests the bank to extend the time for repayment.</p>	<p>The bank charges penal interest of two per cent when the farmers are unable to pay the loans in their difficult times and requests the bank to extend the time for repayment.</p>
<p>The methods like one time settlement scheme is adopted when the borrower is diseased or lost his everything and unable to repay the loan amount for a long time. In one time settlement scheme banks are ready to waive the interest and ready to make settlement on principal amount.</p>	<p>The methods like one time settlement scheme is adopted when the borrower is diseased or lost his everything and unable to repay the loan amount for a long time. In one time settlement scheme banks are ready to waive the interest and ready to make settlement on principal amount.</p>	<p>The methods like one time settlement scheme is adopted when the borrower is diseased or lost his everything and unable to repay the loan amount for a long time. In one time settlement scheme banks are ready to waive the interest and ready to make settlement on principal amount.</p>

The VSS bank regularly keep on conducting farmers' meeting in village, to create awareness among farmers about regular repayment of loans. If then also the borrower doesn't responds then bank sends the registered notice to the borrower. Next step taken by banks in regard to recovery of loan is that, bank official (marketing and sales officer or manager) personally contacts the party. If borrower doesn't respond then banks send a legal notice.

Thereafter, if the borrower doesn't responds then banks register the case under Karnataka Agricultural Credit Operation and Miscellaneous Provision (KACOMP) Act, 1974, and under extreme cases banks suit files in the court. The banks are also following the procedure of replacement of old loan in case of three years of consecutive drought years, and thereby converting the short term loans in to medium term loans which is also known as conversion loan or medium term conversion loan. The bank charges panel interest of two per cent when the farmers are unable to pay the loans in their difficult times and requests the bank to extend the time period for repayment.

The methods like one time settlement scheme is adopted when the borrower is diseased or lost his everything and unable to repay the loan amount for a long time. In one time settlement scheme banks are ready to waive the interest and ready to make settlement on principal amount.

It could be observed from the Table 4.13 that almost same procedure for recovery of loans is adopted in all the three financial institutions Syndicate bank, Karnataka bank ltd. and VSS bank. Further, banks are always for the farmers and ready to make appropriate adjustment with regard to repayment terms if, the borrower/farmer is in genuine problem.

4.4. Costs Incurred by the Borrowers in Borrowing for Different Purposes.

Cost of credit is the amount of expenditure made by the borrowers/farmers in availing the agriculture loans. An attempt was made to study the interest and non-interest cost of borrowing to beneficiaries who had availed loans for different activities under agriculture. The results are presented in Table 4.14 to Table 4.17.

4.4.1. Rate of Interest

The details of interest rates charged at different levels by Syndicate bank, Karnataka bank ltd. and VSS bank are given in Table 4.14.

Form the study it was revealed that interest charged on agricultural loans which comes under priority sector credit lending, was less by 2.5 per cent to 0 per cent than prime lending rate. The rate of interest in Syndicate bank was 11.25 per cent while, that in Karnataka bank ltd. was 9.5 per cent, and VSS bank was charging only 4 per cent for the loan amount less than two lakhs.

In case, when borrowed amount was more than two lakhs, the rate of interest charged was 11.75 per cent and 10.25 per cent in Syndicate bank and Karnataka bank ltd respectively, whereas it remained same (4 %) in VSS bank.

4.4.2. Loan Processing Charges

The details of loan processing charges at different levels by Syndicate bank, Karnataka bank and VSS bank are given in Table 4.15.

The loan processing charge was one of the components of non-interest costs. In case of Syndicate bank when loan amount was up to Rs. 25,000; loan processing charges was Rs. 100 whereas in Karnataka bank ltd. and VSS bank there was no processing charges up to Rs. 25,000.

In case when amount of loan was above Rs. 25,000 and less than Rs.2 lakhs Syndicate bank and Karnataka bank ltd. charged 0.25 per cent of the loan amount with minimum of Rs. 250 and Rs. 50 in Syndicate bank and Karnataka bank ltd. respectively, while there was no such processing charge for the loan of any amount in case if VSS bank.

Table 4.14. Interest Rate Charged for Agricultural Loans under Priority Sector lending.

(As on 31-3-2006)

Syndicate Bank			Karnataka Bank Ltd.		VVS Bank	
Amount		Rate of Interest %	Amount	Rate of Interest %	Amount	Rate of Interest %
Rs. 50000		9.75	Upto Rs.2.00 Lakh	9.50	Below 2.00 Lakhs	4.00
Rs. 50001 to 2.00 Lakhs		11.25				
Above Rs. 2.00 Lakhs (Linked to CR Code)	CR 3	11.75	Above Rs.2.00 Lakhs. (Max 10.00 Lakhs)	10.25		
	CR 4	12.25				

Linked to CR Code Credit Rating code

(Linked to Credit Rating of the borrower: Start from 12.25 %, As 12.25 % is the PLR)

When the loan amount was above Rs.2 lakhs and up to Rs.100 lakhs processing charges in Syndicate bank were Rs. 250 per lakhs or part thereof with a maximum of Rs.10 lakhs, while in Karnataka bank ltd. processing charges were 0.25 per cent with minimum of Rs.500 and maximum of Rs.1 lakh. In case of VSS bank there was no processing charge for the loan of any amount.

4.4.3. Timeliness of Advance

The average time taken to sanction of loans to farmers for different purposes are presented in Table 4.16. The results revealed that in case of Syndicate bank the numbers of days required to sanction of loan were eight, 14 in Karnataka bank ltd. and 20 days in VSS bank for seasonal crop loans.

In case of dairy loan under term loan the average number of days required were 25 and for land development loans the average number of days required were ten in Syndicate bank, whereas Karnataka bank ltd. and VSS bank were not lending loans for these purposes.

In case of minor irrigation term loan, time taken for sanction of loan were 20 days and 22 days in Syndicate bank and Karnataka bank ltd. respectively, whereas there was no lending by VSS bank for minor irrigation.

In case of tractor and farm implement loans under term loan, time taken for sanction of loan were around ten days in Syndicate bank, whereas it was 15 days in Karnataka bank ltd. and VSS bank were not lending for this purpose.

4.4.4. Non-Interest Costs

Non-interest cost of borrowing forms an important item of cost of borrowing, though it seems to be a minor item of cost, as the borrower himself has to spend before getting loan. Hence, an attempt has been made to compute the non-interest cost of borrowing in all the three types of financial institutions selected for the study. The items of non-interest cost include cost of documents, travelling cost, processing charges and other miscellaneous charges. Table 4.17 reveals the non-interest cost incurred by the borrowers for different purposes of loans in the three types of financial institutions studied.

The table revealed that in the case of both Syndicate bank and Karnataka bank ltd. for every Rs. 100 loan availed by farmer for raising crops, the non-interest cost worked out to Rs. 1.42 each, whereas it was Rs. 1.46 for every Rs. 100 loan availed by farmer in the case of VSS bank.

Table 4.15. Loan Processing Charges by the Banks.

(As on 31-3-2006)

Loan Processing Charges	Syndicate Bank	Karnataka Bank Ltd.	VSS Bank
Upto Rs.25,000/-	Rs.100/-	Nil	Nil
Above Rs.25000/- up to Rs.2.00 Lakhs.	Rs.2.50 per thousand or part thereof with a minimum of Rs.250/- per lakh or part thereof.	Rs.2.50 per thousand with minimum of Rs.50.00	Nil
Above Rs.2.00 lakh and up to Rs.100 Lakhs.	Rs.250/- per lakh or part thereof with a maximum of Rs.10 lakhs.	Rs.2.50 per thousand with minimum of Rs.500.00 and maximum of Rs.1 Lakh.	Nil

Table 4.16. Average Time Taken to Sanction Loans.

(In days)

Portfolio	Syndicate Bank	Karnataka Bank Ltd.	VSS Bank
Seasonal Crop Loan	12	14	20
Dairy Loan	25	-	-
Land Development Loan	10	-	-
Minor Irrigation Loan	20	22	-
Tractor and Farm Implement Loan	10	15	-

Similarly, for dairy loan in Syndicate bank for every Rs. 100 loan availed by farmer the total non-interest cost worked out to Rs 1.58, whereas their as no lending for this purpose in Karnataka bank Ltd. and VSS bank. In case of farm mechanization loan availed by farmer, the non-interest cost worked out to Rs. 0.33 for every Rs. 100 loan availed by farmer in the case of Syndicate bank, while it was Rs. 0.34 in Karnataka bank Ltd.

For construction of bunds and land leveling which, comes under land development loans farmers incurred Rs. 1.22 as the non-interest cost for every Rs. 100 loan availed in the case of Syndicate bank. Whereas their as no lending for this purpose in Karnataka bank Ltd. and VSS bank. For installation of irrigation pump set which, comes under minor irrigation loans the non-interest cost worked out to Rs. 1.05 for every Rs. 100 loan availed by farmer in Syndicate bank and it was Rs. 0.82 per Rs. 100 loan availed in the case of Karnataka bank Ltd.

4.5 Problems Faced by the Farmers in Borrowing from the Banks.

The opinion survey of the farmer beneficiaries was carried out with regard to adequacy, timeliness, security norms, procedure of advance and other problems. The same are presented on Table 4.18. The results revealed that most of the borrower of Syndicate bank, Karnataka bank Ltd. and VSS bank, 93.33 per cent, 90.00 per cent and 90.00 per cent respectively, considered the bank and bank officials are easily accessible for banking procedure and they were within their reach.

In case of procedure of advance 86.67 per cent, 83.33 per cent and 66.67 per cent of respondent felt the procedure of advance were simple in Syndicate bank, Karnataka bank Ltd. and VSS bank respectively. Only 13.33 per cent, 16.67 per cent and 33.33 per cent of respondents felt procedure of advance to be cumbersome in Syndicate bank, Karnataka bank Ltd. and VSS bank respectively.

The amount of loan sanctioned for the purpose is considered adequate by 83.33 per cent, 66.67 per cent and 90 per cent of respondents of Syndicate bank, Karnataka bank Ltd. and VSS bank respectively. With regards to delay in sanctioning of loans 20 per cent, 30 per cent and 20 per cent of respondents felt Syndicate bank, Karnataka bank Ltd. and VSS bank respectively, delay in sanction of credit.

Only 10 per cent of the respondents in Syndicate bank and 23.23 per cent of the respondents in Karnataka bank Ltd. felt that the rate of interest was high. But none of the respondents who availed loans from VSS bank were of the opinioned that the rate of interest was high.

The security norms for advance of loans were found to be rigid for 83.33 per cent, 80.00 per cent and 93.00 per cent of the respondents of Syndicate bank, Karnataka bank Ltd. and VSS bank respectively. Technical guidance were provided according to 96.67 per cent of respondents of Syndicate bank whereas in case of Karnataka bank Ltd. and VSS bank it was not provided to any of the respondents by the bank officials.

With regard to loan supervision by the staff of the bank, cent per cent of respondents opined that loan supervision was frequent by officials of Syndicate bank. The respondents of Karnataka bank Ltd. and VSS bank opined that loan supervision were very rare. Majority of respondent felt that the staff treatment was good in all the three banks. With regard to repayment terms 43.33 per cent of respondents each in Syndicate bank and Karnataka bank Ltd. and 26.67 per cent of respondents who availed loan from VSS bank felt that repayment terms were difficult.

Majority of respondents in all the three banks felt paper work is more and it is too hectic. With regard to service charge in processing of loans by banks majority of respondents felt that it was less. (96.67 % in Syndicate bank, 96.67 % in Karnataka bank Ltd. and cent per cent in VSS bank).

The transaction costs were low according to 93.33 per cent of the respondents availed loan from Syndicate bank, 60 per cent of the respondents of Karnataka bank Ltd. and cent per cent of the respondents of VSS bank.

Table 4.17. Costs Incurred by Borrowing Loans from the Banks.

Table 4.17. Costs Incurred by Borrowers in Borrowing Loans from the Banks.

(In Rs.)

Particulars	Amount of Loan Sanctioned	Cost of Trip	Cost of Records	Legal Fee	Processing charges	Total Non-Interest Cost	Non Interest Cost for every Rs.100 loan.
A. Short Term Loans							
Syndicate Bank	46,267	145.83 (22.15)	270.83 (41.14)	--	261.67 (36.71)	658.33 (100)	1.42
Karnataka Bank Ltd.	37,030	155 (29.41)	280.00 (53.13)	--	92 (17.45)	527.00 (100)	1.42
VSS Bank	31,287	187.5 (40.92)	270.67 (59.08)	--	--	458.12 (100)	1.46
B. Term loans							
Syndicate Bank							
a. Dairy	30,667	191.67 (39.66)	141.67 (29.31)	--	150 (31.03)	483.33 (100)	1.58
b. Land Development	1,02,667	158.33 (15.20)	233.33 (22.40)	500 (48)	150 (14.40)	1041.67 (100)	1.22
c. Minor Irrigation	1,52,583	233.33 (15.82)	466.67 (31.64)	500.00 (33.90)	275.00 (18.64)	1475 (100)	1.05
d. Farm Mechanization	2,85,833	258.33 (27.43)	--	--	683.33 (72.57)	941.67 (100)	0.33
Karnataka Bank Ltd.							
a. Minor Irrigation	1,91,050	180 (11.96)	555 (36.88)	500 (33.22)	270 (17.94)	1505 (100)	0.82
b. Farm Mechanization	3,26,600	265 (24.50)	--	--	816.5 (75.49)	1081.5 (100)	0.34
VSS Bank							
No term loans	-	-	-	-	-	-	-

Note: Figures in parentheses indicates percentage total.

Table 4.18. Opinion of Borrowers with regard to borrowing.

Sl. No.	Views	Syndicate Bank	Karnataka Bank Ltd.	VSS Bank
1.	Accessibility			
	Easy	28 (93.33)	27 (90)	28 (90)
	Difficult	2 (6.67)	3 (10)	2 (10)
2.	Procedure of Advance			
	Simple	26 (86.67)	25 (83.3)	20 (66.7)
	cumbersome	4 (13.33)	5 (16.7)	10 (33.3)
3.	Adequacy of Loans			
	Adequate	25 (83.33)	20 (66.7)	28 (90)
	Inadequate	5 (16.67)	10 (33.3)	2 (10)
4.	Time Taken			
	Timely	24 (80)	21 (70)	24 (80)
	Untimely	6 (20)	9 (30)	6 (20)
5.	Rate of Interest			
	Low	27 (90.7)	23 (76.7)	30 (100)
	High	3 (9.3)	7 (23.3)	0 (00)
6.	Security Norms			
	Flexible	5 (16.7)	6 (20)	2 (6.67)
	Rigid	25 (83.3)	24 (80)	28 (93.33)
7.	Technical Guidance			
	Provided	29 (96.7)	0 (0.0)	0 (0.0)
	Not provided	1 (3.3)	30 (100)	30 (100)
8.	Loan Supervision			
	Frequent	30 (100)	0 (0)	0 (0)
	Rarely	0 (0)	30 (100)	30 (100)
9.	Repayment Terms			
	Easy	17 (56.7)	17 (56.7)	22 (73.3)
	Difficult	13 (43.3)	13 (43.3)	8 (26.67)
10.	Staff Treatment			
	Good	28 (93.33)	29 (96.7)	30 (100)
	Bad	2(6.67)	1 (3.3)	0 (0.0)
11.	Paper Work			
	Less	2 (6.67)	0 (0)	4 (13.33)
	More	28 (93.33)	30 (100)	26 (86.67)
12.	Service Charge			
	Less	29 (96.7)	29 (96.7)	30 (100)
	More	1 (3.3)	1 (3.3)	0(0)
13.	Transaction Costs			
	Low	28 (93.33)	18 (60)	30(100)
	High	2 (6.67)	12 (40)	0(0)
Numbers of respondents		30	30	30

Note: Figures in parentheses indicates percentage total.

Cluster Analysis of Variables on the Performance of Bank According to the Beneficiaries.

The technique of cluster analysis was used to analyze the opinion of the sample beneficiaries about the constraints faced by them in availing loans from banks taking 13 variables. These variables were grouped into different characters based in similarity values as shown in Table 4.19.

Out of the 13 variables, seven variables were grouped under high aggregate cluster in Syndicate bank, namely, paper work, security for loans, service charge, rate of interest, transaction cost, procedure of advance and time taken with similarity values of 0.7454, 0.7454, 0.6948, 0.6948, 0.6814, 0.6814 and 0.6708 respectively. While in Karnataka bank ltd. five variables namely, paper work, security for loans, technical guidance, loan supervision and time taken were under high aggregate cluster with similarity values of 0.7454, 0.7454, 0.6172, 0.6172 and 0.6172 respectively. Similarly, in VSS bank, five variables namely, paper work, security for loans, technical guidance, loan supervision and time taken were under high aggregate cluster with similarity values of 0.5345, 0.5345, 0.5303, 0.4734 and 0.4734 respectively.

The medium aggregate cluster comprised of two variables, namely, accessibility and adequacy of loans with similarity measure values of 0.5976 and 0.5976 respectively in Syndicate bank. In case of Karnataka bank ltd. medium aggregate cluster comprised of four variables, namely, procedure of advance (0.6042), accessibility (0.6042), rate of interest (0.5571) and service charge (0.5571). Similarly, for VSS bank medium aggregate cluster comprised of four variables, namely, accessibility (0.4643), transaction cost (0.4432), service charge (0.3714) and repayment terms (0.2883).

Four variables were found in low aggregate cluster, namely, repayment terms (0.5976), technical guidance (0.5114), loan supervision (0.4643) and staff treatment (0.4152). In case of Karnataka Bank Ltd. low aggregate cluster comprised of four variables, namely, adequacy of loans (0.3812), repayment terms (0.2467), transaction cost (0.2274) and staff treatment (0.2274). Similarly, for VSS bank medium aggregate cluster comprised of four variables, namely, rate of interest, adequacy of loans, procedure of advance, and staff treatment each with similarity measure value of 0.1313.

Table 4.19. Aggregation of Clusters of Variables on the Performance of Banks, According to the Sample Beneficiaries

Aggregation of Clusters	Syndicate Bank (n=30)		Karnataka Bank Ltd. (n=30)		VSS Bank (n=30)	
	Variable	Similarity Measure	Variable	Similarity Measure	Variable	Similarity Measure
High	Paper Work	0.7454	Paper Work	0.7454	Paper Work	0.5345
	Security for loans	0.7454	Security for loans	0.7454	Security for loans	0.5345
	Service charge	0.6948	Technical guidance	0.6172	Technical guidance	0.5303
	Rate of interest	0.6948	Loan supervision	0.6172	Loan supervision	0.4734
	Transaction cost	0.6814	Time taken	0.6172	Time taken	0.4734
	Procedure of advance	0.6814				
	Time taken	0.6708				
Medium	Accessibility	0.5976	Procedure of advance	0.6042	Accessibility	0.4643
			Accessibility	0.6042	Transaction cost	0.4432
	Adequacy of loans	0.5976	Rate of interest	0.5571	Service charge	0.3714
			Service charge	0.5571	Repayment terms	0.2883
Low	Repayment terms	0.5976	Adequacy of loans	0.3812	Rate of interest	0.1313
	Technical guidance	0.5114	Repayment terms	0.2467	Adequacy of loans	0.1313
	Loan supervision	0.4643	Transaction cost	0.2274	Procedure of advance	0.1313
	Staff treatment	0.4152	Staff treatment	0.2274	Staff treatment	0.1313
	Mean	0.5976	Mean	0.4827	Mean	0.4046
	Standard Deviation	0.1208	Standard Deviation	0.1994	Standard Deviation	0.1372

5. DISCUSSION

The main focus of the study is to throw light on comparison of some of the factors responsible for the performance of the banks, public, private and co-operative banks financing agriculture. This would help in evaluation of bank, in ascertaining their performance in agricultural banking and indicate the future direction for improving their performance. For the evaluation of the performance of the financial institutions, information related to growth and development is necessary. The comparative analysis of Syndicate bank, Karnataka bank Ltd. and Vavasya Seva Sahkara bank which lies in public sector, private sector and co-operative sector are discussed under the following heads.

- 5.1. Growth in lending to different portfolio of agriculture by the banks
- 5.2. Recovery performance in each portfolio of lending by the banks
- 5.3. Methods adopted for enhancement of recovery by the banks.
- 5.4. Costs incurred by the borrowers in borrowing for different purposes.
- 5.5. Problems faced by the farmers in borrowing from the banks.

5.1 Growth in Lending to Different Portfolio of Agriculture by the Banks.

In this section, the procedure and lending norms in banks, growth in loans and advances in volume as well as in accounts, performance of advances under priority sector are discussed in the following order given.

5.1.1 The procedure and lending norms in Banks

The manager of the particular empowered to sanction loan up to forty lakhs rupees and six laths rupees in case of Syndicate bank and Karnataka bank Ltd. respectively. Whereas in VSS bank which is at primary level lending agricultural loans to farmers under Co-operative sector at village or taluka. The VSS bank manager does not have any loan sanctioning powers. The Karnataka Central Co-operative (KCC) bank office is empowered to sanction loans up to three lakhs rupees. The manager of VSS bank forwards the application to the KCC office. The head office of KCC bank sanctions the loan application above ten lakhs rupees.

The loan application received by the banks are verified, scrutinized and appraised by the manager. The manager approves the loan amount and sanction in Syndicate bank and Karnataka bank Ltd., whereas in VSS bank application with recommendation are referred to KCC bank office or head office depending upon the quantum of loan amount for further appraisal and sanctioning. The office or head office KCC Bank verifies all the documents, conducts legal scrutiny and collects additional information, if required from VSS bank. The sanctioned loans along with the cheque in the name of borrower are sent back to VSS bank for their disbursal. Loans are disbursed to the applicant by getting proper mortgage, bond and other collateral security. To avoid delay at primary level, power of recommending loans is delegated to manager, secretary, along with chairman of VSS bank who meet normally once in a month, ratifies such recommendations.

Documents required

For getting loans the applicant has to submit various legal and technical documents and certificates from competent authorities.

- i. Title deeds of land offered for security.
- ii. Records of rights and possession certificate for three years
- iii. Genealogical tree
- iv. Twelve years encumbrance certificate.
- v. Payments of land revenue receipts
- vi. No dues certificate from all other banks in the jurisdiction of the

In addition to the above documents, the following other documents are to be submitted by the applicant.

- Proof letter, selection of place for tube well or well
- Sanction letter from Karnataka Electric Board (KEB) for the power supply.
- Feasibility report for well/pump set in case of minor irrigation loans from irrigation department.

- Maps and estimation documents in case of land development loans
- Bills, quotation, technical appraisal and project report
- Soil and water testing reports

It can be seen that the borrower has to obtain six to ten documents. Usually all the documents are to be submitted along with the application form. The purposes for which loans are advanced by banks are listed in Appendix 2. It was revealed from the appendix 2 that portfolios for which the Syndicate bank were lending is quite large having seasonal crop loan through K.C.C. (Kissan Credit Card) and goats, gobar gas, other types of loans in short term loans whereas Karnataka bank ltd. and primary agricultural co-operative society were only lending for seasonal crop loan. Similarly, Syndicate bank was lending for dairy and storage structures (godowns), farm house, farm mechanization, land development and minor irrigation loans whereas, Karnataka bank ltd. was only lending for farm mechanization and minor irrigation loans under term loans while, VSS bank were lending for conversion loans. The details for scale of finance and repayment period are given in Appendix 3.

There is a lengthy procedure in getting loan from banks as borrower has to submit 7 to 10 documents/certificates from different authorities. Hence, the borrower has to spend time and energy in getting these documents before submission of application form. The loan is sanctioned only after the manager is satisfied with all documents, but in case of VSS bank the applicant has to wait for further few days as the loan is to be sanctioned on by the KCC bank office.

The study on lending to different portfolio of agriculture reveals that the mandatory objectives of one banks differs widely from other banks with respect to credit operation. The lending activities are target towards agricultural portfolio are discussed under.

5.1.2 Syndicate Bank

The results in Table 4.1 however show fluctuating trend in the total outstanding balance from agricultural portfolio over years. The outstanding balance were highest in 2005-06 (Rs. 468.66 lakhs) and lowest (Rs. 152.32 lakhs) in 2000-01 and it decreased from Rs. 186.97 lakhs in 1996-97 to Rs. 152.32 lakhs in 2000-01 but further increased to Rs. 468.66 lakhs in 2005-06 with average annual growth of 10.20 per cent. This fluctuation can be attributed to the fluctuation in seasonal variation in climate, interest policy by the government and also the problem associated with recovery of loans on the guidelines of NABARD and the strict intervention by the government towards priority sector lending.

The contribution of short term loans varied from 41 per cent to 62 per cent in total agricultural advances, among which the share of advances through K.C.C. was highest with average annual growth of 13.56 per cent. The bank covers the lands coming under Malaprabha command area. Irrigated is common in these areas. Hence, majority of farmers avail crop loans through Kissan Credit Cards of the bank.

The fluctuating trend can be observed in outstanding balance of term loans. The outstanding balance of farm mechanization loans contributes 25 to 56 per cent of total loans, but it showed a decreasing trend over the years, as proportion of farm mechanization loans outstanding out of total loans dwindled year by year. But when one looks at the outstanding in absolute terms, it was more or less stable over the entire study period. Thus it can be inferred from the study that the decreasing proportion of outstanding of farm mechanization loans were not because of higher outstanding balance, but because of higher outstanding balance in other portfolios which leads to increase in total outstanding loans and obviously the proportion of outstanding loans with farm mechanization portfolio reduced.

There was marginal change in outstanding balance for land development loans having percentage share of one to two per cent during the study period in total term loans with an average annual growth of 0.93 per cent. The contribution of minor irrigation loans ranged from four to seven per cent between 2000-01 and 2005-06, among total term loans. As the bank covered the Malaprabha command area, the land development work was undertaken by government continuously. Influenced by these land development work, advances on land development and minor irrigation were availed by the farmers outside the command area and the proportion of these advances was of a smaller one due to small proportion of these farmers come under the preview of operation. The present study confirms with the findings of Desphande, (1998).

Table 4.2 shows the number of outstanding loan accounts under agricultural portfolio. The total number of loan accounts showed marginal decrease during the study period with 830 loan accounts in 1996-97 to 717 in 2005-06, with average annual growth of -2.27 per

cent. Among these major contribution (67 to 82 %) was of short term loans for seasonal crop loan in the study period, with average annual growth of -3.08 per cent.

The numbers of loan account for term loan including farm mechanization, land development and minor irrigation loans was 18 to 33 per cent of total number of agricultural loan accounts with average annual growth of 0.08 per cent. The farm mechanization loans registered average annual growth of 0.54 per cent, which was due to increase in number of loan accounts during the terminal period of the study. But the average annual growth for land development and minor irrigation loans was -1.76 and -0.77 per cent respectively, because of the reasons cited above.

5.1.3 Karnataka Bank Ltd.

The analysis of advance revealed that in case of Karnataka Bank Ltd., there was increasing trend in the total agricultural outstanding between 2000-01 and 2005-06 with average annual growth of 12.19 per cent, The bank policies to increase lending for direct agricultural portfolio under priority sector had lead to such a increase in number of outstanding advances (Table 4.4).

The composition of agricultural advances revealed, short term loans for seasonal crops contributed major chunk of advances (with 52 and 59 %) out of total advances showing increasing trend in outstanding balance with average annual growth of 12.23 per cent between 2000-01 and 2005-06. The farm mechanization loans contributed 30 to 35 per cent of total loans which also showed similar increasing trend, the outstanding loans increases from Rs. 15.87 lakhs in 2000-01 to Rs. 41.34 lakhs in 2005-06, with average annual growth of 13.31 per cent. The contribution of minor irrigation loans ranged from 10 to 13 per cent between 2000-01 and 2005-06, in total outstanding balance, with Rs. 5.93 lakhs in 2000-01 which further increased to Rs. 13.55 lakhs in 2005-06, showing increasing trend, with average annual growth of 9.13 per cent. These increases were mainly due to the increase in demand by the farmers for loans. During the period bank has adopted service area approach as well. It is really appreciable and it shows the performance of the bank.

The total number of loan accounts showed marginal increase during the study period with 117 loan accounts in 2000-01 to 189 in 2005-06, with average annual growth of 5.50 per cent. Among this major contribution (around 90 %) was from short term loans for seasonal crop in the study period with average annual growth of 5.36 per cent. Numbers of loan account for term loans including minor irrigation and farm mechanization loans was meager (8 to 10 %) in total number of agricultural loans accounts with average annual growth of 6.86 per cent. It may be because term loan, (farm mechanization) had higher scale of finance compared to any other type of loan advance.

5.1.4 Vavasya Seva Sahkara Bank

The advance portfolios of VSS bank differ from commercial banks in many aspects. The VSS bank are expected to provide need based credit and other facilities to the farmers, agricultural labour and entrepreneurs only for short term and medium term particularly on priority bases to the agricultural sector. The short term loan provision is the main responsibility of the VSS bank as no other co-operative institution accommodates this type of loan (other than FSS). The medium term loans can also be obtained by farmers through the three tier structure of co-operative organization.

Examination of results in Table 4.5 indicates that the loan facilities comprise of short term and term loans. The outstanding balance of loans advanced for agricultural portfolio by VSS bank had a decreasing trend in the total agricultural portfolio outstanding balance over the years. The total agricultural outstanding balance went on decreasing from Rs. 80.99 lakhs in 1998-99 to Rs. 50.25 lakhs in 2005-06 with average annual growth of -4.07 per cent. Among this short term loans for seasonal crops contributed between 23.51 and 100 per cent of total outstanding balance showing an increasing trend. In outstanding balance of loan advanced with Rs. 19.04 lakhs in 1998-99 increased to Rs. 50.25 lakhs in 2005-06, with average annual growth of 1.33 per cent.

The outstanding balance and favourable weather condition have a close correlation with each other. Year 2000-01 was agriculturally bad year and the production of crops suffered, which reflected on non-repayment of crop loans resulting in mounting overdues. Though situation bettered during 2001-02 and 2002-03, gain the bad crop year 2003-04 though 2005-06 made crop loan borrowers hapless for repayment of loans. Added to this many farmers did not repay their loan at least to the extent of their capacity, hoping of waiver

of crop loans by government under such situations. On the other hand many farmers obtained fresh loans to offset their bad financial position, which is evident from the table 4.6, where number of borrowers had increased. All this geared up overdue situation further and made the outstanding balance to mount up.

The farm mechanization loans contributed one to 15 per cent of total loans in the study period showed a decreasing trend, and decreases from Rs. 12.56 lakhs in 1998-99 to Rs. 0.18 lakhs in 2004-05, with average annual growth of -11.65 per cent. VSS bank in recent years has not advanced more number of term loans for farm mechanization as majority of the target groups had already availed the loans for the purpose. Hence, the outstanding balance went on reducing year after years.

The contribution of conversion loans ranged from 20 to 60 per cent between 1998-99 and 2004-05, out of total outstanding balance. It was Rs. 49.39 lakhs in 1998-99 which decreased to Rs. 13.73 lakhs in 2004-05, showing decreasing trend, with average annual growth of -9.59 per cent. As per the guidelines of NABARD and RBI the short term loans could be converted into conversion loans to aid the poor farmers to offset their repayment plans during bad weather years. Hence, many farmers converted their crop loans to conversion loans up to the year 2002-03 which is evident from reduced outstanding balance under short term loans and increasing outstanding balance under conversion loans (Table 4.5). But due to the reasons discussed under short term loans section, the outstanding balance under short term loans increased during 2003-04 through, 2005-06, but many of the borrowers did not go for conversion loans, during this period hoping of getting loan weaver. Hence the conversion loans outstanding balance was lower during these periods.

The total number of loan accounts increased during the study period with 104 loan accounts in 1998-99 to 163 in 2005-06, with average annual growth of 6.01 per cent. Among the total loan accounts major contribution (65 to 100 %) was of short term loans for seasonal crop in the study period with average annual growth of 11.25 per cent. This was mainly due to the introduction of service area approach by the society. The number of loan accounts for term loan for farm mechanization and conversion loans put together were 30 to 0 per cent of total number of agricultural loan accounts with average annual growth of -8.03 per cent. The reasons for such behavior of growth of number of accounts have been well described while discussing the outstanding balance.

5.1.5 Comparison of Syndicate Bank, Karnataka Bank Ltd. and VSS Bank

A perusal of Table 4.7 reveals the growth in outstanding balance and number of accounts during the study period for various financial institutions. It can be observed that average annual growth in percentages for short term loans was highest in Syndicate bank followed by Karnataka bank ltd. and VSS bank during the study period. the syndicate bank have appointed special staff called as agricultural lending and recovery officer to take care of agricultural lending and providing supervision and technical guidance to the farmers. Such task oriented officials were not present in Karnataka bank ltd. and VSS bank. This has led to more advances of loans to farmers by syndicate bank as compared to other two financial institutions. Because of this the outstanding balances with Syndicate bank were more.

5.1.6 Priority Sector Advances

Priority sector, which is classified as primary, secondary and tertiary sectors, includes agriculture and allied activities under primary sector. SSI, retail trade, other (road and other transport, small business, professional and salaried person, education, housing, and SHG's), etc. are classified under secondary and tertiary sectors. RBI has stipulated a certain proportion of scheduled commercial banks' (public and private sector banks) credit to be channeled towards these sectors. The stipulation of RBI is aimed at promoting these sectors by directing the lending of scheduled commercial banks so that these sectors secure better and dependable access of credit.

RBI credit policy dictates that 40 per cent of net bank credit of scheduled commercial banks should go for priority sectors. Agricultural advance which is the prime theme of the discussion of this study, is supposed to take the lion's share of priority sector advance. The 18 per cent of net bank credit of scheduled commercial banks ought to be channeled to agriculture, and remaining 22 per cent of the net bank credit should go for secondary and tertiary sectors.

5.1.6.1 Syndicate Bank

The Table 4.8 presents priority sector advances by Syndicate bank. There was increase in direct agricultural advances under priority sector, outstanding advances increased

over the years from Rs. 186.97 lakhs in 1996-97 contributing 69.65 per cent in total priority sector advances to Rs. 468.66 lakhs in 2005-06, contributing 44.24 per cent in total advances made under priority sector, with average annual growth of 10.20 per cent. Despite showing a decreasing trend in 1998-99, through 2000-01, the per cent contribution to the total priority sector advances remained above 41 per cent during this period. This is because these years are drought years in the study area and farmers have not come forward for demanding loans.

Total priority sector advances increases from Rs 268.43 lakhs in 1996-97 to Rs. 1059.36 lakhs in 2005-06 showing an increase of 2.15 times in 2005-06 triennium ending over previous triennium ending in 1998-99 with average annual growth of 21.48 per cent. This was due to various efforts by the bank regarding lending for priority sector and especially to agricultural sector.

5.1.6.2 Karnataka Bank Ltd.

The perusal of the Table 4.9 indicates increasing trend in priority sector advances of Karnataka bank ltd. with, Rs. 50.69 lakhs contributing 20.24 per cent of total priority sector advances in 2000-01 to Rs. 127.62 lakhs with contribution of 31.70 per cent in total priority sector advances in 2005-06 with average annual growth of 12.19 per cent. Though the bank had achieved the target of 18 per cent of the net bank credit for direct agriculture during the study period, it had not given too emphasis on this sector because it was lacking in specialized staff for agricultural lending.

Total priority sector advances increased from Rs 250.42 lakhs in 2000-01 to Rs. 402.58 lakhs in 2005-06 showing an increase of 0.32 times in 2005-06 triennium ending over previous triennium ending in 2002-03 with average annual growth of 5.37 per cent. Though the bank was facing the problem of shortage of staff for servicing the agricultural lending, the bank had registered a specialized growth as per the policies of the government to increase advances to priority sector.

5.1.6.3 Comparison of Syndicate Bank and Karnataka Bank Ltd.

The comparative analysis of priority sector advances between Syndicate bank and Karnataka bank ltd. could be inferred from table 4.8 and table 4.9. As far as total priority sector is concerned, outstanding advance shows increasing over the years from Rs. 460.31 lakhs in 2000-01 to 1059.36 lakhs in 2005-06 in Syndicate bank, while in Karnataka bank ltd. provides it was only Rs 250.42 lakhs in 2000-01 and increased to Rs. 402.58 lakhs in 2005-06. The average annual growth was 21.48 and 5.37 per cent for Syndicate bank and Karnataka bank ltd. respectively. In case of direct agriculture under priority sector Syndicate bank advanced Rs. 152.32 lakhs in 2000-01 which increased to Rs. 468.66 lakhs in 2005-06, whereas in Karnataka Bank ltd. it was Rs. 50.69 lakhs 2000-01 which increased to Rs. 127.62 lakhs in 2005-06. The average annual growth was of 10.20 and 12.19 per cent for Syndicate bank and Karnataka bank ltd. respectively. This shows that the Syndicate bank performs well as compared to Karnataka bank ltd. in priority sector lending, particularly in direct agricultural advances.

Both the public and private sector banks have performed well and registered a positive and significant growth in priority sector lending during the study period owing to policies of the government to increase priority sector advances. But inter sectoral comparison of banking institutions revealed that public sector banks had performed their portfolio better than private sector bank in priority sector lending. The Syndicate bank had specialized staff for servicing agricultural sector lending and which Karnataka bank ltd. was lacking. The faith of the farmers on nationalized bank to get agricultural credit may be also other factor for higher growth performance of priority sector lending in public sector bank.

5.2 Recovery Performance in Each Portfolio of Lending by the Banks.

Recovery performance of advances plays an important role in the enhancement of credit service to a sector. Recovery performance in the agricultural sector has been and continued to be a bottleneck in the credit system. Recycling of funds has been regarded as one of the major determinants of credit expansion. Overdues come in the way of viability and sustainability of the banks. If the overdues are mounting, bank has to make arrangement for additional funds through deposits or borrowings. Poor recovery performance adversely affects the banks' future lending.

5.2.1 Syndicate Bank

The details of portfolio wise demand, recovery and overdues position of Syndicate bank over the period of study are presented in Table 4.10. The demand for recovery in Syndicate bank was found to be continuously increasing between 1996-97 and 2005-06 for short term loans with average annual growth of 8.92 per cent. Similarly, the demand for recovery for term loans was also increasing between 1996-97 and 2005-06 with average annual growth of 27.37 per cent. Increasing demand for recovery is attributed to two reasons. One on the mounting overdues of the past years due to non-repayment by the borrowers and second is due to increased lending by the bank during the study period. But, as it was suggested in the table, the overdue was only around 20 per cent of the total demand for recovery. It infers that increasing demand for recovery was mainly due to increased lending to agricultural sector.

Increasing trend was seen in recovery also, from Rs. 74.79 lakhs in 1996-97 to Rs. 191.21 lakhs in 2005-06 for short term loan with average annual growth of 10.2 per cent and from Rs. 44.57 lakhs in 1996-97 to Rs. 242.48 lakhs in 2005-06 for term loans with average annual growth of 30.86 per cent. There was increase in recovery of the bank, which may be due to existence of specialized staff, particularly agricultural lending and recovery officer in the bank during the study period.

There was fluctuating trend in recovery percentage. The recovery per cent was found lowest (78.41 %) in 1996-97 then increased to 88.72 per cent in 2000-01, further declined to 80.77 per cent in 2001-02 and again increased to 90.42 per cent in 2005-06 for short term loans with average annual growth of 0.69 per cent. For term loans also, there was fluctuating trend with lowest (68.18 %) recovery in 1999-00 and highest (82.89 %) in 2005-06 with average annual growth of 0.87 per cent. Similarly total loans also showed fluctuating trend with highest recovery (86.05 %) in 2005-06, and lowest (77.45 %) in 1996-97 with average annual growth of 0.61 per cent.

The fluctuating trend can be observed in overdues position with respect to short term loans as in 1996-97 overdues were 21.59 per cent of the total demand for recovery, further decreased to 11.28 per cent in 2000-01, increased to 19.23 per cent in 2001-02 and next declined to 9.58 per cent in 2005-06 with average annual growth of -3.22 per cent which indicated the decreasing trend in overdues. Similar trend can be noted in term loans also the recovery and overdue position of a bank are mutually exclusive. Still then higher recovery leading to lower overdues is good for the financial health of the bank. But, the reverse is not a favourable situation. That is, higher overdues and low recovery is detrimental for the financial performance of the bank.

5.2.2 Karnataka Bank Ltd.

The demand for recovery found to be continuously increasing for short term loans with average annual growth of 16.44 per cent. Similarly, the demand for recovery for term loan was also found to be continuously increasing with average annual growth of 19.26 per cent, which together had registered on increasing trend with average annual growth of 17.65 per cent over the period of study. The amount of loans advanced by the bank was steadily increasing over the years during the study period, which led to increase in demand for recovery over the years. It can be inferred that growth rate in demand for recovery was high (17.25 % per annum), but at the same time the recovery position of bank was very poor.

There was fluctuating trend in recovery percentage. The recovery per cent increased from 13.58 per cent in 2000-01 to 17.12 per cent in 2001-02, found lowest (12.42 %) in 2003-04 then increased to 41.38 per cent in 2004-05, for short term loans with average annual growth of 16.25 per cent. The fluctuating trend can be also observed for term loans with lowest (8.70 %) recovery in 2002-03 and highest (45.42 %) in 2005-06 with average annual growth of 31.77 per cent. The recovery performance of the bank was very embarrassing. On an average the recovery was around 20 per cent of the total demand for recovery.

While discussing the matter with the bank officials it was found that majority of farmers were reluctant to repay the loans. The crop loans which fall overdue continuously for two crop years would be converted into NPA as per the regulation of RBI. For NPA accounts the banks have the liberty to reduce or waive of the interest amount. To cash on this provision, many farmers willfully abstain from repayment of loan. Such an attitude of farmers towards private banks would lead to bad performance to the banks.

5.2.3 Vavaysa Seva Sahkaral Bank

The demand for recovery presented in Table 4.12 was found to show continuously a fluctuating trend during the period of study for short term loans as well as term loans, with

average annual growth of 6.34 per cent and 25.64 per cent respectively. There was fluctuating trend in recovery performance as well. The recovery per cent increased from 31.98 per cent in 1998-99 to 70.53 per cent in 2001-02, found lowest (39.01 %) in 2001-02 then again increased to 98.45 per cent in 2002-03, for short term loans with average annual growth of 8.06 per cent. The recovery of terms loans also showed continuously fluctuating trend over period of study. It was 28.61 per cent in 1999-00 from 84.25 per cent in 1998-99, decreased to 4.39 per cent in 2005-06 with average annual growth of -9.51 per cent.

All these findings put together showed the poor performance of VSS bank regarding lending and recovery. At the same time farmers were also reluctant to repay the loans and diverted the loan amount for unproductive purposes. As per the discussion with the bank managers, the announcement of debt relief schemes by the government has been found to be the prime reason inducing willful default. Borrowers tend to default expecting a debt relief announcement. All these reasons had added fuel for poor performance of VSS bank during the study period.

5.2.4 Comparison of Syndicate Bank, Karnataka Bank Ltd. and VSS bank

It can be observed from the table 4.10 to table 4.12 that, the recovery in Syndicate bank for short term loans was good, ranges from 78 to 90 per cent during the study period. While that in Karnataka bank ltd. it ranged from 12 to 41 per cent which was too disappointing and showed poor performance of the bank regarding recovery. The VSS bank showed good recovery (more than 90 %) in the terminal period of study for short term loans. The recovery percentage for term loans ranges from 68 to 82 per cent, while that in Karnataka bank ltd. it ranged from 9 to 45 per cent being higher in ending period of the study. The recovery of term loans in VSS bank was low in the ending period of the study. The total loan recovery in Syndicate bank ranges from 77 to 86 per cent in the study period, with higher recovery in the ending years. Similar trend was seen in Karnataka bank ltd. in which recovery percentages for total loans ranged from 11 to 38 per cent. Similarly there are higher recovery percentages in the ending years of the study in VSS bank as well which ranges from 33 to 81 per cent.

It can be concluded from the comparison that the recovery in the Syndicate bank was found good as it had specialized staff for agriculture portfolio lending and recovery, who take cares of related banking operations, which the other financial institutions considered under the study were lacking.

5.3 Methods Adopted for Enhancement of Recovery by the Banks.

As and when the credit becomes overdue, banks adopt various methods to recover the pending amount of loan which is also called as overdue. To collect the overdue, bankers adopt various strategies to recover it, as overdue or NPA are the signs of bad health of the banks and as well as for the economy.

The Table 4.13 reveals the methods adopted by the bankers for the recovery of loans. It can be opined that methods adopted by all three financial institution are more or less same. Bank tries to negotiate with the farmer/beneficiaries depending on their condition, as farmers are very often face crop failure due to erratic monsoon and weather conditions. The banker are not adopting any harsh and illegal methods like hiring gundas and other private agencies for recovery as adopted by other private sector banks in metropolitan cities because these bank are in rural area and banker have a human relation with the farmers/beneficiaries.

The recovery can be improved by assuring quick renewal of credit after repayment. In fact, this has been confirmed through our interviews with bank officials who admit that easy access to loan after one repays a previous loan, plays a significant role in loan recovery. These findings are in line with the study conducted by Rajeev, Meenakshi and Deb Sharmistha Deb, (1998).

5.4 Cost incurred by the Borrowers in Borrowing for Different Purposes.

Among the cost of borrowing, interest and non-interest cost are two items of which the later has to be paid by the borrower at the time of getting loan. In many of the studies interest cost is calculated and least importance was given to non-interest cost. The non-

interest cost needs to be paid before the benefits are accrued from borrowing and hence, it affects borrowers especially small and marginal farmers to whom it becomes difficult to arrange this part of cost. The items included in non-interest cost are cost of documents, travelling cost, processing charges and other miscellaneous charges.

An attempt was made to study the interest and non-interest cost of borrowing to beneficiaries who had availed loans for different activities under agriculture.

5.4.1 Rate of Interest

The rate of interest charged by private sector bank were highest, next in order were public sector bank, but the rate of interest were as low as 4 per cent in VSS bank. But our study reveals that there were less number of loan accounts with private sector bank than public sector bank, and still lower number of loan accounts in VSS bank. Most important reason for such a behaviour may be service area approach applied to each financial institutions under study. In case of public sector bank, Syndicate bank in the study has got entire Navalgund taluka as its service area, while for private sector bank, Karnataka bank Ltd., few villages were covered under its service area. Hence, hence it has been inferred here that interest rate has no relation with number of loan accounts with the financial institution under study.

5.4.2 Loan Processing Charges

Loan Processing Charges were less in private sector bank than in public sector bank. There was no such processing charge fee in case of VSS bank. Still then because of reasons cited with regard to service area approach, the numbers of loan accounts were more in public sector bank than private sector bank and VSS bank.

5.4.3 Timeliness of Advance

The time taken for sanction of loans to the beneficiaries is presented in Table 4.14. The longer time period was taken by VSS bank to sanction crop loan under short term loan, as loan has to be sanctioned from the office of KCC Bank. As per the RBI/ NABARD guidelines crop loans should be financed as quickly as possible from the day they apply for loan, while takes a lot of time in compiling all the documents ready. In case of dairy loan under term loan the average number of days required were 25 due to various documentation and inspectional proceedings. For land development loans under term loan the average number of days required were ten due to documentation formalities in Syndicate bank. In case of minor irrigation term loan time taken for sanction of loan were 20 days and 22 days in Syndicate bank and Karnataka bank Ltd. respectively. In case of tractor and farm implement loans under term loan time taken for sanction of loan were around ten days in Syndicate bank, whereas it was 15 days in Karnataka bank Ltd. due to the procedure and other supplementary documents required.

5.4.4 Non-Interest Costs

Non-interest cost of borrowing includes cost of documents, travelling cost, processing charges and other miscellaneous charges. It differed from one type of financial institution to other depending upon location of the financial institution.

The Table 4.17 revealed the non-interest cost incurred by the sample beneficiaries in availing loans from the financial institutions. It was revealed that contribution from cost of records was maximum among non-interest cost of borrowing, for every Rs. 100 availed by farmers. The non-interest cost incurred was maximum in VSS bank followed by Syndicate bank and Karnataka bank Ltd. which indicated that non-interest cost incurred was less in availing loans from public and private sector bank for short term loans. The non-interest cost of availing term loans for minor irrigation was higher in Syndicate bank compared to Karnataka bank Ltd., though the proportion of cost of records and cost towards travelling was nearly equal. The non-interest cost for farm mechanization loans was nearly equal in both Syndicate bank and Karnataka bank Ltd.

5.5 Problems Faced by the Farmers in Borrowing from the Banks.

There was a lengthy procedure in getting loans from all the three banks namely Syndicate bank, Karnataka bank Ltd. and VSS bank. The borrower has to submit seven to ten documents/ certificates from different authorities. Hence, the borrower has to spend time and energy in getting these documents before submission of application form. Even after getting documents/certificates, applicant has to wait for some time to get loan, because application has to scrutinized by manager and other bank officials. A study conducted on performance of

commercial banks in financing agriculture in Malaprabha command area (Deshpande, 1998) revealed that crop loans were sanctioned in 9 to 16 days for small farmers, adhering to NABARD and RBI guidelines whereas, medium term loans and long term loans took 24 to 50 days and 30 to 180 days respectively as they involve subsidy component.

Table 4.18 revealed the benefit accrued to and the problems experienced by the beneficiaries while securing and using various production loans. Major proportion of beneficiaries of Syndicate bank experienced gains while obtaining loan in terms of accessibility of officials for banking procedure and they were within their reach, procedure of advance was simple, rate of interest, regular loan supervision and technical guidance provided by officials, service charge and, transaction cost for loans and also the good treatment of the staff while procuring the loan facilities from the bank. On the contrary, the beneficiaries experienced some constraints in terms of rigid norms in providing security, paper work was also considered more, in way of availing the loans.

Major proportion of beneficiaries of Karnataka bank Ltd. experienced gains while obtaining loan in terms of accessibility of officials for banking procedure and they were within their reach, procedure of advance was simple, service charge and, transaction cost for loans were less and also the good treatment of the staff while procuring the loan facilities from the bank. On the flip side, the beneficiaries experienced some constraints in terms of rigid norms in providing security, rate of interest, poor loan supervision and rare technical guidance provided by officials, paper work was also considered exhaustive on the way of availing the loans.

Major proportion of beneficiaries of VSS bank experienced gains while obtaining loan in terms of accessibility of officials for banking procedure and they are within their reach, procedure of advance was simple, well adequacy of loans, service charge and, transaction cost for loans, low rate of interest, and also the good treatment of the staff while procuring the loan facilities from the bank. On the other side, the beneficiaries experienced some constraints in terms of rigid norms in providing security, poor loan supervision and rare technical guidance provided by officials, paper work was also considered exhaustive, in way of availing the loans.

The borrowers who were residing in taluka center and around taluka center were of the opinion that, there was a location advantage for them. Borrowers opined during the survey that, officials helped the borrowers in transacting the business. This reveals the good gesture exhibited by the bankers towards the customer.

On the whole the following similarity characteristics were identified under each cluster in deciding performance of bank in accomplishing the set objectives in different financial institutions. In Syndicate bank paper work, security for loans, service charge, rate of interest, transaction cost, procedure of advance and time taken were the priority variables in making bank rating high performing bank, while accessibility and adequacy of loans considered the bank for improvement in the performance. However, repayment terms, technical guidance, loan supervision and staff treatment were also equally important in deciding the satisfactory performance of the bank.

While in Karnataka bank Ltd. paper work, security for loans, technical guidance, loan supervision and time taken were the priority variables in making bank rating high performing bank, while procedure of advance, accessibility, rate of interest and service charge considered for improvement in the performance of the bank. However, adequacy of loans, repayment terms, transaction cost and staff treatment are also equally important in deciding the satisfactory performance of the bank.

In VSS bank paper work, security for loans, technical guidance, loan supervision and time taken were the priority variables in making bank rating high performing bank, while accessibility, transaction cost, service charge and repayment terms considered for improvement in the performance of the bank. Though, rate of interest, adequacy of loans, procedure of advance, and staff treatment were also equally important in deciding the satisfactory performance of the bank.

6. SUMMARY AND POLICY IMPLICATIONS

Agricultural growth is crucial for alleviating rural poverty. Access to institutional credit to more farmers and appropriate quantity and quality of agricultural credit are crucial for realising the full potential of agriculture as a profitable activity. Farmers' access to credit of commercial banks (public and private banks) too has been a mirage for farmers in the given socio-economic and political conditions in the rural areas. The small farmers' is the most hapless victim of the private money lender who are free to recover their loan by high handed and attachment of the crop of the poor farmers as well as their personal belongings, land and living quarters. Available resource base and the capacity to generate sufficient levels of financial resource within the rural sector particularly in agricultural sector are, however, limited at present. Institutional financing is viewed from this angle as a principal resource of external finance to support in a planned manner. Institutional credit enables the farmer to procure the necessary wherewithal of production and creates conducive climate for enhanced output. Since institutional credit exerts a "push effect" and has a catalytic role in development process, provision of adequate, timely and liberal credit to the farmer has become an integral part of the agricultural development policy in India.

Institutional credit has been assigned a vital role in agricultural development of our country. Agricultural sector which is the main occupation of the majority of people in our country, is the major contributor to the National Income. The institutional source of credit was the major source for providing credit both for crop production and investment to agricultural portfolio. In the present study economic environment characterized by deregulation of global competition, the crucial role of banks in meeting the socio-economic necessities of the farming community has been recognized. As such strengthening and promoting the credit through institutional source, i.e. banks assume greater significance.

In view to the above importance attached to financing capital to agriculture by financial institutions, acquisition of the present study has been taken up in Karnataka state with the overall objective of evaluating the performance of the financial institutions i.e. banks in financing for different agriculture portfolio viz-a viz its stated objectives.

6.1 SPECIFIC OBJECTIVES OF THE STUDY

1. To analyze the growth in lending to different portfolio of agriculture by banks.
2. To analyze the recovery performance in each portfolio of lending by the banks.
3. To study the methods adopted for enhancement of recovery by the banks.
4. To analyze the costs incurred by the borrowers in borrowing for different purposes.
5. To analyze the problems faced by the farmers in borrowing from the banks.

Methodology

Dharwad district is predominantly an agricultural district traversed with two major rivers Tungabhadra and Malaprabha. Three stage sampling procedure was adopted for the selection of different target group at each stage for evaluating the objectives of the study. In the first stage Navalgund taluka in Dharwad district of Karnataka state which falls within the Malaprabha river command area were selected. The second stage aimed at selection of different bank branches in Navalgund taluka for three different types of financial institutions. Incidentally the semi-rural public sector bank selected was Syndicate bank, private sector bank selected was Karnataka bank Ltd. and VSS bank under KCC bank in Navalgund taluka of Dharwad district. The third stage was concerned with the selection of sample respondents. Information was collected from 30 borrowers under each bank, summing up the total numbers of respondents to 90.

The primary data related to banking transaction, non-interest cost of borrowing credit and the problems faced by farmers, beneficiaries in availing the credit/loan from were collected. Borrowers were personally interviewed to ensure accuracy and comprehension.

The time series data were collected for the period of 1996-97 to 2005-06 in respect to advances to different portfolios, and for portfolio wise overdue analysis, from the bank.

Further, managers and bank officials of the selected bank were considered for eliciting the opinion on the methods adopted by the banks with regard to the recovery of the outstanding balance and overdues.

Analytical tools employed

The growth rate analysis, cluster analysis and tabular analysis were employed to achieve the objectives of the study. The growth analysis was undertaken with the view to study the changes in agricultural credit advanced, recovery percentage and overdue performance of the selected bank branches over the period of years. The triennium averages are used to calculate annual average growth for the study period. The technique of cluster analysis was adopted to analyze the opinion survey of the farmers/beneficiaries of the banks in the study area, about the problems faced by them in banking operations.

6.2 FINDINGS OF THE STUDY

There was a lengthy procedure in getting loan from banks as borrower had to submit 7 to 10 documents/certificates from different authorities. Hence, the borrower had to spend time and energy in getting these documents before submission of application form. The loan was sanctioned only after the bank manager was satisfied with all documents, but in the case of VSS bank the applicant had to wait for further few days as the loan had to be sanctioned on by the KCC bank office.

The growths in outstanding balance and number of accounts were observed during the study period for various financial institutions. It can be observed that average annual growth in percentages for short term loans was highest in Syndicate bank followed by Karnataka bank Ltd. and VSS bank during the study period.

It was observed that average annual growth in percentages for short term loans was highest in Syndicate bank followed by Karnataka bank Ltd. and VSS bank during the study period. The Syndicate bank was having staff for taking care of agricultural lending, supervision and technical guidance to the farmers, which was absent in other financial institutions. Thus the Syndicate bank had large lending portfolio.

There was an increase in priority sector advances as well as in direct agricultural advances over the study period, though the percentage share of agriculture was declining in both the banks.

The recovery in Syndicate bank for short term loans was good, ranged from 78 to 90 per cent during the study period. While in Karnataka bank Ltd. it ranged from 12 to 41 per cent which was too disappointing and showed poor performance of the bank regarding recovery. The VSS bank showed good recovery (more than 90 %) in the terminal period of study for short term loans. The recovery percentage for term loans ranges from 68 to 82 per cent, while in Karnataka bank Ltd. it ranged from 9 to 45 per cent being higher in ending period of the study. The recovery of term loans in VSS bank was low in the ending period of the study.

The total loan recovery in Syndicate bank ranged from 77 to 86 per cent in the study period and higher in the ending years. Similar trend could be seen in Karnataka bank Ltd. in which recovery percentages for total loans ranged from 11 to 38 per cent. Similarly there were higher recovery percentages in the ending years of the study in VSS bank which ranged from 33 to 81 per cent.

The methods adopted by the bankers for the recovery of loans were more or less same in all three financial institutions under study. Banks tried to negotiate with the farmer/beneficiaries for recovery of loans depending on their condition, as the farmers very often faced crop failure due to erratic monsoon and weather conditions. The bankers were not adopting any harsh and illegal methods like hiring *gundas* and other private agencies for recovery as adopted by other private sector banks in metropolitan cities, because these bank are in rural area and banker have a human relation with the farmers/beneficiaries.

There was no processing charges in VSS bank for availing loans, but that in Syndicate bank were higher than that in Karnataka bank Ltd. the rate of interest was lowest in VSS bank

compared to Syndicate bank and Karnataka bank Ltd. The time taken for sanction of loan was maximum in VSS bank as loan has to be sanctioned from office of KCC bank.

The non-interest costs incurred by the sample beneficiaries in availing loans from the financial institutions were quite noticeable. Cost of records was the maximum among non-interest cost of borrowing. The non-interest cost incurred was the highest in VSS bank (Rs.1.46/100 Rs. loan) followed by Syndicate bank (Rs.1.42/100 Rs. loan) and Karnataka bank Ltd. (Rs.1.42/100 Rs. loan) which indicated that non-interest cost incurred was less in availing loans from public and private sector bank for short term loans. The non-interest cost of availing term loans for minor irrigation was higher in Syndicate bank compared to Karnataka bank Ltd., though the cost of records and cost towards travelling were nearly equal. The non-interest cost for farm mechanization loans was nearly equal for both Syndicate bank and Karnataka bank Ltd.

Major proportion of beneficiaries of VSS bank experienced gains while obtaining loan in terms of accessibility of officials for banking procedure and they were within their reach. Procedure of advance was simple, well adequacy of loans, service charge and transaction cost for loans were less, low rate of interest, and also the good treatment of the staff while procuring the loan facilities from the bank. On the other side, the beneficiaries experienced some constraints in terms of rigid norms in providing security, poor loan supervision and rare technical guidance provided by officials, paper work was also considered exhaustive on the way of availing the loans.

On the whole the following similarity characteristics were identified under each cluster in deciding performance of bank branches in accomplishing the set objectives in different financial institutions. In Syndicate bank paper work, security for loans, service charge, rate of interest, transaction cost, procedure of advance and time taken were the priority variables in making bank rating high performing bank, while accessibility and adequacy of loans considered the bank for improvement in the performance. However, repayment terms, technical guidance, loan supervision and staff treatment were also equally important in deciding the satisfactory performance of the bank. Similar observations were made with respect to the performance of Karnataka bank Ltd. and VSS bank except loan supervision and technical guidance.

6.3 POLICY IMPLICATIONS

The following policy implications have been evolved based on the findings of the study and observations made during the period of study for evolving the performance of banks in financing agriculture.

- 1) The growth in outstanding balance showed a positive trend while that for numbers of accounts had shown negative trend, so lending should be in such a way that, there should be proportionate growth in both number of loan accounts and amount advanced by the banks.
- 2) High overdues in private banks as compared to public sector banks because of less agricultural technical staff and poor follow up. Hence more and more agriculture graduates needs to be appointed in the private banks as it was done public sector banks.
- 3) To avail loan from the banks the borrowers needs to submit various documents, which is a tedious process and consumes lot of time and energy. In order to avoid this difficulty computer networking of revenue department, land records office, irrigation department, and, financial institutions operating in the area on a pilot basis to have easy access of the required information. The system may be evolved to get officially the documents from the concerned departments instead of asking farmers to get them done.
- 4) The Kissan credit cards should be made more popular in the banks in general and particularly in private sector banks (Karnataka bank Ltd.) where it was not given much emphasis in order to come the difficulty in reducing cost of borrowing and time taken for lending.

- 5) The short term credit dominates the agricultural credit structure, accounting for more than 60 per cent of the total advances. In the context of structural transformation taking place in the farm front in favour of perennial and cash crops, the importance of short term production credit is diminishing and the need for term loans is increasing. The banks need to tune their lending pattern according to needs of the farmers.

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APPENDIX 1.

Blockwise performance under district credit plan, Dharwad district for 2005-06 as on March 2006.

(in Rs. Lakhs)

Blocks	Agriculture		S.S.I.		Other Priority Sectors		Total Priority Sectors		% of achievement (TPS)
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement	
DHARWAD	3977.71	3868.89	1302.57	530.73	7766.52	4973.55	13046.80	9373.17	72
HUBLI	4668.87	7223.71	4026.30	4935.05	23811.23	23766.35	32506.40	35925.11	111
KALGHATGI	1464.79	1478.79	84.05	60.75	325.68	353.44	1874.52	1892.98	101
KUNDGOL	3861.49	4933.65	40.50	15.76	481.87	314.19	4383.86	5263.60	120
NAVALGUND	4624.43	5613.45	246.07	320.38	696.62	676.57	5567.12	6610.40	119
Total	18597.29	23118.49	5699.49	5862.67	33081.92	30084.10	57378.70	59065.26	103

Source: Records of Vijaya Bank, Lead bank Dharwad district.

APPENDIX 2.

Lending to Agricultural Portfolio by the Banks

Sl. No	Syndicate bank.	Karnataka Bank Ltd	VSS Bank
i. Short Term Loans			
a.	Seasonal Crop Loan through S.K.C.C.	Seasonal Crop Loan	Seasonal Crop Loan
b.	Goats, sheep, pigs, Gobar Gas, Others		
ii. Term Loans			
a.	Storage Structures, Godown, Farm House.		Medium Term Conversion Loans
b.	Dairy		
c.	Farm Mechanization	Farm Mechanization	Farm Mechanization
d.	Minor Irrigation	Minor Irrigation	
e.	Land Development		

APPENDIX 3

Scale of Finance for Various Crops in Dharwad District for 2005-06

A. Cereals

S.N.	Name of the crop	Amount in Rs
1	Paddy (irrigated)	5500
2	Paddy (rainfed)	5000
3	Jowar (irrigated)	3300
4	Jowar (rainfed)	3000
5	Hybrid jowar-rabi	2500
6	Maize (irrigated)	6000
7	Maize (rainfed)	5000
8	Ragi (irrigated)	2500
9	Ragi (rainfed)	1500
10	Wheat (irrigated)	4000
11	Wheat (rainfed)	3000
12	Bajra (irrigated)	2250
13	Bajra (rainfed)	1000
14	Cotton H-4 (varalaxmi & DCH)	6000
15	Hybrid cotton (irrigated)	9600
16	Hybrid cotton (rainfed)	6000
17	Local cotton (rainfed)	2800
18	Improved cotton	5600
19	Groundnut (irrigated)	7000
20	Groundnut (rainfed)	6000
21	Sunflower (irrigated)	3600
22	Sunflower (rainfed)	3000
23	Safflower (irrigated)	2000
24	Safflower (rainfed)	1800
25	Soybean (irrigated)	2500
26	Guinea grass	1500
27	Bengal gram (irrigated)	3300
28	Bengal gram (rainfed)	2800
29	Redgram (irrigated)	2200
30	Greengram (rainfed)	2000
31	Black gram (rainfed)	2000
32	Cowpea (rainfed)	2000
33	Sugarcane (fresh)	15500
34	Sugarcane (ratoon)	11000
35	Tobacco (VHP)	6200
36	Tobacco (Beedi)	4100
37	Turmeric	8000
38	Navane (per acre)	1500
39	Save (per acre)	1500
40	Sesumum (per acre)	2200
41	Horsegram	2000

B. Mixed crops

S.N.	Name of the crop	Amount in Rs
1	Chilli + cotton	11000
2	Chilli + onion	11500
3	Onion, chillies & cotton	13500

C. Fruits

S.N.	Name of the crop	Amount in Rs
1	Mango (maintenance)	3300
2	Banana 1st year	15000
3	Banana-ratoon	9000
4	Banana tissue culture (1st crop)	24000
5	Banana tissue culture (ratoon)	14000
6	Papaya	10000
7	Water melon	6000
8	Guava	3500
9	Chikku	3500
10	Lemon	5000
11	Pomegranate	7000
12	Grape	24000

D. Plantation crop (maintenance)

S.N.	Name of the crop	Amount in Rs
1	Coconut	4000
2	Beetle leaves (black)	12000
3	Beetle leaves (Ambodi)	12000
4	Arecanut	12000

E. Flowers

S.N.	Name of the crop	Amount in Rs
1	Rose	11000
2	Mari gold (chandu)	8000
3	Chrysanthemum (sevantige)	8000
4	Crosandra (Kanakambara)	8000
5	Jasmine	8000
6	Tube rose	8000
7	Aratela	8000

F. Vegetable crops

S.N.	Name of the crop	Amount in Rs
1	Potato	12000
2	Tomato	6000
3	Brinjal	6000
4	Cauliflower	4500
5	Ladys finger (bhendi)	4500
6	Beans	4500
7	Ridge guard (orekai)	4500
8	Peas (batani)	5000
9	Beet root	4500
10	Carrot	4500
11	Hybrid tomato	8000
12	Hybrid capsicum	7000
13	Hybrid cabbage	8000
14	Hybrid cauliflower	8000
15	Hybrid onion	8000
16	Chilly	7000
17	Hybrid brinjal (irrigated)	7000
18	Garlic	9000
19	Ginger	10000
20	Leaf vegetables	2000
21	Bitter guard	6000

G. Seed production

S.N.	Name of the crop	Amount in Rs
1	Tomato (10 gm / 20 Guntas)	16000
2	Brinjal (10 gm / 20 Guntas)	5000
3	Capsicum (10 gm / 20 Guntas)	8000
4	Onion (per acre)	10000
5	Water melon	10000
6	Ladys finger	5000
7	Bitter guard (1per acre)	6000
8	Sunflower (per acre)	5000
9	Cotton seeds (10 gunta)	18000
10	Hybrid maize (per acre)	6000
11	Hybrid jowar (per acre)	5000
12	Sericulture (mulberry)	8000

H. Animal dairy unit

S. N.	Particulars of investment	Crass breed unit (8 LPD)	Buffalo unit (7 LPD)	Repayment period
1	Cost of animal	65000	65000	5 years including 6 month grace period
2	Equipment including chaff cutter	5000	5000	
3	Cost of shade for five animals	32500	32500	
4	Transportation cost of animal	3500	3500	
5	Recurring cost capitalized			
a	Animal fodder cultivation	2400	2400	
b	Feed for one month	1850	2150	
c	Insurance cost for three animals	1950	1950	
d.	Total	112200	112500	

Source: Records of Vijaya Bank, Lead bank Dharwad district.

AGRICULTURAL LENDING BY PUBLIC, PRIVATE AND CO-OPERATIVE BANKS – A COMPARATIVE ANALYSIS

ANKUR AGRAWAL

2007

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ABSTRACT

Agricultural credit plays a vital role in agro-socio economic development of the nation at micro and macro level. Among banks in different sectors, one from each type was selected viz., Syndicate bank from public sector, Karnataka bank ltd from private sector, and VSS bank from co-operative sector in Navalgund taluka of Dharwad district to make a comparative analysis of efficiency of operation. The technique of tabular analysis and cluster analysis were used. The study was based on both primary and secondary data.

Growths in the outstanding balance and the number of accounts were observed during the study period for various banks. The average annual growth for short term loans was highest in Syndicate bank followed by Karnataka bank ltd. and VSS bank. There was increase in direct agricultural advances in absolute terms under priority sector in two commercial banks, though the percentage share of agriculture was declining.

The total loan recovery in Syndicate bank was highest and it ranged from 77 to 86 per cent. However, in Karnataka bank ltd. though in private sector, it ranged from as low as 11 to 38 per cent. This was because the borrower felt that once the loan becomes NPA, the loan/ interest would be waived off. In VSS bank the recovery ranged from 33 to 81 per cent.

The methods adopted by the bankers for the recovery of loans were roughly same in all three banks under study.

Cost of preparation of records was highest among non-interest cost of borrowing. The non-interest cost incurred was highest in VSS bank followed by Syndicate bank and Karnataka bank ltd.

Regarding problems faced by borrowers, majority of beneficiaries opined that paper work was very high and security norms were rigid in all the banks. The loan supervision were regularly carried out only in Syndicate bank.