CHAPTER-1

INTRODUCTION

1.1: Prelude

A Bank is an institution which deals in money and credit and act as an intermediary, which handles other people's money both for their advantage and to its own profit. The origin of the word 'Bank' can be traced in various part of the world, i.e. to the German word 'Banck' which means joint stock fund, to the Italian word 'Banco' means heap of money, to the French word 'Bancus' or 'Banque' which means a place where valuable are kept and to the English a bank is an institution accepting money as deposit for lending **(Conant C A, 1915)**[1]. And in India, Section 277F of **(The Indian Companies Act, 1936)**[2] defines Bank as " A 'Banking Company' means a company which carries on as its principle business the accepting of deposits of money on current account or otherwise, subject to withdrawal by cheque, draft or order or otherwise".

The banking business has an old authentic history. The ancient banking practices were developed by Babylonions as early as 2000 B.C., but it was no way similar to the modern banking system. As time progress, the character and content of banking institutions have changed drastically and spread all over the Europe. The Bank of Venice was established in Italy in 1157, which is supposed to be the most ancient bank in the history of banking **(Jindal P, 2013)**[3]**.** The concept of modern banking has emerged in the British Empire after the establishment of Adam Smith's "Invisible hand" theory. He advocated the self-regulation of the economy and the state's involvement in the banking sector and as a result the whole economy was managed to minimize by the bankers. During the 17th century the banking operation involved in transferring of funds, accepting of deposits, money lending and money changing were combined with the issuance of bank debts, which helped to substitute silver and gold coins **(Prabhavathi K & Dinesh G P, 2018)**[4]**.**

The concept of banking system was practiced in ancient India during the Vedic period. Later on the banking business can be traced in Mauryan period in the 4^{th} B.C. and in the Mughal rule as an indigenous banking in ancient India. But, the modern banking operation was introduced by the British from late 18^{th} century in India and which is very much similar to British Banking. At the time of British colonial period various commercial banks were established by the merchants or big business houses. The modern banking (i.e. in the form of joint-stock companies) has started its journey in India as far back in 1786 with the establishment of General Bank of India. The East India Company established three Presidency Banks [i.e. Bank of Bengal (1809), Bank of Bombay (1840) & Bank of Madras (1843)] in the early 19^{th} century **(Mangaleswari C, 2006)[5].** During 'Swadeshi Movement' several commercial banks were established by Indian management at the last 19^{th} century and early phase of 20^{th} century e.g. Punjab National Bank Ltd. in 1895, The Bank of India Ltd. in 1906, The Canara Bank Ltd. in 1096, The Indian Bank Ltd. in 1907, The Bank of Baroda Ltd. in 1908, The Central Bank Ltd. in 1911 and many other banks. With help of the Act, i.e. Imperial Bank of India Act, 1920, three presidency banks merged into Imperial Bank of India in 1921. The Reserve Bank of India was established in 1935 with enactment of Reserve Bank of India Act, 1934 **(Jindal P, 2013)[6]**. But most of the weak banks had failed due to wrong policy decisions taken by the management, the period of World War-I and several banking crisis during early phase of 20^{th} century. However, the stronger and well managed banks are still functioning today like those mentioned above. So, the Indian banking system was not sound in the pre-independence period. Hence, the Government of India has taken two major actions which were very important from the point of view of structural reforms in the banking sectors in 1949. First, the Banking Regulation Act was passed to give extensive regulatory powers to Reserve Bank of India (RBI) over the commercial banks. Second, the RBI was nationalized on January 1, 1949 **(en.m.wikipedia.org)[7].**

But still the private ownership commercial banks were not performing a catalytic agent for the economic development of the country. The wealth and economic power were controlled by the big business houses and agricultural credit was totally ignored by them. So, the Government of India has taken several policy decisions i.e. nationalization of State Bank of India in 1955, nationalization of 14 other commercial banks in July, 1969, establishment of the Regional Rural Bank in 1976 and again nationalization of 6 more commercial banks in 1980 **(en.wikipedia.org)**[8]**,** with having various objectives such as rapid growth in agriculture, small industries and exports, rising of employment levels, encouragement of new entrepreneurs and the development of backward areas and agricultural credit should reach the agriculturists at the right time, at the right quantity and at favourable terms. Since the nationalization of the commercial banks, the Indian banking system has started its new era to perform a most significant role in economic development of the country.

The agricultural sector has a multifunctional role to play in economic development. According to **(Kuznets S, 1961, pp. 69)**[9] "If Agriculture itself grows, it makes a product contribution; if it trades with others, it renders a market contribution; if it transfers resources to other sectors, these resources being productive factors, it makes a factor contribution". The agriculture with its allied sector is essential for economic growth in any economy including India. It has achieved tremendous growth over the year in Indian economy, contributed a significant figure to Gross Domestic Product (GDP) and become the largest livelihood provider in India **(Himani, 2014)**[10]**. (World Development Report, 2008)**[11] says "In the 21st century, agriculture continues to be a fundamental instrument for sustainable development and poverty reduction and it can be the lead sector for overall growth in the agriculture-based countries".

The agricultural sector in India was not so developed in the pre-independence period. Traditionally India is an agricultural country with abundant natural resources, so the development of agriculture to its optimum potential is therefore necessary for Indian economy to reach the prosperity phase. So, in the post- independence period the Government of India has taken various initiatives to develop Indian agriculture. The agricultural situation started improving after the middle of 1960s with the introduction of High-Yield Varity (HYV) seeds and the development of infrastructure like irrigation, credit, power, fertilizer, storage and marketing facilities etc **(Datt G & Mahajan A, 2011)**[12]**.**

Credit is one of the most important inputs of agriculture, so, the development of agriculture is only possible by injecting requisite doses of institutional credit to the agricultural sector. As it is known that there are two major sources of agricultural finance- 1) Non-Institutional (i.e. money-lenders, traders, shop-keepers, commission agent etc.), charging higher rate of interest to the borrowers, 2) Institutional (i.e. Co-operative Banks, Commercial Banks, Government, RRBs and NABARD etc.) **(Mishra S K & Puri V K 2009)[13].**

1.2: Significance of the Study

(World Development Report, 2008)[14] recognized that the improved access to financial services and reduce exposure to uninsured risks help to generate the productivity, profitability and sustainability of agriculture. In addition to that providing financial services through self-help groups and financial cooperatives have opened the access to loans for millions of poor people.

The Institutional credit has been considered to play one of the most important roles in the agricultural development of India. **(Kumar A, Singh K M & Sinha S, 2010)[15]** revealed in their study that in real terms the institutional credit flow to agriculture has increased rapidly during the past four decades and the structure of credit outlets has witnessed a significant change and the commercial banks have emerged as the major source of institutional credit in recent years.

The agricultural credit started with the dominant role has played by the Co-operatives in the British Colonial Government since 1870s. But there was a substantial change in the scenario of agricultural credit from 1960s to 1980s and since bank nationalization the Commercial Banks acted as catalyst to extend the agricultural credit in India. Over the years there has been a significant increase in the access of rural people to institutional credit from the period of bank nationalization to the late 1990s **(Mohan R, 2006)[16].**

(Ramakumar R & Chavan P, 2007)[17] revealed that the most significant increase in the supply of credit to agriculture has been started since 2000. It is also observed that the growth rate of credit flow to agriculture from commercial banks in the period 2000 to 2006 was significantly higher than the period between 1990 and 2000 and the direct finance to agriculture grew rapidly in the 2000s. Therefore, since independence, the credit has been occupying an important place in the strategy for development of agriculture.

The present study, as a continuation of a number of such studies, is a deeper investigation on the role of Commercial Banks in agricultural development in India in the 21st century. However, given the time and resource constraints of an individual researcher we have chosen Jalpaiguri District as an area of our case study, which is consisted of agricultural land or people here are mostly depended on agricultural production. Hence, our study is a comprehensive analysis at macro-level of the role of Commercial Banks in agricultural development in India and making a micro focus within the District of Jalpaiguri to assess the prevailing situation at present existing here.

1.3: Objectives of the Study

The present study has the following major important objectives:

1. To study the amount of credit financed by different commercial banks in India for agricultural development.
2. To make a comparative study on the performances of various commercial banks for providing credit to the agricultural sector in India.
3. To what extent the bank credit has helped the agricultural development in India.
4. To analyse the impact of institutional credit facilities to the agricultural infrastructure in India.
5. To find out the performance of institutional credit to increase the agricultural marketing infrastructure in India.
6. To find out the drawbacks in the agricultural credit policies of the commercial banks in the process of agricultural development.
7. To analyse the impact of institutional credit facilities to generate income and self-employment of the beneficiaries in India.
8. To carry out a case study on the performances of the commercial banks of Jalpaiguri District for providing credit to the agriculture sector.

1.4: Research Questions

During the research process, we have made an attempt to investigate and seek answers to the following questions:

1. What are the major functions of commercial banks operating in agricultural sector?
2. How far the credit of the commercial banks is found useful to the agriculture sector in India?
3. Do the farmers think institutional credit as a source of increasing their production and productivity?
4. What are the roles of commercial banks in the development of agricultural infrastructure in India (with special reference to Jalpaiguri District)?
5. How far the Institutional credit facilities have performed to develop the agricultural marketing infrastructure in India (with special reference to Jalpaiguri District)?
6. How does the commercial banks performed in generating income and self-employment of the beneficiaries in India with special reference to Jalpaiguri District?
7. What are the necessary steps to be opted by the commercial banks to improve the agricultural credit system in India?

1.5: Research Hypotheses

In the light of the major objectives and research questions of our study we have tried to test the following hypotheses:

1) The growth rate of institutional credit facilities to the agricultural sector in India has increased during the period of 2001-02 to 2018-19.
2) Institutional credit support to the Agricultural sector has been satisfactory to meet their credit needs during the period of 2001-02 to 2018-19 with special reference to Jalpaiguri District, West Bengal.
3) Institutional credit facilities for agricultural infrastructure have been satisfactory.

4) Sufficient institutional credit support has been offered to the agricultural marketing infrastructure.
5) The institutional finance has helped in raising income and self-employment of the beneficiaries in India with special reference to Jalpaiguri District.

1.6: Research Methodology and data Sources

The significance of study largely depends on the methods followed in selection of area, collection and methods adopted for their analysis. In order to decide the validity of the conclusion of a study, it becomes necessary to consider the sources of data and method followed in the study. The sources of data and methods of analysis taken up in our study are discussed as follows-

1.6.1: Sources of Data

The period selected for our study is broadly from 2001-02 to 2018-19. But, in context to the case study of Jalpaiguri District, the data is available only from the period of 2009-10 to 2018-19. Our study is entirely based on secondary data. The data has been collected from various issues of Banking Statistics (RBI), Reports on Trends and Progress in Banking in India (RBI), RBI Bulletin, NSSO Reports, Annual Reports of NABARD, Economic Survey (Government of India) and Handbook of Statistics on Indian Economy (RBI). The data related to agriculture have been collected from Ministry of Agriculture & farmers Welfare (Government of India) and Rashtriya Krishi Vikas Yojana (Government of India). The state as well as district level data have been accumulated from Handbook of Statistics on Indian States (RBI), State Level Bankers Committee (SLBC) West Bengal, Bureau of Applied Economics and Statistics (Government of West Bengal), State Focus Paper (NABARD), Potential Linked Plan (NABARD), internet website jalpaiguri.gov.in and District Statistical Handbook (Government of West Bengal). In addition to that the data related to Jalpaiguri District have been obtained from the material dates provided by the District Development Manager (DDM), NABARD, through personal investigation.

1.6.2: Tools and Techniques are used in data analysis

In the course of analysis of our study, the major statistical tools and techniques used are Arithmetic Mean (A.M), Percentage Growth rate over the previous year, Correlation Coefficient (r), Coefficient of Determination (R^2), Linear Regression Equations, Trend Analysis, Average Annual Growth Rate (AAGR), and Compound Annual Growth Rate (CAGR). All these tools are described as follows-

1. Arithmetic Mean (A.M):

Arithmetic Mean of a set of observations is defined to be their sum, divided by the number of observations. It gives a single value to express the entire data.

Symbolically A.M. ($\bar{X}$) = $\frac{\sum x}{n}$ **(Das N G, 2002)[18]**

2. Growth Rate:

Growth Rate over the last year has been calculated using the following formula

$$\text{Growth Rate} = \frac{Q_t - Q_{t-1}}{Q_{t-1}} * 100$$

3. Correlation Coefficient (r):

The word "Correlation" is used to denote the degree of association between two variables.

Correlation Coefficient is a numerical expression of relationship between two variables (say x & y), is then defined as

$$r_{xy} = \frac{n\sum xy \quad (\sum x)(\sum y)}{\sqrt{[\{n\sum x^2 - (\sum x)^2\}\{n\sum y^2 - (\sum y)^2\}]}}$$

In order to interpret the value of 'r' in convenient and useful way is to use R^2, which is called Coefficient of Determination. It helps to explain the variation in dependent variable caused by independent variable **(Das N G, 2002)[19].**

4. Linear Regression Analysis:

The word “Regression” is used to denote estimation or prediction of the average value of one variable for a specified value of the other variable.

In Linear Regression (or Simple Regression) the relationship between the variables is assumed to be linear. The linear regression equation (y=a+bx) has been used to analysis the Trend Line of the growth of different commercial banks.

y= a + bx

Where, y= Dependent Variable,

x= Independent Variable,

a= Intercept and b= Slop/Gradient

The following equations are used to find the values of a and b

$\sum y = na + b\sum x$ And $\sum xy = a\sum x + b\sum x^2$ **(Das N G, 2002)[20]**

5. Average Annual Growth Rate (AAGR):

The Average Annual Growth Rate (AAGR) is the arithmetic mean of a series of growth rates. The AAGR is very much helpful in determining Long-term trends. It can be applied to any kind of financial measure including growth rates of profits, revenue, cash flow, expenses etc. to get the investors with an idea about the trend of the investment. As AAGR is a simple average of period annual returns, the measure does not care about the timing of returns **(www.investopedia.com)[21].**

$$AAGR = \frac{GR_A + G\ \ _B + \cdots + GR_N}{N}$$

Where, GR_A= Growth rate in period A

GR_B= Growth rate in period B

GR_n= Growth rate in period n

N= Number of Periods

6. Compound Annual Growth Rate (CAGR):

Compound Annual Growth Rate (CAGR) is a specific term to measure the geometric progression ratio over the period of time. The CAGR is a smoothed growth rate per year, it ignores volatility and implies a steady growth rate over the past years **(en.wikipedia.org)[22].**

$$CAGR\ (t_0, t_n) = \left(\frac{V(t_n)}{V(t_0)}\right)^{\frac{1}{t_n - t_0}} - 1$$

Where, $V(t_0)$= Initial Value

$V(t_n)$= End Value

t_n-t_0= Number of Years

1.7: Limitation of the Study

Our study is totally based on secondary data. The data is collected from various online and offline publications (both Govt. & Non Govt. sources). Therefore our study prevail certain limitations, these are as follows-

i) The objective of the study has highly influenced by non availability of various data.

ii) As the data are acquired from more than one source, there are differences between one source and another about the same entries.

iii) The study has considered for the period 2001-02 to 2018-19 to examine the role of commercial banks. But, in case of the study of Jalpaiguri District the data was only available for the period 2009-10 to 2018-19.

iv) The agricultural credit can be analysed with the help of many more parameters in addition to those used in our study.

1.8: Plan of Study

The entire study is proposed to be completed in seven chapters. These are outlined as follows-

Chapter-1: Introduction

The first chapter is introductory in nature and contains the significance of the study, objective of the study, research questions, research hypotheses, research methodologies and limitation of the study.

Chapter-2: Review of Literature

The second chapter deals with the review of major works done by the eminent researchers on the role of commercial banks in agricultural development in India. The existing literature are divided into some relevant areas like status of agricultural credit in India, the agricultural credit in different states of India and finally role of institutional credit sources in supplying credit for agricultural development in India.

Chapter-3: Sources of Agricultural Credit in India

This chapter carries out a brief discussion about the need for rural credit in India. This chapter also highlights the major sources of institutional credit for agriculture in India such as Commercial Banks, Regional Banks (RRBs), Co-operative Banks and National Bank for Agriculture and Rural Development (NABARD).

Chapter-4: Overview of Institutional Credit Facilities to Agricultural Sector in India

This chapter deals with the status of institutional credit facilities to agricultural sector in India and also makes an assessment of progress in agricultural credit in India. It also identifies the role of institutional credit facilities for improvement of various rural infrastructure and as well as generation of self-employment through several instruments such as SHGs, JLGs and FPOs etc.

Chapter-5: An Analysis of Institutional Credit for Agriculture Sector in West Bengal

This chapter sheds light on the growth and importance of different credit institutions and evaluates their performance in terms of Ground Level Credit (GLC) to agriculture sector in West Bengal. The entire evaluation is based on published secondary data.

Chapter-6: Role of Commercial Banks in Agricultural Development: A Case Study of Jalpaiguri District, West Bengal

The chapter six is the key chapter in our study which is dedicated to a case study of role of Commercial Banks in agricultural development in Jalpaiguri District, West Bengal. This chapter consists of an empirical study of growth performance of different Scheduled Commercial Banks in terms of GLC to agricultural sector in Jalpaiguri District during 2009-10 to 2018-19. In this chapter, we also evaluated the impact of institutional credit flow to agricultural production, different rural infrastructures and as well as generation of self-employment through SHGs, JLGs and FPOs etc. in Jalpaiguri District.

Chapter-7: Conclusion

This chapter highlights the summery of our study, draws a conclusive understanding and suggests some measures for the betterment of the role of Commercial Banks in agricultural development depending on the findings of the previous chapters and the case study.

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