

# **An Evaluation of Commercial Bank Lending to the Agricultural Sector in the Kumaun Region: Performance, Challenges, and Impact on Borrowers**

**ANSHU SHUKLA**

RESEARCH SCHOLAR

NIILM UNIVERSITY KAITHAL

**DR. DIVYA SAHU**

PROFESSOR

SCHOOL OF COMMERCE AND MANGEMENT

NIILM UNIVERSITY KAITHAL

## **ABSTRACT**

Agricultural finance plays a crucial role in strengthening rural economies and promoting inclusive growth. In India, commercial banks function as key institutions in implementing agricultural and priority sector lending policies framed by the Reserve Bank of India and the Government of India. The Kumaun region of Uttarakhand, characterized by hilly terrain, small landholdings, and subsistence farming, presents unique challenges in agricultural credit delivery.

This study evaluates the performance of commercial banks in extending agricultural loans in the Kumaun region, with special reference to target achievement, implementation of District Credit Plans, and priority sector lending norms. It examines the challenges faced by banks in loan disbursement and recovery, as well as the difficulties experienced by borrowers in accessing institutional credit. The study also analyzes sectoral trends in agricultural lending and assesses the socio-economic impact of bank credit on farmers' income, productivity, and livelihood security.

The research is based on both primary and secondary data. Primary data are collected from bank officials and agricultural borrowers across selected districts of Kumaun, while secondary data are obtained from annual reports, District Credit Plans, and banking statistics. Statistical tools such as percentage analysis, growth rates, and comparative performance indicators are employed to evaluate lending performance and impact.

The findings are expected to reveal gaps between targeted and actual lending, operational constraints in scheme implementation, and the extent to which agricultural credit has contributed to regional agricultural development. The study provides policy suggestions to improve credit delivery mechanisms, enhance borrower accessibility, and strengthen the effectiveness of priority sector lending in the Kumaun region.

## **INTRODUCTION**

Agriculture remains one of the most significant sectors of the Indian economy, providing livelihood to a large proportion of the population and contributing substantially to rural development. Despite rapid industrialization and growth in the service sector, agriculture continues to be the backbone of rural India. Access to timely and adequate institutional credit is a critical factor in enhancing agricultural productivity, ensuring income stability, and reducing rural indebtedness. Recognizing this, the Reserve Bank of India and the Government of India have emphasized priority sector lending norms to ensure sufficient flow of credit to agriculture through commercial banks.

Commercial banks play a pivotal role in implementing agricultural credit policies, including crop loans, term loans for farm mechanization, allied activities, and rural infrastructure development. Through instruments such as Priority Sector Lending (PSL) targets and District Credit Plans, banks are mandated to allocate a specific proportion of their total lending to agriculture and related activities. However, the effectiveness of these policies largely depends on regional socio-economic conditions, institutional efficiency, and borrower accessibility.

The Kumaun region of Uttarakhand presents a distinct agricultural profile characterized by hilly terrain, fragmented landholdings, limited irrigation facilities, and predominance of subsistence farming. These structural constraints pose unique challenges to both lending institutions and borrowers. While banks face difficulties in credit appraisal, monitoring, and recovery due to geographical dispersion and low-scale operations, farmers often encounter procedural complexities, collateral requirements, and delays in loan sanctioning.

In recent years, efforts have been made to expand financial inclusion and strengthen agricultural credit delivery in rural and remote regions. However, concerns remain regarding the adequacy of credit flow, achievement of lending targets, performance of District Credit Plans, and the actual impact of institutional lending on farmers' income and livelihood security in the Kumaun region.

Against this backdrop, the present study aims to evaluate the performance of commercial bank lending to the agricultural sector in the Kumaun region, examine the challenges faced in the implementation of credit schemes, assess the achievement of lending targets, and analyze the socio-economic impact of bank credit on borrowers. By bridging the gap between policy objectives and ground-level realities, this research seeks to contribute to the improvement of agricultural credit systems and rural financial development in the region.

## **OBJECTIVES**

- To evaluate the performance of commercial banks in lending to the agricultural sector in the Kumaun region, with special reference to target achievement under Priority Sector Lending norms.
- To examine the implementation and effectiveness of District Credit Plans in promoting agricultural credit flow in the Kumaun region.
- To identify the challenges and operational difficulties faced by commercial banks and borrowers in the disbursement and utilization of agricultural loans.
- To assess the socio-economic impact of agricultural lending on borrowers, particularly in terms of income generation, productivity enhancement, and livelihood improvement.

## **REVIEW OF LITERATURE**

- Rangarajan C. (1998) emphasized the importance of institutional credit in strengthening the agricultural sector and reducing dependence on non-institutional sources such as moneylenders. The study highlighted that expansion of formal banking networks in rural areas significantly improved credit accessibility; however, regional disparities in credit distribution remained a concern.
- Reddy Y. V. (2004) examined the performance of commercial banks under Priority Sector Lending (PSL) norms. The study observed that while banks were meeting overall targets at the national level, the distribution of agricultural credit was uneven across regions. It stressed the need for better monitoring mechanisms and region-specific strategies.
- Basu P. (2006) analyzed rural credit markets in India and found that access to bank credit positively influenced farm investment and productivity. However, small and marginal farmers continued to face constraints such as collateral requirements and procedural delays, limiting the inclusive impact of agricultural lending.
- Chakrabarty K. C. (2011) focused on financial inclusion and its linkage with agricultural development. The study argued that credit expansion must be accompanied by supportive infrastructure, awareness programs, and simplified lending procedures to ensure effective utilization of funds by rural borrowers.

- Ghosh S. (2012) conducted an empirical study on agricultural credit growth and found that although agricultural lending had increased substantially after banking reforms, issues of credit absorption capacity and loan recovery persisted in less developed and hilly regions.
- Das A. (2015) evaluated district-level credit planning and observed that District Credit Plans played a crucial role in aligning banking activities with local development needs. However, the effectiveness of these plans depended on coordination among banks, local administration, and development agencies.
- Kumar A. (2018) studied the impact of institutional credit on farm income and concluded that timely and adequate credit significantly enhanced agricultural productivity, diversification into allied activities, and rural employment generation.
- Recent studies (2020–2023) on regional agricultural finance have highlighted the need for technology-driven credit delivery systems, improved risk assessment models, and flexible repayment structures, particularly in geographically challenging regions such as Uttarakhand. These studies suggest that while commercial banks have expanded their agricultural portfolios, structural and operational constraints still limit the full realization of credit-led agricultural development.

## RESEARCH QUESTIONS

- What is the trend and performance of commercial bank lending to the agricultural sector in the Kumaun region?
- To what extent have commercial banks achieved the prescribed targets under Priority Sector Lending (PSL) norms in the Kumaun region?
- How effective are District Credit Plans in facilitating agricultural credit flow and regional agricultural development?
- What challenges and operational difficulties are faced by commercial banks and agricultural borrowers in the implementation of lending schemes?

## RESEARCH GAP

- **Lack of Region-Specific Studies:** Most studies on agricultural credit focus on national or state-level analysis, with limited empirical research specifically addressing the Kumaun region of Uttarakhand, which has unique geographical and socio-economic characteristics.
- **Limited Focus on Hilly and Mountainous Agriculture:** Existing literature largely concentrates on plains and agriculturally developed regions, while the credit dynamics and operational challenges in hilly terrains like Kumaun remain underexplored.
- **Insufficient Analysis of Target Achievement at Regional Level:** Although several studies examine Priority Sector Lending (PSL) performance at the national level, there is a scarcity of district-level analysis comparing targeted and actual agricultural lending in the Kumaun region.
- **Inadequate Evaluation of District Credit Plans:** Research assessing the effectiveness of District Credit Plans in implementing agricultural lending schemes at the micro or regional level is limited, particularly in remote and geographically dispersed areas.

## CONCEPTUAL FRAMEWORK

The present study is based on the premise that commercial bank agricultural lending influences the socio-economic condition of borrowers, while its effectiveness depends on institutional performance, policy implementation, and regional constraints. The framework integrates policy guidelines, banking performance, operational challenges, and borrower outcomes.

### 1. Policy and Regulatory Framework (Independent Foundation)

Agricultural lending by commercial banks operates under guidelines issued by the Reserve Bank of India and the Government of India, particularly through:

- Priority Sector Lending (PSL) targets
- District Credit Plans (DCPs)
- Agricultural loan schemes (crop loans, term loans, allied activities)

These policies form the structural base influencing bank lending behavior.

## **2. Bank Performance Variables (Independent Variables)**

These variables determine the effectiveness of agricultural credit delivery:

- Volume of agricultural loans disbursed
- Achievement of PSL targets
- Growth rate of agricultural credit
- Loan recovery performance
- Implementation of District Credit Plans

## **3. Operational and Regional Challenges (Intervening Variables)**

These factors influence both lending performance and borrower outcomes:

- Geographical constraints (hilly terrain of Kumaun)
- Small and fragmented landholdings
- Procedural complexities in loan sanction
- Collateral requirements
- Monitoring and recovery difficulties

## **4. Borrower-Level Outcomes (Dependent Variables)**

These variables measure the impact of agricultural lending:

- Increase in farm income
- Improvement in agricultural productivity
- Adoption of modern inputs and technology
- Diversification into allied activities
- Improvement in livelihood security

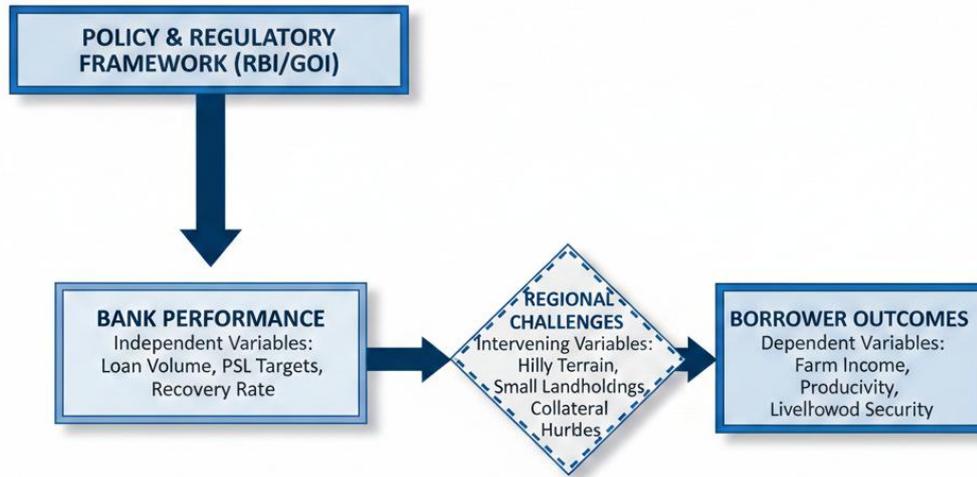


Figure 1: Conceptual Framework

## HYPOTHESIS

### 1. Relationship between Agricultural Lending and Borrower Income

**H<sub>01</sub> (Null Hypothesis):** There is no significant relationship between commercial bank agricultural lending and the income level of borrowers in the Kumaun region.

**H<sub>11</sub> (Alternative Hypothesis):** There is significant relationship between commercial bank agricultural lending and the income level of borrowers in the Kumaun region.

### 2. Target Achievement under Priority Sector Lending

**H<sub>02</sub> (Null Hypothesis):** There is no significant difference between targeted and actual agricultural lending by commercial banks in the Kumaun region.

**H<sub>12</sub> (Alternative Hypothesis):** There is significant difference between targeted and actual agricultural lending by commercial banks in the Kumaun region.

### 3. Impact of Agricultural Loans on Productivity

**H<sub>03</sub> (Null Hypothesis):** There is no significant impact of commercial bank agricultural loans on agricultural productivity in the Kumaun region.

**H<sub>13</sub> (Alternative Hypothesis):** There is significant impact of commercial bank agricultural loans on agricultural productivity in the Kumaun region.

#### 4. Effectiveness of District Credit Plans

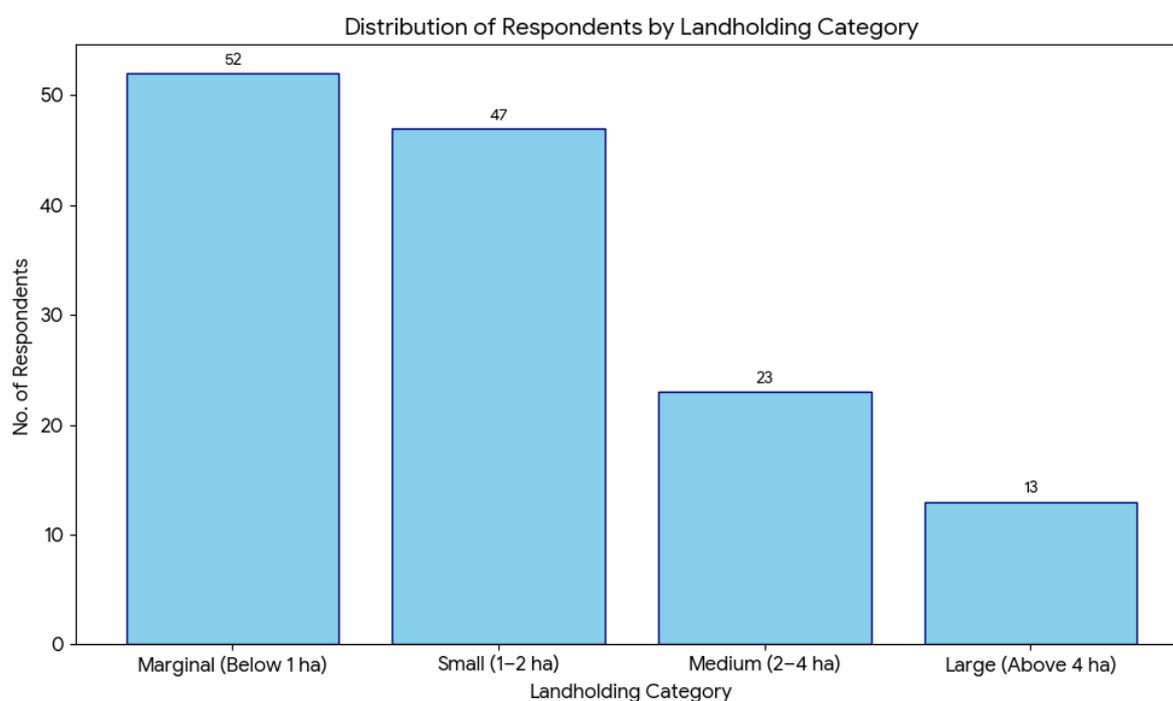
**H<sub>04</sub> (Null Hypothesis):** There is no significant effect of District Credit Plans on the flow of agricultural credit in the Kumaun region.

**H<sub>14</sub> (Alternative Hypothesis):** There is significant effect of District Credit Plans on the flow of agricultural credit in the Kumaun region.

#### Data Analysis and Interpretation

**Table 1: Distribution of Respondents by Landholding Size**

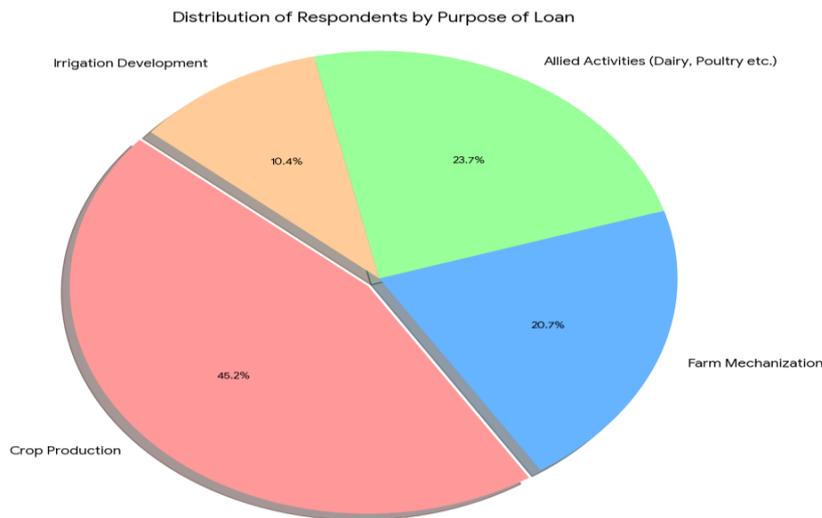
Landholding Category	No. of Respondents	Percentage (%)
Marginal (Below 1 ha)	52	38.5
Small (1–2 ha)	47	34.8
Medium (2–4 ha)	23	17.0
Large (Above 4 ha)	13	9.7
<b>Total</b>	<b>135</b>	<b>100</b>



The majority of respondents (73.3%) belong to marginal and small farmer categories. This indicates that agricultural lending in the Kumaun region is largely directed toward small-scale farmers, reflecting the dominance of fragmented landholdings in the region.

**Table 2: Purpose of Agricultural Loan**

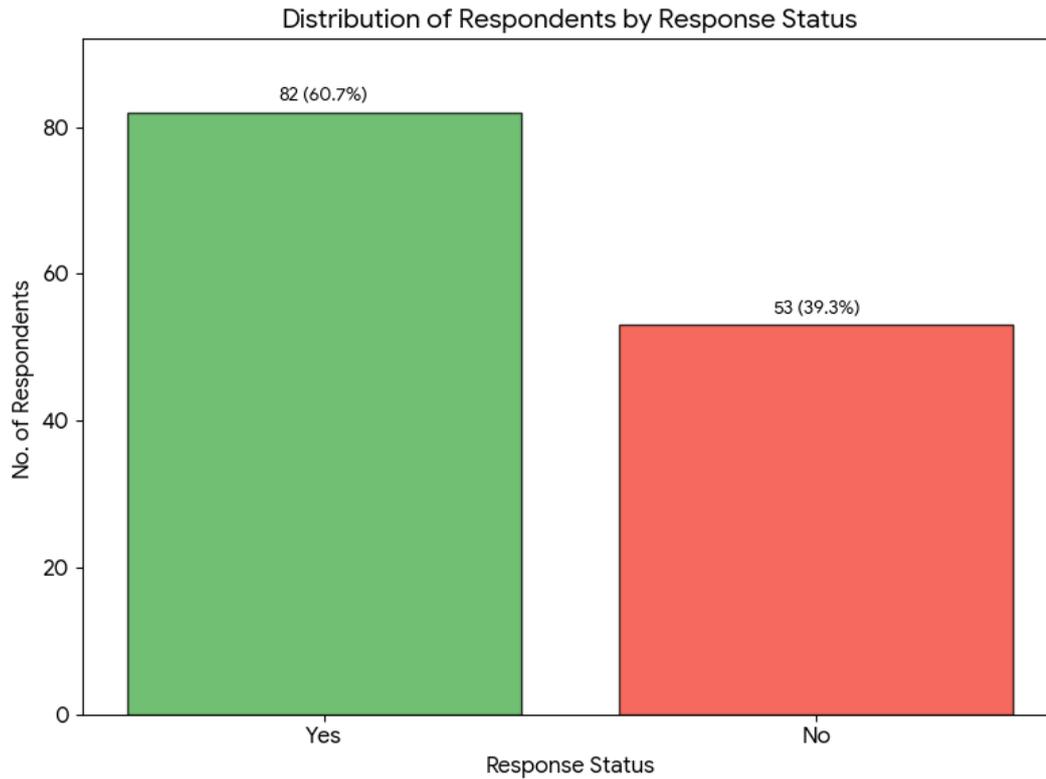
Purpose of Loan	No. of Respondents	Percentage (%)
Crop Production	61	45.2
Farm Mechanization	28	20.7
Allied Activities (Dairy, Poultry etc.)	32	23.7
Irrigation Development	14	10.4
<b>Total</b>	<b>135</b>	<b>100</b>



Most respondents (45.2%) availed loans for crop production, followed by allied activities (23.7%). This suggests that while traditional farming remains the primary purpose, diversification into allied sectors is gradually increasing.

**Table 3: Timely Sanction of Loan**

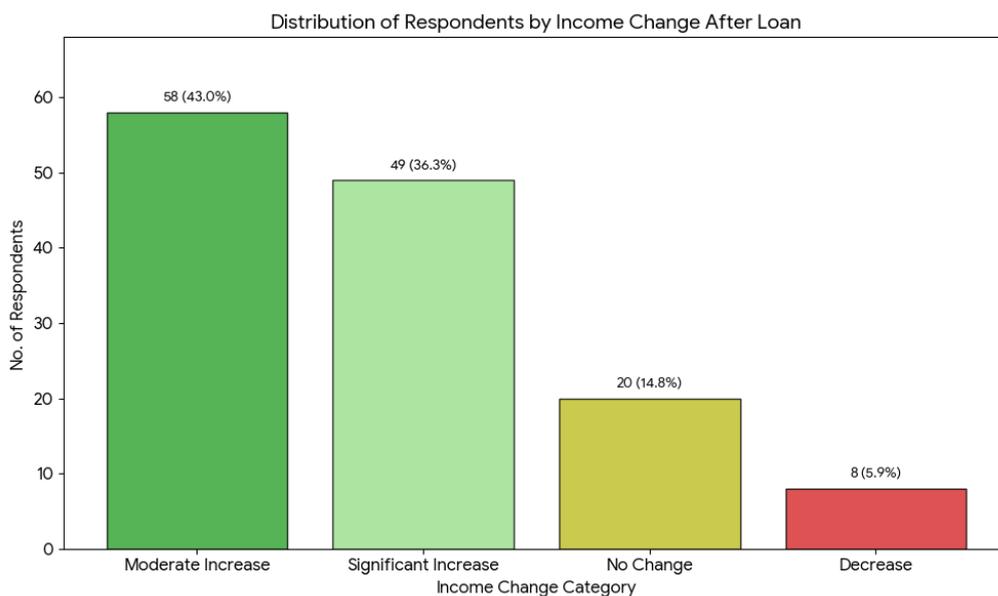
Response	No. of Respondents	Percentage (%)
Yes	82	60.7
No	53	39.3
<b>Total</b>	<b>135</b>	<b>100</b>



About 60.7% of respondents reported receiving loans on time, while 39.3% experienced delays. This indicates moderate efficiency in loan processing, but procedural delays remain a concern for a significant proportion of borrowers.

**Table 4: Impact of Loan on Income Level**

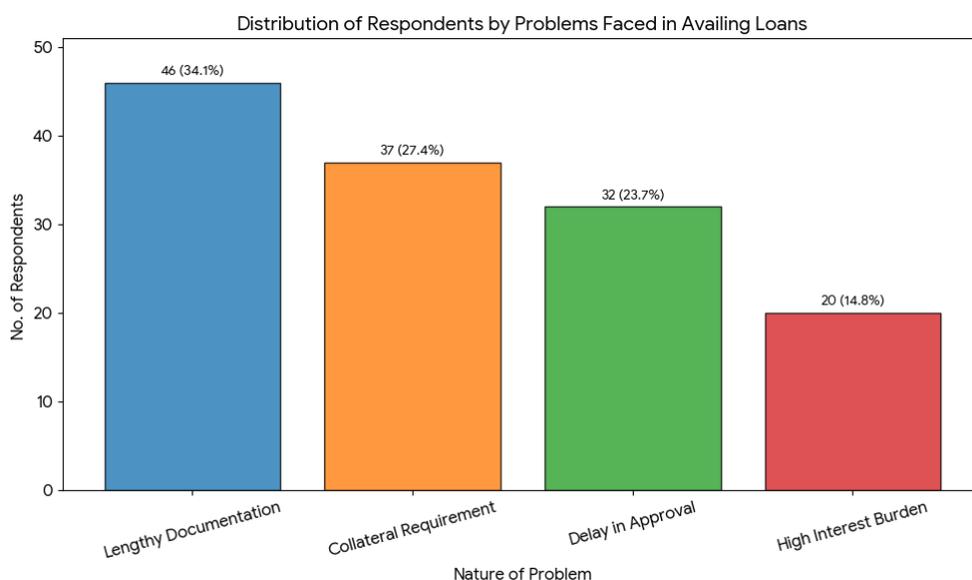
Income Change After Loan	No. of Respondents	Percentage (%)
Significant Increase	49	36.3
Moderate Increase	58	43.0
No Change	20	14.8
Decrease	8	5.9
<b>Total</b>	<b>135</b>	<b>100</b>



A majority (79.3%) of respondents experienced either significant or moderate increase in income after availing bank loans. This indicates a positive socio-economic impact of agricultural credit on borrower livelihoods in the Kumaun region.

**Table 5: Major Problems Faced in Availing Loan**

Problems Faced	No. of Respondents	Percentage (%)
Lengthy Documentation	46	34.1
Collateral Requirement	37	27.4
Delay in Approval	32	23.7
High Interest Burden	20	14.8
<b>Total</b>	<b>135</b>	<b>100</b>



The most common problem faced by borrowers is lengthy documentation (34.1%), followed by collateral requirements (27.4%). This suggests that procedural complexities are a major barrier to effective credit access.

## FINDINGS AND RESULTS

### 1. Distribution of Respondents by Landholding Size

- The majority of respondents (38.5%) are marginal farmers (below 1 ha), and 34.8% are small farmers (1–2 ha).
  - Medium and large farmers constitute only 17% and 9.7%, respectively.
- Result:** Agricultural lending is primarily accessed by small and marginal farmers, reflecting the fragmented landholding pattern in Kumaun.

### 2. Purpose of Agricultural Loan

- 45.2% of respondents used loans for crop production.
  - 23.7% utilized loans for allied activities such as dairy and poultry, while 20.7% invested in farm mechanization.
  - Only 10.4% of respondents used loans for irrigation development.
- Result:** Crop production remains the dominant purpose of borrowing, though there is a gradual shift toward allied and mechanization activities.

### 3. Timely Sanction of Loan

- 60.7% of respondents received loans on time, whereas 39.3% reported delays in sanctioning.
- Result:** While the majority of borrowers experienced timely credit delivery, a significant proportion still faces procedural delays, which may affect agricultural operations.

### 4. Impact of Loan on Income Level

- 36.3% of respondents reported a significant increase in income, and 43% reported a moderate increase.
  - Only 14.8% reported no change, and 5.9% experienced a decrease.
- Result:** Overall, commercial bank loans have positively impacted the income levels of borrowers, contributing to improved livelihoods and economic stability.

### 5. Major Problems Faced in Availing Loan

- 34.1% of respondents cited lengthy documentation as the main problem.
- 27.4% faced challenges with collateral requirements, 23.7% experienced delays in approval, and 14.8% felt burdened by high interest rates.

**Result:** Procedural and operational challenges are significant barriers for borrowers in accessing agricultural credit.

### 6. Overall Assessment of Agricultural Lending in Kumaun

- Banks are performing moderately well in meeting lending targets and reaching small and marginal farmers.
- District Credit Plans have facilitated credit flow, but operational challenges such as delays, documentation, and collateral requirements reduce effectiveness.
- The positive impact on income and productivity indicates that agricultural credit contributes to rural development, though improvements in efficiency and accessibility are needed.

## CONCLUSION

The study on commercial bank lending to the agricultural sector in the Kumaun region reveals a mixed but largely positive scenario. The findings indicate that commercial banks have been moderately successful in reaching marginal and small farmers, who constitute the majority of the agricultural population in the region. Crop production remains the primary focus of credit utilization, though a gradual diversification into allied activities and farm mechanization is observed, reflecting a slow but positive shift toward modernized agricultural practices.

Analysis of borrower responses shows that a significant proportion of farmers have experienced improvements in income, productivity, and livelihood security as a result of timely access to bank credit. This demonstrates that institutional lending, when effectively delivered, can serve as a powerful tool for rural development and poverty alleviation.

However, the study also highlights persistent challenges. Procedural delays, lengthy documentation, collateral requirements, and operational difficulties remain key barriers, preventing a portion of farmers from fully benefiting from agricultural credit schemes. District Credit Plans and Priority Sector Lending initiatives have facilitated the flow of credit, but their effectiveness is constrained by these operational hurdles.

In conclusion, while agricultural lending by commercial banks in Kumaun has contributed to improving the socio-economic conditions of farmers, there is substantial scope for enhancing efficiency, accessibility, and borrower support. Simplifying loan procedures, strengthening monitoring mechanisms, and providing targeted assistance to marginal and small farmers can further enhance the impact of agricultural credit and promote sustainable agricultural development in the region.

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