

AGRICULTURAL FINANCING: IMPEDIMENTS AND POSSIBLE SOLUTIONS

Shweta*, Shachi**

Abstract *Agriculture, being lifeline of more than 75% population dwelling in rural areas, is generally practised as mixed farming venture including-horticulture, cattle, poultry; piggery rearing etc. and its dependence on weather and financial needs etc. sometimes, come in way of farmers' prosperity. In this paper, efforts have been made to review the status of agriculture in India and highlight the contribution of agricultural credit systems with critical analysis of problems faced by farmers. Possible solutions have been thought of to inculcate the prosperity of peasant society endeavoring to the cause of food security and nation building parameters.*

Keyword: *Agriculture, Financing, Problems, Solutions*

INTRODUCTION

Status of Agriculture in India

Prior to the mid-1960s, India had to rely on import of grains and food aid to meet the domestic requirements. However, two years of severe drought in 1965 and 1966 compelled Indian policy makers to reform the agricultural policy so that India did not depend on foreign agencies for its food security. During post-independence period, emphasis was laid on development of arid and semiarid areas, dry land agriculture, improvement in the condition of marginal farmers and agricultural labors (Mukherjee, 1992). Virtually, agriculture shares nearly one-third of the national income apart from providing employment to more than 50% percent of the workforces and plays vital role in economic developments as well as planning.

But, it is often noticed that very few farmers have sufficient capital to carry out their business smoothly. Their expenditure pattern also hardly shows any savings in their credit useful for the ardent needs. Therefore, it becomes obligatory on the part of government and financing institutions to make broader provisions for credit to all those farmers who require it for the purchase of inputs like - seeds, fertilizers, irrigation facilities, farming appliances, etc. During the decade of forties, in want of agriculture financing agencies, the farmers had to thrive mostly on the mercy of money lenders who exploited them in all possible manners. The money lenders used to dictate their own terms and charged extraordinarily high rates of interest, may be 20-50 percent and many a times leaving the pay backs unaccounted and forced the farmers to

sell the agricultural produce or even land to them at throw away prices. Subsequently, the Govt. of India took strides to help the farmers to meet their needs.

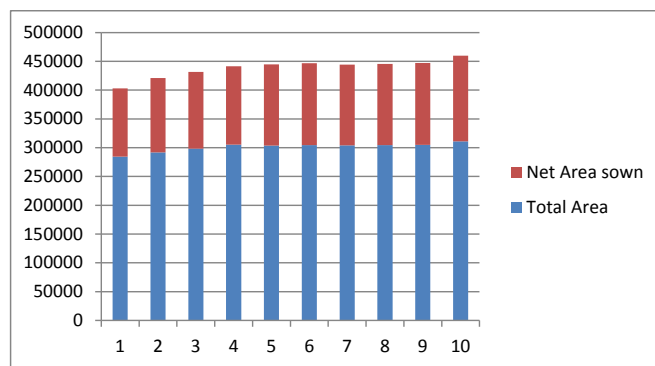
Significant policy reforms targeting the goal of food grain self-sufficiency were adopted. This led to commencement of India's Green Revolution aimed at development of superior yielding disease resistant wheat varieties in combination with better farming knowledge to improve the productivity. With the result, Punjab led India's green revolution (Agriculture in India, 2015) and emerged as distinct state of being the country's bread basket comprising of Haryana too. Initial increase in production was achieved through the irrigated areas of the Indian states including western Uttar Pradesh. With both, the farmers and the government officials focusing on farm productivity and knowledge transfer, India's total food grain production improved to 4.7 tons of wheat/ha in 1975 against an average of 0.8 tones/ha in 1948, from the same land. Such growth in farm productivity enabled this country to become self-sufficient during 1970s. It also empowered the farmers with small holding to seek further means to increase food staples produced per hectare. By 2000, Indian farms were adopting wheat varieties capable of yielding 6 tons of wheat per hectare. With agricultural policy success in wheat, India's Green Revolution technology spread to rice. However, with poor irrigation infrastructure, Indian farmers were obliged to utilize tube-wells and harvesting ground water resources. When gain production from new technology reached their ecstasies in the states of initial adoption, the techniques speeded in East Indian states - Bihar, Orissa and West Bengal in the decades of 1970s and 1980s. The lasting benefits of the improved seeds and new technology extended principally to the irrigated areas which accounted for about one-third of the harvested crop area.

* PGT, Commerce, Lions Rohilla Inter College, Bareilly, Uttar Pradesh, India. Email: 92sweta@gmail.com

**Research Scholar, Department of Commerce, MJPRU, Bareilly, Uttar Pradesh, India.

During 1980s, Indian agriculture policy shifted to “Grow more to feed more pattern” leading to a shift in emphasis on other agricultural commodities like oilseed, fruit and vegetables. Farmers began adopting improved methods and technologies in dairying, fisheries & livestock and eventually started meeting the diversified food needs of India’s inflating population size. As with rice, the enduring benefits of improved seeds and improved farming technologies now largely depended on infrastructure facilities including irrigation network, flood control systems, reliable electricity production capacity, development of roads and highways, cold storage to prevent food spoilage, modern retail and competitive buyers of produce from the Indian farmers. Indian agriculture policy also focused attention on net area (Hectare -ha) cultivated. Increase (Chopra, 1998) in total and net area (‘000 ha) sown during 1950-51 to 1995-96 in India has been presented through Fig.1.

Fig 1: Total area and net area sown in India (‘000 ha)



(Period- 1=1950-51,2=1955-56,3=1960-61,4=1965-66, 5=1970-71, 6= 1975-76,7=1980-81,8=1985-1986, 9=1990-91, 10=1995-96) Data Source: Chopra (1998)

As per report for 2012-13, on the status of agriculture in India (Govt. of India), a record high agricultural production (259.32 million tons) of food grains was obtained during 2011-12. During 2013-14 the GDP of agriculture and allied sectors in India was recorded at US\$ 156.1 billion (Agriculture, 2015). However, deficient monsoon in Gujarat, Haryana, Karnataka, Maharashtra and Rajasthan significantly affected the production of coarse cereals. Though, high yielding and pest resistant varieties of crops suitable for different agro-climatic zones have been developed by ICAR, the farmers’ dependence on monsoon forces them to bear heavy losses leading to physical, financial and mental deprivations. In order to get them rid of these unforeseen situations and keep economy at ecstatic level, it is imperative to analyse factors responsible for sustainability of farmers as well as national economy.

Hence, the objectives of the study were ascertained as under-

- To study the contribution of various agriculture financing institutions,
- To identify the farmers’ problems about the prevailing credit system,
- To explore the possible remedies.

METHODOLOGY

Methodology of this study has been worked out in following steps-

1. Impact of agriculture in Indian economy,
2. Available modes of agricultural financing,
3. Impediments or problems faced by farmers, and
4. Possible solutions.

Impact of Agriculture in Indian Economy

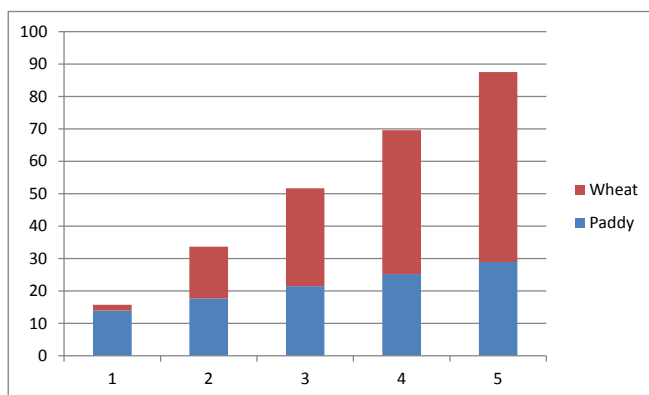
It is amply clear that agriculture and economy are complementary and supplementary to each other. For the growth of agriculture, the financial requirements of farmers, particularly at times of deficient monsoon or other such natural calamities can be met through institutional credit system. The source of agriculture finance can be divided into two categories-institutional finance and non-institutional finance. Institutional financing carried out through scheduled commercial banks, regional rural banks, co-operatives, primary agriculture credit societies (PACS) providing short and medium term loans. But, Primary Co-operative Agricultural and Rural Development Banks (PCARDBs) provide long term loans for the agriculture. Nationalization of 14 major commercial banks took place in 1969, followed by 6 more banks in 1970, establishment of Regional Rural Banks in 1975, and setting up of the National Bank for Agriculture and Rural (NABARD) took place in 1982. The National bank for agriculture and rural development (NABARD) being the apex institute at the national level for agricultural credit provides refinance assistance to the above agencies.

While studying impact of institutional finance on rural development, Veerashekarappa (1997) observed institutional finance as an instrument in getting higher productivity form assets and development of irrigation facilities. This resulted in increase in the cropping intensity due to changes in the cropping pattern and adoption of high yielding varieties. Chopra (1998), highlighted the percentage contribution of agriculture sector to the “Net Domestic Product” (NDP) of this country being 52.23% in 1960-61 but declined to 29.68% in 1995-96 Nevertheless, the NDP from agriculture has virtually improved during this period, indicating agriculture sector as the major contributor to net domestic product. Choudhary (2002) concluded that credit flow for agriculture by rotation of funds is not possible

due to increasing number of outstanding loans. The recovery of credits could be easily possible through collective responsibility of administrative machinery, borrowers and the loaning agencies. The paying capacity of farmers need be ascertained beforehand. According to Viramagami (2003) Reserve Bank of India should provide financial support to Primary Agriculture Credit Societies. In order to avoid multiple financing, it is obligatory to maintain co-ordination between financial institutions. Banks should strictly observe the rules and regulations to implement the recovery of loans. The availability, utilisation, and repayment of crop loans in Rajpur district of Chattisgarh were analysed by Singh and Chandrakar (2004).

India having large and diverse agricultural sector, contributes about 14% of GDP and 11% of export earnings (State of Indian Agriculture, 2012-13). Its gross irrigated crop area of 82.6 million hectares (215.6 million acres) is the largest in the world. India made its potential felt by its recognition as one of the top three global producers of crops including wheat, rice, pulses, cotton, peanuts, fruits and vegetables. Addressing G20 countries' agriculture ministers, Director General FAO stressed for fulfilling global food security and nutritional requirements through food systems utilizing natural resources more efficiently, in addition to being economically viable and socially more acceptable (FAO, 2015). To achieve such objectives, it will be utmost necessary to strengthen our farming basics including fiscal support system. Trends of margin based on difference in cost of production from Farm Prices (Rs.) for wheat and paddy (Chopra, 1998) to the cultivators have been reported in Fig.2-

Fig 2: Difference in Production Cost (Rs.) from Farm Prices for wheat and paddy (in Rs.) in different years (1=1975, 2=1980, 3=1985, 4=1990, 5=1995)



In this way, the trends in development of agriculture in India and the strategies outlined for meeting our food-grains requirements emphasised the need to further fortify our efforts in this direction.

Available Modes of Agricultural Financing

Agricultural financing happens to be one of the important strategies responsible for uplifting the image of agricultural productivity in India. Through this, the fiscal requirements of farmers could be resolved for timely availability of necessary inputs and technology helpful in higher yields. Hence, easy availability of institutional credits to small, marginal farmers and other weaker sections may prove to be an asset in achieving higher production targets. Initially, "Land Improvement Loans Act of 1883" (Chopra, 1998) followed by the creation of Cooperative Land Mortgage Banks came into existence for providing long-term loans to agriculturists. Subsequently, creation of Co-operative Credit Societies Act, 1904 (Chopra, 1998) enabled short-term credits to the farmers. All these efforts intended to prevent exploitation of the peasants by moneylenders and promotion of capital formation in agriculture. In 1954, All India Rural Credit Survey Committee (ARCSC) observed that the primary credit system was insufficient to meet the credit requirements of the Indian peasants – especially those of small and marginal farmers. Subsequently, the Reserve Bank of India (RBI) and Government of India (GOI) endeavoured for 'state partnership with co-ops.' The Primary Agricultural Credit Societies (PACs) were formed-

- To raise the capital for disbursing loans and supporting the essential activities,
- To encourage deposits from members for improving their savings habits,
- To supply agricultural inputs and services at remunerative prices,
- To manage supply and development of improved breeds of livestock for the members,
- To improve irrigation facilities for the members,
- To promote income-generating activities through horticulture, animal husbandry, poultry, bee-keeping, pisciculture and cottage industries

Later on, the PACS were affiliated to the District Central Co-operative Banks (DCCBs) which in turn are associated with State Co-operative Banks (SCBs), to provide credits to eligible farmers, carry out banking business, lead the co-operatives in the states. It was followed by joining of commercial banks to extend the horizon of agricultural financing.

Commercial Banks

The All India Rural Credit Review Committee (1969) recommended multi agency approach to rural and especially agricultural credit system and suggested better participation of commercial banks (CBs) in providing agricultural credits.

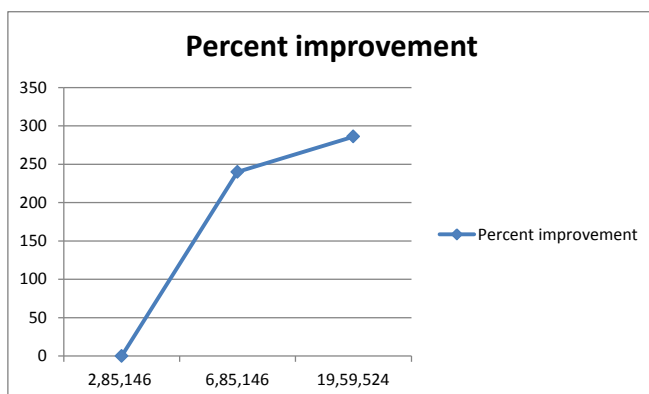
Further, under the Social Control Policy introduced in 1967 and subsequently the nationalisation of 14 major CBs in 1969 (followed by another six banks in 1980), CBs have been given special responsibility to provide advances for agricultural and allied activities in the country. In 1975, the Regional Rural Banks (RRBs) were also formed on the recommendation of the Working Group of the Rural Banks, to fill the credit gap of small and marginal farmers and the weaker sections. Patel (2010) ushered the need to create enabling environment to accelerate the flow of credit, its utilisation, generation of income and loan repayment etc.

In order to meet the growing demand for production and investment credit for agriculture and rural development activities the scheduled CBs and RRBs expanded their geographical coverage, particularly in rural areas, in a big way. As on 30th June, 1995, there were 47,236 branches of Scheduled Commercial Banks and 14,506 branches of 196 RRBs. The share of Commercial Banks and RRBs in agricultural credit constituted about 57% (estimated figure) in 1997-98. The agricultural credit profile for 1992-98 is given below;

Agricultural Financing by Commercial Banks

Position of agricultural finance allocation to during the Ninth [1997-2002] Tenth [2002-07] and Eleventh Plan [2007-12] and Percent improvement over previous five year plan (Patel, 2014) has been presented in Fig. 3.

Fig 3: Percent improvement over the previous plan in the agricultural credits (Rs. in crores) during IXth, Xth and XIth Plan allocations



However, the problems persisted due to -

- lesser improvements in crop productivity and output,
- unequal flow of credit among states, districts, villages, and even within the village,
- imbalance between agricultural term loans for irrigation development, farm mechanisation, land development,

plantation and horticulture, hi-tech agriculture, etc.,

- building up of NPA of small, marginal and tenant farmers, share croppers, oral lessees, landless laborers, households residing in hilly, tribal, desert, drought prone and most backward and vulnerable areas, and
- loan repayments difficulties.

On 12 July 1982, National Bank for Agriculture and Rural Development (NABARD) was established by a special act by the parliament and its main focus was to uplift rural India by increasing the credit flow for elevation of agriculture & rural non-farm sector. NABARD refinances State Co-operative Agriculture and Rural Development Banks (SCARDBs), State Co-operative Banks (SCBs), Regional Rural Banks (RRBs), Commercial Banks (CBs), and other financial institutions approved by RBI.

NABARD is also known for its 'Self Help Group' composed mainly of poor women, this has turned into an important tool for microfinance in India. In all, NABARD has been instrumental in grounding rural, social innovatives and associated enterprises in the rural areas.

Co-operative Banks

U.P. State Co-operative Bank commenced its operations at district head-quarters of Mujaffarnagar, Mainpuri, Meerut, Firozabad, Farakkhabad, and later on in District Bareilly too. All the existing co-operative societies were affiliated to this bank. In 1969, District Co-operative Banks Ltd. Bareilly established to work as a bridge between co-operative societies and the apex body of the co-operative. Thus, in 1969 three tier system with UP Cooperative Bank Ltd. at the top followed by District Cooperative Bank subsequently by PACS came into functioning.

Prior to nationalisation of 14 Banks in 1969, it was rare to see the branches of Banks in rural areas. Now, branches of nationalised as well as Regional Rural banks are functioning in rural remote areas. All these banks endeavour their best to benefit rural masses but, the working of co-operative is entirely different. The co-operative financial institutions like PACS or the society also termed as Mini Bank enroll poor farmers and non-farmers resident of rural areas as members who can get finances on the basis of the prescribed rules or regulations of co-operative and the policies of state government. A member borrower is provided with two cheque books namely, cheque book "A" and cheque book "B". Cheque book "A" entitles loan for crops, to the cultivators as well as for non-cultivating purposes. It is always a short-term credit to be paid maximum within a year. The borrowers get non-agriculture credit in cash. However, for short-term agriculture credit, the cash is limited upto 75% of the sanctioned amount through cheque book "A". The rest is given to purchase fertilizers from the PACS through

cheque book "B". Such agriculture loan also termed as crop loan would be returned by the borrower along with interest within 6 to 12 months duration. It is also a pre-condition that the next loan may be sanctioned after the previous loans are cleared. Only under extraordinary circumstances such as natural calamities, fire etc. the second loan may be granted with the permission of the state. With regards to mid-term (MT) loans, some of the short-term borrowings were reportedly converted to MT loans due to non-payment of dues year over year. Some educational institutions in rural, semi-urban, and urban areas have their accounts in the branches of DCB Ltd. The teachers and the employees of such institutions are disbursed their salaries from the bank. Banks provide MT loan facilities to such members through their co-operative societies. With regards to long term (LT) loans, these were provided to the cultivators by Land Development Bank through against mortgage of the land. For, cultivators demanding long-term credit facility from District Co-operative Bank, the Government of Uttar Pradesh allowed DCB to sanctioned long-term co-operative credit w.e.f. 1.4.2004 in Uttar Pradesh. Apart from certain housing loans, hardly there is any case of long-term co-operative credit sanctioned by DCB. The DCB does not sanction long-term credit due to the risk of the repayment of the borrowings. At first they ascertain the repayment capabilities and only then long-term credit is sanctioned. But the popularity of long-term credit through LDB is going down and in coming future long-term credit through DCB is expected to be more popular. Initially it was thought that the credit provided by co-operative financial institutions would help in improving the lifestyle of the borrowers. But, some bottle-necks or impediments erupted, may be due to lesser production, lesser income, meager employment opportunities, low level of education and medical facilities/over all living conditions. Growth of co-operative financial institutions including information on paid-up share capital, the borrowings, deposits, loans distributed, loans received and over dues highlighting the contribution of co-operative credits categorised in short, medium and long-term credit with agriculture and non-agriculture sectors .in the economic development of the districts, has been studied by various researchers. Small scale cottage and medium scale consumer industries are also capable of generating employment for the workers. In October 2006, National Commission for Farmers endeavoured to take necessary strides to resolve the problems faced by farmers in rain-fed and drought-prone areas. Acharya (2006) made extensive study on agricultural marketing and rural credit for strengthening Indian agriculture and opined that farmers, apart from making whole hearted efforts on getting higher yields should also contribute towards processing, trade, marketing and distribution. In addition to lending for the priority sector and agricultural activities, banks should also endeavour to

reduce the transaction costs through involvement of NGOs and local formal institutions in their lending programs. Effective linkages between farmers, processors and credit agencies could be expected to render good results. Credit needs of the poor, can be met by linking self-help groups with lending agencies. Role of marketing and institutional credit systems has to be given more importance in the liberalised economic environment. While working on institutional credit for agriculture sector in India, Ahangar, Ganie and Padder (2013) observed inconsistency in granting agricultural credits by the lending agencies irrespective of involvement of large number of institutional agencies in the disbursement of agriculture loans. But, the adequate was not found. However, the number of loans issued by institutional agencies particularly scheduled Commercial Banks increased during the period 2000-01 to 2011-12. In this study, the analysis of secondary data and compound growth rate revealed that the scheduled Commercial Banks accomplished highest increase in granting loans whereas co-operatives provided lowest number of agriculture credits. The number of such account holders in scheduled commercial banks inflated from 5,841 to 30,538, whereas the amount of loan money (direct and indirect) granted increased from 59310 crore to 583343 crores in the referred period. Besides these improved circumstances of broader availability of agricultural loans by the concerned institutions, lot of problems need be addressed. Such impediments have been studied as under.

Impediments Faced by Farmers

It is important to give a serious consideration to the problems coming in way of agricultural financing so that the farmers are not ought to be confronted with these and can focus their attention on augmenting yields to promote agriculture as well as prosperity in India. These problems may include malpractices too and other difficulties faced by the borrowers in getting the loans sanctioned, in receiving the loan amountor/and during repayment of these loans. On the basis of a survey using questionnaire distributed among 100 borrowers of short-term agriculture/non-agriculture credit, 20 borrowers using MT credit, and 15 borrowers using LT in one district of Uttar Pradesh, Kumar (2007) compiled the problems expressed by the borrowers of different categories. Analysis of reports from different sources, helped in outlining the impediments of agricultural financing to the desirous farmers highlighted these impediments as under –

- Slow pace of growth in co-operative movement, irrespective of the growing level of the education, health/medical facilities. Though other schemes run by state and central government have been helpful in the process of the improvement, but the role of cooperatives need be propagated in big way.

- Drawbacks and lacunae in co-operative credit system particularly in rural areas need be removed in the benefit of farmers.
- The poor and illiterate cultivators lack proper knowledge about agricultural financing, its implications and sometimes sign the papers purely on belief. Generally, small farmers lacked awareness about credit as compared to big, politically strong and leader type farmers availing more benefits.
- In most of the cases, farmers are asked to come several times to the PACS and the branches of DCB to complete the formalities and get their loans sanctioned.
- Cases of corruption/bribery at the time of sanctioning of the loan have been reported.

Possible Solutions

In order to convince the poor farmers about contribution of commercial banks and other such organizations in disbursing agricultural finance, some measures have been suggested as below which could be of great importance-

Farmers' Awareness

In most of the cases farmers, majority being illiterate and ignorant in India, about the facilities promulgated by the government, are not aware of the facts, facilities due for them and the necessary procedure to be followed. Agricultural financing agencies including commercial banks need to display and assist, where not being done, the facts about various schemes and the documents needed to fulfill the requirements thereof.

Education

Education plays important role in improving awareness, farmers' rights, responsibilities and one of the effective means for alleviating corruption in sanctioning of agricultural loans. More educational facilities and establishment of farmers' friendly Kissan Seva Kendra could help the poor farmers in a more effective manner.

Responsibility of Repayment

Farmers need to understand that agricultural loans should not be utilised for any other cause or purpose including social functions and status enhancing aspects. The loan has to be paid back with top priority. The effects of non-timely deposit of interest or the principal amount should be very emphatically communicated and the farmers availing loans have to be clearly informed about the penalties thereof.

Financing Organisations

These should work out easy procedures and application forms for quicker decisions which are ought to be communicated to the applicants. Abreast to it, these organisations should widen the scope of their functioning among broad spectrum of society.

Demographers

Our policy makers have to exert more for better efficient schemes rendering "Work to Every Hand and Food to Every Mouth".

Hence, it is amply clear that with the solution to the basic issues, the co-operative movement would be helpful in the process of the economic development of agricultural, horticultural and livestock farming community.

CONCLUSION

Agriculture needs be supported for boost in productivity as well as employment opportunities in rural sector of our country. Review has been made on the existing state of financing institutions helping farmers to fulfill their demands and carry out agricultural operations smoothly. Lack of proper knowledge about agricultural institutional credit system had been the main problem of the farmers which needed early redressal by educating agriculturists and encouraging attitude of the officials working in these financing institutions. Positive cooperation between the lending agencies and borrowers could help in attaining the dream of India becoming ecstatic and better self-reliant.

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