International Research Journal of Marketing and Economics
Vol. 3, Issue 1, Jan 2016 IF- 2.988 ISSN: (2349-0314)

Website: www.aarf.asia Email : editor@aarf.asia , editoraarf@gmail.com

AGRICULTURAL CREDIT IS THE LIFE-BLOOD OF INDIAN FARMERS: AN ANALYSIS

Dr. R. Uma Devi, (M. Com., M. Phil., MBA, Ph. D.)
HOD of Commerce
Dr. S. R. K. Govt. Arts College
Pondicherry University
Yanam-533464, Puducherry (U.T.),India

ABSTRACT

India is an agrarian economy, having dominance in terms of generation of revenue as well as employment. About 60% population engage in agriculture in India contributes 18% of GDP whereas the developed countries get only 2% of their GDP from agriculture. About 10% of the national exports originate in this sector it shows clearly that economic growth and development of India is closely tied to the development of agriculture. In Indian economy, the agriculture sector growth is lagging behind (3.0%) in comparison to industry sector (7.1%) service sector (10%). Development of agriculture sector is vital for economic growth and development. Adequate finance is a panacea for this and hence an attempt is made to overview the role of agricultural finance in the development of agricultural sector in particular and the economy as a whole.

Keywords: Agriculture, Agricultural Credit, employment Generation, Overdues and Recoveries

1. INTRODUCTION

Agriculture plays an important role in the development of any country. It is argued that the performance of agriculture influences to a great extent the level of economic activities in the other sectors and also the overall rate of growth of an economy. According to some eminent economists, the functions of agriculture includes: supplying food to consumers in both the agricultural and non-agricultural sectors, supplying raw materials to the non-agricultural sectors, transferring surplus labour to the non-agricultural sector, supplying capital funds through taxes and saving to the non-agricultural sector, providing exports direct or through processing in the non-agricultural products both for final consumption and investment. Hence development of agriculture forms the backbone of development of the country.

Dominantly agricultural countries are generally found to be poor not because they are agricultural, but because of their agricultural backwardness. Hence agricultural development is essential for the overall development of the country. The Green Revolution results in remarkable changes in agricultural sector which calls for greater financial investment on the part of farmers for purchasing of the inputs. Consequently the provision of credit to farmers on liberal terms and conditions become sine qua non of agricultural development in the country.

India is essentially an agricultural country and two-thirds of the work force derives their livelihood from agriculture and allied activities. Agriculture is the back-bone of Indian economy and India occupies an outstanding position in the World with respect to several agricultural products. Agriculture is the most important sectors of the Indian economy from the perspective of Poverty Alleviation and Employment Generation. It provides food, income and employment to the largest section of population of the country. It contributes 18.5 percent to the Gross Domestic Product and provides employment to about 57 percent of the total working population. It contributes to the exports as well as economic growth of the country. Agriculture accounts for about 25 percent of India's national income. Agriculture is not only an important occupation, but also a way of life, culture and custom. Most of the Indian customs and festivals are observed in consonance with agricultural seasons, activities and products.

Indian agriculture is mainly dominated by small, marginal farmers and landless labourers who live in the subsistence economy and are not in a position to finance agricultural inputs for the development of agriculture. So to meet their agricultural requirements, adequate credit is crucial for the agricultural development. Credit is an important input which ensures adequate working capital as well as infrastructural development. Adequate and timely credit provision significantly increases agricultural output which leads to an increase in the economic development of the cultivators and people attached to cultivation.

1.1. Agricultural Credit

The Green Revolution characterized by capital – intensive technology played a significant role in agriculture. The agriculturists needed the funds for both production and investment purpose. Basically the Indian farmers are poor and have no funds enough to meet their financial requirements. Hence, they usually depend on loans and credit. Without adequate and timely credit the peasants are not in a position to get good yield. Hence, *agricultural credit is the life-blood of Indian farmers*.

Indian agriculture is mainly dominated by small, marginal farmers and landless labourers who live in the subsistence economy and are not in a position to finance agricultural inputs for the development of agriculture. The advanced technology necessitated huge requirement of capital. So to meet their agricultural requirements, adequate credit is essential. Hence, the poor peasants in India are in search of adequate, cheap and timely credit. The adoption of new strategy of agricultural development based on HYVs of crops depends critically on the availability of necessary finance, assured water supply, as well as on the farmers' ability to use fairly large quantities of inputs.

2. REVIEW OF LITERATURE:

As agriculture forms the backbone of the Indian economy, The Government of India recognized the importance of free flow of credit to agriculture and allied sectors. Sharma (1967) stated that for agricultural development, credit is an important input which ensures adequate working capital as well as infrastructural development. Adequate credit increases the agricultural output. Agricultural credit and agricultural development goes by hand in hand, hence the farmer should be provided adequate and cheap credit (Dutta and Sundaram, 2005). It is supported by Kanthimathinadhan (2005) and suggested that without cheap credit is not possible for small and marginal farmers to survive. Shetty (2004) and Shivaloganathan suggested in their work that better institutional credit facilities is highly essential for agricultural growth. Shivaloganathan suggested multi-agency approach in order to fill gap between supply and need of credit in agricultural sector. Sharma (1989), Modi and Rai (1993), Sathey (1996) and Patnaik (1999), Mamoria and Tripathy (2003) rightly stated that the agricultural output and efficiency largely depened upon the inputs applied and methods adopted. Subbaiah & Selvakumar (2005) observed that the institutional finance to agriculture which has contributed 22.1 % of GDP in 2002-03.

Sharma (2005) observed that an Advisory Committee on Rural credit was constituted by the RBI to accelerate the flow of credit to the agricultural sector. Subrahmanyam (2005) observed that the government of India examined the flow of agricultural credit and related issues in consultation with RBI, NABARD and announced the farm credit package to ensure doubling the flow of agricultural credit in the next three years more particularly to ensure 30 percent increase over the previous year. Sri Rajnath Singh (2006) called upon the Government to take necessary steps so that farmers may not have to pay more than 6 % interest on the agricultural loans.

Lakshmi Narayana (1984) found that the recovery work of overdue loans together with the normal work of processing new credit proposals and enlisting new borrowers hardly allowed the bank officials any time for guiding them in adopting improved farming techniques and making better use of credit. Singh and Upadhya (1984) viewed that Crop failure, expenditure on marriage and other social functions in the family were considered important factors of non-payment of loans. Inadequate follow up measures and lack of serious attitude of borrowers towards repayment were also explained as reasons. Jagadeesh Prasad and Sunil Kumar (1985) found that the loans given to the poor were generally accepted as a dole or relief program, which was pointed out as the main reason for poor repayment. Nagi Reddy and Rathna Kumar (1986) found that low yield, low market price for produce, repayment of other debts and other domestic expenditure as the main reasons for non-repayment of loan. While better yield, desire to get future loans, persuasion by bank officials, etc. are the main reasons for prompt repayment.

3. OBJECTIVES AND METHODOLOGY:

As agriculture forms the backbone of the Indian economy, The Government of India recognized the importance of free flow of credit to agriculture. The need for institutional credit arises because of the weaknesses or inadequacy of private agencies in the supply of credit to farmers. In order to release the poor peasants from the clutches of the private agencies, development of institutional credit is inevitable. On this backdrop, the present study "*ROLE OF AGRICULTURE AND AGRICULTURAL CREDIT IN THE DEVELOPMENT OF THE ECONOMY: AN OVERVIEW*" has been undertaken with the following objectives:

1. To analyze the importance of agriculture in the progress of the economy
2. To analyze the importance of agriculture credit in the development of agricultural sector
3. To assess the impact of agricultural credit on the farmers

4. To analyze the credit needs and the importance of institutional credit in agricultural development
5. To analyze the overdues and recovery problems of banks and its impact on the performance of the banks
6. To overview the measures to control the overdues and suggestions for good recovery

In order to accomplish the above objectives, secondary sources have been used which has been obtained from various journals, reports, magazines and websites. To make the findings meaningful and easily understandable, the data is to be presented in figures and tables and analyzed the data with simple statistical tools of analysis like ratios, percentages etc.

4. ANALYSIS:

India is making rapid progress in the field of agricultural development. Green Revolution in India was marked by two distinct features *i.e.*, innovative technologies in the form of High Yield Varieties (HYV) of various staple food crops and a complete restructuring of rural credit institutions. Both these factors led to a phenomenal growth in Indian agriculture. The advanced technological changes in the agricultural sector necessitated the requirement of more working capital. Hence the poor peasants in India are in search of adequate and timely credit.

India occupies a prominent place in agricultural output, but its productivity is far less than that of World's average productivity. It may be due to many factors such as the inefficient resource management, lack of education of appropriate technologies, slow rate of capital formation, inadequate finance supply, ineffective marketing, inadequate irrigation and other infrastructural facilities etc. Agricultural development bears a close positive correlation with credit and finance. Credit is an important input in the agricultural development as it facilitates access to resources and services. Moreover, credit for agriculture serves as an important instrument for stimulating productivity. Timely credit is one of the important ingredients for survival and growth of agricultural sector. The financial demand of the Indian farmers is classified into three types depending upon the need and the period of their requirement:

- Short-term credit(crop loan)
- Medium-term credit
- Long-term credit

Short-term credit is for a short period of less than 15 months for the purpose of cultivation. Medium-term credit is for a period between 15 months to 5 years to make some improvement on land, buying cattle, agricultural equipments etc. and long-term credit is for more than 5 years period. Short-term credit should be provided to meet the seasonal agricultural operations (SAO) and to buy mechanical tools and for land reclamation agriculturists require long term credit. As such agriculture requires appropriate institutional mechanism to purvey both short-term and long-term credit to the farmers. To cater to these fund requirements various sources categorized as:

- Non-institutional sources
- Institutional sources

The non-institutional sources include money-lenders, trade merchants, commission agents, relatives, landlords, and others where as the institutional sources include Cooperative credit institutions, Land development Banks, Commercial Banks, Regional Rural Banks and other financial institutions. Initially the Indian agriculturists depend more on non-institutional sources for their credit requirements and these sources used to squeeze the blood of the poor peasants by charging high rates of interest. The main objective of these sources is not to increase the agricultural productivity, but to bring the farmers into the grip of perpetual indebtedness. Hence adequate and timely credit to the farmers on liberal terms and conditions become *Sine qua non* of agricultural development in the country. So as to prevent exploitation and help farmers to raise their productivity and maximize the income, institutional credit schemes by various institutions were launched. Agriculture requires appropriate institutional mechanism to purvey both short-term and long-term credit to the farmers. After the Independence, the Government of India has adopted a multi-agency approach for farm credit in order to provide adequate, cheap and timely credit.

4.1. Agricultural Credit Policy

Credit plays a crucial role in lubricating the wheels of agricultural production. It is said to be the ***life blood*** of agriculture and therefore, the need for timely and adequate farm finance is obvious. To obtain a substantial increase in agricultural output, the provision of credit accompanied by and coordinated with a sufficient amount of technical advice and availability of necessary inputs in time. The government of India examined the flow of agricultural credit and related issues in consultation with RBI, NABARD and announced the Farm Credit Package to ensure doubling the flow of agricultural credit .The Farm Credit Package involves:

- Enhancing the total flow of agricultural credit

- Debt relief measures to farmers

All India Rural Credit Survey (1951-52) made the first systematic attempt to assess the credit needs of the agricultural sector in the country. The Rural Credit Review Committee estimated that a credit requirement of agriculture sector and the highlights of the policy are:

- Credit flow to farm sector to be increased at the rate of 30 percent per year.
- Debt restructuring in respect of farmers in distress and farmers in arrears providing for rescheduling of outstanding loans over a period of 5 years including moratorium of 2 years, thereby making all farmers eligible for fresh credit.
- Special one-time settlement scheme for old and chronic loan accounts of small and marginal farmers.
- Banks allowed extending financial assistance for redeeming the loans taken by farmers from private money lenders.
- Commercial Banks finance at the rate of hundred farmers per branch, 50 lakh new farmers to be financed by the banks in a year.
- New investments in agriculture and allied activities at the rate of two or three projects per branch.
- Refinement in Kisan Credit Cards (KCC) and fixation of scale of finance.

By the beginning of 20th century, the GOI recognized the root causes of the indebtedness and poverty of the Indian farmers and started institutional Credit. The main function of these agencies is to relieve the poor farmers from the clutches of the money lenders and to provide adequate and timely credit at lower rates of interest. Non-availability of institutional credit is not only the bottleneck that keeps agricultural improvement at bay, but also largely responsible for distorting the agrarian structure in favor of the non- institutional agencies. The GOI has initiated several policy measures to improve the accessibility of farmers to the institutional sources of credit, which enable them to adopt modern technology and improved agricultural practices for increasing agricultural production and productivity. The Policy lays emphasis on augmenting credit flow at the ground level through credit planning, adoption of region-specific strategies and rationalization of lending Policies and Procedures. The RBI has implemented many schemes in order to improve the flow and structure of agricultural credit in our country such as;

- Kisan Credit Cards
- Interest subvention to farmers
- Extension of interest subvention scheme to post harvest loans

- Collateral free loans
- Guidelines for providing relief in event of occurrence of natural calamities
- Interest subvention for loan restructured in the drought affected states in 2012
- Agricultural insurance
- Personal Accident Insurance Scheme
- Agriculture Debt Waiver and Debt Relief Scheme, (ADWDRS)
- Bringing Green Revolution in Eastern India (BGREI)

4.2. OVER DUES:

Repayments of loans are an important factor that shows the efficiency of management in terms of risk analysis and monitoring. Agricultural credit serves as a means to empower the farming community and provides a valuable tool to assist the economic development of a country. However, ineffective policies and unproductive use limit the role of agricultural credit which hinders in reducing poverty and fuel the “Vicious Circle of Poverty”. High interest rate on agricultural loans, price hikes, delay in disbursements, lack of sound monitoring by the bank employees, changes in business/residential places, death/accident of the borrowers etc. causes delay in repayments of agricultural credit which resulted in increase in NPAs ratio.

4.2.1. Causes for Over dues:

Loan defaults are caused by variety of factors, some controllable and others uncontrollable. Controllable factors are those that reflect overall bank credit policy as well as inadequate credit analysis, loan strutting and loan documentation. Uncontrollable factors typically reflect adverse economic conditions, adverse changes in regulations, environmental changes surrounding the borrower’s operations and catastrophic events. Effective credit granting procedure can significantly reduce other sources of looses. The following affects loan defaults:

1. Bank-related factors
2. Customer-related factors
3. Uncontrollable factors

1. Bank-related factors:

a. Lack of in-depth knowledge of Customer’s Operation: Some banks grant credit to customers based on hazy knowledge of customers operations and personality. This practice usually leads to situations whereby loans are granted to customers who have neither the willingness nor the capacity to repay the loan.

B. **Excessive dependence on financial statements:** The information contained in the financial statement of the customer serves as a tool for proper loan administration. The loan administrator should not work on the statements on their face value, neither or rather in-depth financial analysis of the data is required for sound decision-making.

C. **Connected lending:** Some lending officers in the bank provides loans to their relations or related business without considering the basic principles of lending. This practice often leads to bad and irrecoverable debts of loans.

D. **Lending on overvalued securities:** Often times, the securities deposited with the bank are not properly valued to reflect the current market prices.

E. **Inadequate project monitoring:** Incidences of bad and doubtful debts in banks may be as a result of inability to monitor and recover their loans due to lack of swell articulated and communicated loan policies to guide lending operations.

F. **Inadequate knowledge of project appraisal techniques:** In some banks, some lending staffs are not academically and professionally knowledgeable to appraise projects properly. Consequently, most loans granted by them become irrevocable.

2. Customer-related factors: Most business failures result from management expertise, inadequate planning and accounting systems, outright fraud and general incompetence. Many companies simply outgrow their existing management skills, which are limited in the areas of accounting, finance and marketing.

b. Inadequate initial capitalization: Some business often runs into problems shortly after beginning operations because of inadequate capitalization.

c. High financial and operating leverage: If a company has a large amount of outstanding debt and the high percentage of its total costs are fixed it operates with a high degree of financial and operating leverage. High financial leverage exposes the firm to high interest payments and substantial depreciation and maintenance expenses when sales decline. In both cases, the volatility of earnings is high relative to changes in sales.

d. Misconception of bank loans: Some borrowers do not clearly understand the purpose of bank loans. They sometimes regard bank loans as windfall receipts and very much unwilling to refund them.

e. Strong Competition: To grow and remain profitable, companies must adapt to economic events. They should regularly improve existing operations and introduce new products to remain competitive. Frequently, new competitors move into a firm's market and disrupt normal operations.

f. **Loan Diversion:** Diversion of loans purposes other than those for which they are granted most often leads to bad debt. This is because the expected cash flow cannot be granted to meet up repayment schedule.

3. Uncontrollable factors

a. Economic downturn: Many firms cannot operate profitably in a declining economic environment. Their costs may be fixed because of high leverage, and their sales may deteriorate if they are not the market leaders. The resulting strain on cash flow impairs the firm's ability to repay their loans.

b. Changes in economic policies: Changes in economic policies may affect the operations of a borrowing firm, and consequently the ability to honour loan obligations.

c. Changes in taste and preference: The customer's ability to service and repay loans may be adversely affected by shift of consumers taste away from his products. This entails decline in sales, fall in revenue and inability to refund loaned funds.

d. **Natural Hazards:**

Some hazards, such as wars, desert encroachment, locust invasion, fire, flood etc may affect the borrowers' capacity to repay the loan as and when due.

4.2.2. EFFECTS OF LOAN DEFAULT:

The grave problem of overdues not only affects the interests of the defaulters but also that of the borrowers who are prompt in repayment, and the creditors. Heavy over dues impair the banks' capacity to borrow from the higher financing agencies such as Reserve Bank of India and National Bank of Agriculture and Rural Development. The increasing over dues had an adverse effect on the flow of fresh credit. The overall effect would be a loss of confidence in the banking system. Other negative effects of default on loan repayments are:

1. Loss to banks
2. Decline in revenue
3. Distress
4. Increased overhead
5. Limited Credit Creation Capacity

4.3. RECOVERY MEASURES:

Several steps were taken by banks in recovering their loan from the defaulters. These steps are:-

1. **Demand Notice:** The customer is notified in writing, calling his attention to the agreement. If the customer fails to respond to the first letter, a reminder may be sent.

2. Realizing the security: In the worst circumstance where the business is beyond redemption, the banker must minimize any looses by disposing the collateral.

3. Take legal action: Before instituting legal action, the legal department or the external solicitor will issue strongly worded demand to the customer asking for the repayment.

4.4. SUGGESTIONS:

- Both the financial institutions and government agencies have to improve and maximize the efficient utilization of agricultural loans, so that the farmers would get the utmost profits and the recovery would also be improved.
- Financial institutions should develop sound monitoring and tracking system by regular visits of the field officers to their respective customer.
- In order to avoid the miss-utilization of agricultural credit bank may adopt alternate method of providing primary/seasonal inputs.
- The rate of interest on agricultural credit should be reduced, as it commonly affects the repayment behavior but should not be below the cost of obtaining funds and administrating credit.
- Financial institutions should reschedule or restructure loans in case of natural calamities, accident of the borrowers which will not only to facilitate the borrowers but the banks will also be able to avoid the SBP penalties.
- The farmers who use their political background for obtaining agricultural credit should not be entertained as political advantages give moratorium in shape of waiver or write off.
- Legal action must be taken against willful defaulters as the delay can cause the burden of provisioning on Commercial Banks.
- Group financing system should be introduced. Before disbursement of agricultural loan bank should take guarantee or references from any reputable institutions or persons to restrict the borrowers to default.

- ❖ Capacity building of the borrowers on timely and proper use of credit and repayment schedule of credit in accordance with the loan agreement is need of the hour.
- ❖ New branches should be established in the rural areas which would be easily accessible. Financial Institutions should avoid frequent transfers and reducing the number of agricultural field officers.
- ❖ Credit consciousness should be created amongst the farmers by means of adopting varying methods of publicity like arranging meetings in villages, issuing illustrative pamphlets, brochures, organizing audio -visual shows in fairs/ melas etc.
- ❖ The State Governments should also support the banks by educating the rural poor about the advantages of institutional credit and the need for prompt repayment of their dues.
- ❖ The establishments of infrastructure, paved road, cool chain facilities, market existence holds the key for growth and development of agricultural sector.
- ❖ In addition, financial institutions have to join hands with the government agencies, NGO's, Rural Development Organizations to enable the farming community as well as to achieve the growth target and facilitate the broad contribution of agriculture in national GDP.

5. CONCLUSIONS:

Effective management of loan portfolio and credit function is fundamental to a bank's safety and soundness. Good loan portfolio managers have concentrated most of their effort on prudently approving loans and carefully monitoring loan performance. The institutional credit increases the purchasing power of the farmers and perhaps due to this reason there is an increase in the use of modern inputs in their farming procedures. It acts as a moral boost to farmers in increasing the productivity which ultimately improves their overall economic growth. Hence it can be said that agricultural credit and agricultural development goes by hand in hand. Through the extensive credit services, the farmers enjoyed the advantages of improved technology in terms of high production, increased net returns and subsidiary incomes. By and large the role of institutional credit is highly impressive and clearly exhibited in the socio-economic development gained by the beneficiaries. Finally it can be concluded that agricultural development is vital for the overall development of the economy.

References:

1. Chaudhari (2005). Interaction of formal and informal credit market in backward agriculture: A theoretical analysis, Indian economics Review, 36, 44-47.
2. Chidambaram (2005). Strategy for package for agricultural development", *Co-operative Perspective*, 39(3), 46-49.
3. Dantwala M.L. (1990), Rural Credit Restructuring System, *Economic Times*, Vol.23, 7-9.
4. Dutta, R. &Sundaram, K. P. M. (2005). Indian economy**,** Sultan Chand & Sons, New Delhi.
5. Kanthimathinathan, S. (2004), Rural credit at cross road**,** *Kurukshetra*, 43(5), 21-24.
6. Mishra (1995). Banking and rural development, *Kurukshetra*, 41(6), 33-37.
7. Modi&Rai (1993). Credit utilization pattern in different categories of farms in district of Haryana, *Indian Cooperative Review*. 30(3). 22-25.
8. Rajnath Singh (2006). Interest for farmers should not be more than 6 percent, *The Co-operator*, 43(9), 44-46.
9. Shetty, S.L. (2004). Distributional issues in bank credit multi-pronged strategy for correcting past neglect, *Economic and Political Weekly*, 4, 12-15.
10. Sivaloganathan (2004). Problem in the recovery of rural credit, *Kurukshetra,* 4(5), 39-42.
11. Subrahmanyam (2004). New financial package pertaining to flow of rural credit, *The Co-operator,* 42(1), 21-24.
12. Subrahmanyam (2005). Union budget 2005-06: A view point, *The Cooperator*, 42(9), 44-46.
13. Vaidyanathan A. (1983). *The Indian economy since Independence,* The Cambridge University Press.