AgriCos e-Newsletter
ISSN: 2582-7049
Open Access Multidisciplinary Monthly Online Magazine
Volume: 03 Issue:04 April 2022 Article No: 21

Role of Agricultural Credit in Improving the Livelihood of Farming Households in India

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SUMMARY

Agriculture is an important part of the Indian economy in terms of employment and GDP. Agricultural financing is critical to the development of the farming sector and the adoption of new technologies. However, even at the most reasonable rates, any amount of credit cannot ensure increased productivity or adequate revenue for farmers, as success is dependent on a variety of other conditions, such as the availability of agricultural inputs, services, and remunerative markets for the output.In India, agricultural credit policies are mostly supply-driven, including targeted ground-level financing, interest subvention programmes, and directed lending via regulatory prescription under the Priority Sector Lending guidelines. These policies, combined with other government and RBI policy interventions, have generated positive results in the field of agricultural credit. The agricultural sector, however, continues to face challenges such as a lack of capital formation, regional disparity, farmers' dependence on non-institutional sources of credit at significantly higher rates, non-realization of the fair price for agricultural produce causing farmers' distress, and farm loan waivers impacting credit culture and weakening public finances.

INTRODUCTION

In recent years, India's agrarian issue has deteriorated, contributing to the country's economic recession. Financial inclusion is one of the most important factors affecting the agricultural economy of the country. India has taken numerous initiatives over the years to close the financial inclusion gap for its farmers, but the goal remains elusive. Renita D'Souza (Renita D'Souza 2020) Agricultural credit cooperative initiatives in India extend back to the early twentieth century, with policies targeted at developing and strengthening the movement. The purpose of this initiative was to provide acceptable loans to farmers, particularly small and marginal farmers. The Agricultural Credit Department was established by the Reserve Bank of India under the RBI Act, 1934, to provide refinancing to the cooperative credit system.Due to delays in credit repayment, the cooperative movement was unable to maintain its pace in the following years. (AnwarulHoda et.al, 2015)

Agricultural credit is the practise of borrowing the money with a higher rate of interest to boost agricultural productivity. Agricultural credit is currently a serious agenda item in global economic activities, and it is one of the contributing factors to economic development, particularly in third-world countries. It is a mechanism that enables the society's supply and demand interaction to be maintained.

Agriculture financing and agricultural growth are well-known to have a positive relationship. For a farmer to start and sustain a successful agricultural cycle based on high-quality inputs like seeds, fertilizers, machinery, and equipment, as well as adequate water and electricity supplies, access to affordable institutional finance becomes important. Credit indirectly encourages other vital agricultural processes such as marketing, warehousing, storage, and transportation. Agricultural finance is vital for providing necessities during difficult times.

Importance of Agricultural Credit

Agricultural expansion has been essential to India's efforts to reduce poverty, beginning with Pandit Nehru's insistence soon after independence that "all else could wait, but not agriculture." We've come a long way from the chronic food shortages and sporadic famines of the immediate post-independence years; even as the population is increasing, we've been able to maintain food security through considerable agriculture and improved productivity. However, there has been increasing awareness in recent years about the erosion of food self-sufficiency at the margins. Raising production, which, given that land available is fixed if not reducing, should indeed come from higher productivity, is a major challenge for maintaining food. To increase production, a variety of cash and non-cash inputs are required, one of which is agricultural credit.

Indian banks introduced the Basic Savings Bank Deposit Account to minimise the costs of operating bank accounts (BSBDA). As a result, these accounts have low account balances, fees, and Know Your Customer (KYC) requirements. In terms of financial inclusion, the creation of ATM machines, as well as the

development of their coverage, is a critical approach. In areas where bank branches are difficult to create, the Business Correspondent (BC) model of financial inclusion has been introduced, in which agents substitute and operate in place of brick-and-mortar branches to provide basic banking services. The Indian government launched the Pradhan Mantri Jan Dhan Yojana in 2014 to enhance poor people to have access to and affordability of financial services (such as a basic savings bank account, credit, insurance, pension, and remittance facilities). (Renita D'Souza 2018)

Issues and concerns

- The rural credit set-up, broadly speaking, suffers from the following ills:
- The proliferation of rural financial institutions has resulted in a system that is both highly inefficient.
- Non - availability of employees in proportion to the number of lending operations in mass-loaning schemes, as well as a lack of employee motivation, resulting in poor loan quality.
- Overemphasis on credit at the detriment of equally important non-credit supporting services that are essential to successful rural lending.
- Political and having a particular characteristic pressure have resulted in poor loan quality and growing overdue payments; and
- Lower lending rates lead to financial weakness and danger of loss, to the organizations

The significant increase in credit flow from institutional sources created in public sector banks a highly developed sense of expectation. This expectation, however, could not be maintained because the focus was always on meeting quantitative goals. As a result, borrowers of all types were subjected to inadequate attention to the qualitative components of lending, resulting in loan defaults and the degradation of repayment ethics to varying degrees. The actual result was an alarming increase in past due, which not only delayed banks' recycling of vital resources but also impacted financial institutions' profitability and viability. Although financial deepening occurred in the end, the influence of rural financing on development was limited. The rural credit-delivery system was in poor shape in 1991, on the verge of reforms. The main goal of the financial sector reforms was to increase the soundness, efficiency, and productivity of all credit institutions, even those in rural areas with poor financial health. The changes aimed to improve areas of commercial freedom, expand their reach to the disadvantaged, and boost the amount of money flowing into the sector.Akoijam, S. L. (2013). The reform programme also included significant changes to the incentive regime, such as the economic liberalisation of interest rates for co-operatives and RRBs, the relaxation of constraints on where, for what purpose, and to whom rural financial institutions could lend, the introduction of prudential norms, and the restructuring and recapitalization of Regional rural banks. Commercial banks' financial health has improved as a result of the reform process, with measures including capital adequacy, nonperforming loans, and return on assets aligned with international standards for classification of advances and prudential regulations being applied in practically all regions. The government's perception toward the country's poor farmers must alter. Rather than viewing them as high-risk, low-quality credit assets, they must be viewed as an underserved credit market. The characteristics of this market, specifically the nature of its demand, must be studied in order to build specialized products that efficiently respond to this market. The regulatory sandbox concept can be efficiently employed in this context to build the appropriate loan instruments for Indian farmers. Indian microfinance institutions must be encouraged to participate in this. In this sense, global best practices must also be consulted for guidance and direction. Poor farmers in India are high-risk, low-quality assets in part because they are not protected from the vicissitudes of nature and lack the resources to mitigate the risk of loan default. As a result, financial inclusion cannot end with the provision of capital. It must ensure that the chances of loan default are as low as possible.

Credit agencies are usually apprehensive to advance loans to farmers since strong rains, droughts, and other natural disasters can destroy crops, making repayment difficult for the farmers. The income of agriculturalists is insecure as a result of fluctuating agricultural product prices. As a result, lending institutions are reluctant to lend money to farmers. The majority of agriculturists who live on subsistence farm units lack the appropriate knowledge of the credit institutions that provide loans to farmers. The villagers have no idea

how to maintain account of their debts, which is an important part of comprehensive credit analysis. (Das, A 2009)

Remedial Measures If the following steps are done, the problem of agricultural loan flow to poor farmers will indeed be solved: The process of obtaining a loan should be made as simple as possible. Farmers should be able to obtain loans from commercial banks operating in the government sector at a low-interest rate and without the need for a mortgage. Taccavi Loans should be allocated more funding by the provincial government for agricultural development. Agricultural Credit Remedial Measures The establishment of an Agriculture Development Bank and its different branches throughout the country is required. Agriculturists should be advised about access to agricultural credit. Agricultural price policy, which helps to stabilize the prices of agricultural products and thus the farmers' income, is much more significant than it has ever been. As a result of the constant prices, financial institutions will agree to credit to them.

CONCLUSION

There is a critical need to address the issue of agricultural loans secured by gold. Presently, such loans are not identified separately on a bank's core banking solution (CBS) platform. As a result, banks should create a MIS to indicate agricultural loans with gold as collateral in CBS so that they may be segregated for effective monitoring of end-use funds. To reduce the misuse of interest subsidies, banks should only make crop loans that are qualified for interest subsidies through the KCC mode. Under PSL, banks should be able to grant farmers consumption loans up to a sanctioned ceiling of 0.1 million if they can get collateral security and are satisfied with their repayment capabilities based on the borrowers' cash flows. Such loans, however, will not be classified as PSL-Agri. To improve ease of credit, the existing KCC guidelines should be revised to increase the limit for banks waiving collateral security in cases of tie-up agreements from 0.3 million to 0.5 million, subject to the condition that the tie-up arrangements are between producers and processing units without any intermediaries.

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