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Dynamics of Agricultural Credit in India

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Introduction

India is the second largest populated country of the world, It is a developing country, whose major section of the population is dependent on agriculture for employment. It has been noticed that around 41.49 %(in 2020)of the total population of the country depends on agriculture for employment. Agriculture, one of the major contributors of the country's economy with around 18.8% is generally practiced by a large number of farmers across the country. For farmer, money is the most basic and important resource that is needed to meet the short term needs like purchasing of seeds for cultivation. In India, majority of farmers are not well to do that is they do not have proper finance and belong to poor section of society. Thus, they borrow money from others to meet their working capital expenses. This led to the evolution of agriculture financing in India.

The term Agriculture Credit includes two words Agriculture Which is means farming While Credit means loan. Therefore, we can say that agriculture credit is loan or advance money that farmers take to finance their agricultural transactions. Agriculture credit is one of the most basic inputs for conducting all the agricultural development programme. Agriculture credits in India may be classified into 3 major types based on the duration of credits offered. These are –

- Short term credits - These loans are provided up to duration of 15 months and is used for purchasing seeds, fertilizers and paying wages to labous, etc.
- Medium term credits - These loans are offered for a duration of 15 months 25 years. These are used for purchasing cattle, water pumping machine, etc.
- Long term credit - These loans are offered for more than 5 years and they are used for making any permanent improvement of land like reclamation of land, purchasing of machinery etc.

Problems Faced By Financial Institution in Issuing Agricultural Credit

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Although a provision has been passed by RBI providing a minimum of 18% of the total allocated fund to financial institution in the form of agricultural credit to farmers by implementing priority sector lending scheme. But it has been noticed that while issuing agriculture credit to the farmer a financial institution undergoes through various problems which ultimately hampers the overall flow of credit in agriculture sector.

A major section of agriculture credit is issued to marginal and small farmers whose repayment capacity is very low. As a result there is a growing overdue in agricultural credit which is a major concern to financial institution. Moreover we have also seen regional disparity in disbursement of agricultural credit amongst various state of the country. For example Maharashtra, Haryana get higher share of agricultural credit while Bihar and Jharkhand get very low.

In India, 72% of agricultural credit is met by institutional sources and remaining 28% is met by non-institutional sources butthere is a lack of adequate institutional credit arrangement and therefore credit reach is not very high in agriculture sector. Inadequate amount of loan sanctionedhas also a problem in our country .As a result the loan sanctioned to the farmer is comparatively less when compared to their need.

Another major issue that has been observed is political interference as it is leading to the situation of NPA in agriculture for Indian financial institution because during the time of state government election, almost every nominee political parties would declare a loan waiver package in its manifesto. Thus, encouraging a culture in farmers of withholding the repayment of loans in anticipation of loan waivers .This has caused the huge imbalance in credit flow and thus, affecting the credit culture of the country.

Problems faced By Farmers While Accessing Of Agricultural Credit

The problem of agriculture finance has always been complicated in India and this issue gets more aggravated due to administration of farm finance with problems both at organisational / institutional level and also at the functional or the farmers' level. The major problem faced by the farmers in India while accessing agricultural credit card has been discussed in later paragraphs.

It has been observed that farmers were facing problems in opening bank account for receiving agricultural loan as the farmers are asked to go through lots of formalities and documentation and also had to incur expenses in obtaining the same document for each year.

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High interest rate and unavailability of timely credit to farmers has also been one of the major problem in India.

Another hinderance for the farmers while getting agricultural credit is collateral security.Farmers are asked to keep their land and precious belongingsas a collateral security.Due to which landless tenants and poor farmers are not able to get the loan. Political interference and powerful money lenderscan also be considered as one of themajor reason inunfair disbursement of agricultural credit.

In some cases farmers are provided with loan to purchase machinery's but they are not in adequate amount for successfully meeting up their working capital expenses. Moreover lack of information and education about agriculture credit facility amongst the farmers are also one of the major problems in farmers.

Suggestion

All these problems in agriculture financing can be addressed by minimising formalities while issuing credit, giving collateral free loan, reducing the interest rate and providing timely credit to farmers. Financial institutions should also extend to provide working capital loans to farmers and also provide loans for their livelihood.

We also know that there is no unified mechanism for recovery of NPA in agriculture as agriculture being a state subject so the recovery of NPA depends on state recovery law. Thus, the state government should be encouraged to bring an appropriate recovery law for NPA in agriculture. Secondly, the central government could bring a legislation where an asset reconstruction company could be introduced and interfered with the existing recovery law for the same. Thirdly, central government could be suggested and encouraged to bring a legislation on agriculture land somewhat similar to the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.

Conclusion

The article has now discussed about various aspects of agriculture finance and the problems that farmers and credit institution faces while dispersing loan. Agriculture finance provide soul to agriculture and brings life to its. Therefore it is the duty of each government to maintain a stable continuous and robust agricultural credit supply to the sector. India is a country where agriculture contributes 18% to the overall GDP but around 50% of the population in India depends directly on agriculture for their livelihood. Indian government has also shown positive attitude in recent decade.This is seen by the steps taken by the government -like increasing the agricultural finance from 87,000 crore in year 2003 -2004 to 18 lakh crores in 2022.

Apart from this , schemes like interest subvention scheme and kisan credit card have also been introduced to provide financial support to farmers. Through these government have made an attempt to provide low interest agricultural loans and reduce interest from regular 9% to 4% for timely repaying farmers.Governmenthave also encouraged collateral free loans by increasing the limit of collateral free loans from 50,000 to 1,00,000.

The concept of blended financing in agriculture will also come out as a progressive step for this sector as it helps in bringing out an impressive outcome. The term "Blended Finance" means merging of public and private finance, which ultimately leads to maximizing development finance. As we know that there is high transaction cost/return ratios and information asymmetries in agriculture. Thus, blended finance will help in de-risk agricultural transactions, reducing transaction cost and attracting private financers by improving the risk-return ratios. Thereby, increasing agricultural finance facilities for farming community.

Blended finance will also provide an opportunity to Agri-small and medium enterprises (SME) to have greater access to more capital and targeted financial products, thereby helping them in growing their business. It will also provide different blended finance instruments which will ultimately facilities the mobilisation of commercial finance for agri-SMEs in different context. Therefore, blended finance models can help in improving financial inclusion.

These steps have surely increased the flow of credit in agriculture and lead to betterment of livelihood of farmers. Seeing these interventions we can conclude that agriculture in our country is slowly but steadily is moving towards a brighter future.

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