Chapter -7

Suggestions
Introduction:

Most of Indian farmers are very poor. They cannot earn income sufficient for meeting the required expenditure for the farming operations. With increasing use of modern methods of farming, expenses of farming are increasing enormously. Therefore to meet such expenses farm credit on a large scale has become very essential. The sufficient, timely and affordable availability of credit makes possible to undertake the various farm operations like sowing high yielding variety seeds, using chemical fertilizers and pesticides, purchasing high valued equipments and using other modern methods of farming. The current study assesses the credit supplied by the formal sources to farming activities in India. This research study sketches the important suggestions on which suitable policies of lending for farming can be designed by the policy makers. There is regional imbalance in the lending of agricultural credit as well as in the recovery of farm credit in India. The credit recovery is very low in the north-eastern states as compared to the recovery in the northern and southern states.

Recommendations and Suggestions:

1. Need of Micro Level Estimates:

Due to the increasing use of complex farm operations and modern techniques of cultivation, micro level estimates of farm credit have become very necessary. The conventional approach of estimating the need of credit is not appropriate for making reliable estimates at micro level. In such a situation, revised methodology such as small area estimation techniques need to be applied on a large scale at the lower level. This will help in calculating the cost of farm activities more unfailingly. For this, a campaign for developing and strengthening the agencies of suitable and qualified personnel with adequate statistical as well as computer knowledge have to be launched. The micro level estimates will be useful in fixing the credit limit for every crop and for each farming operation minutely.

2. Use of Technology to Avoid Duplication:

The remote sensing technology and Geographic Information Systems (GIS) should be applied on a large scale for collecting the data of the entire agricultural operations. For this purpose, a master plan of agricultural data collection should be prepared for avoiding unnecessary duplication. The efficient use and accurate analysis
of the data collected is also very useful for obtaining factual results. The GIS can be successfully used for acquiring and updating the data regarding land records, availability of irrigation facilities, cropping pattern etc. These techniques have many advantages like accuracy, computerized analysis of data, storage of data for a long period, integration of data and automatic update of data.

3. Establishment of Crop Statistics Centers:

The Vaidyanathan committee recommended for setting up the crop statistics centre at the national level. This is a very useful suggestion for collecting and revising the data of the entire farm activities at the national level. The committee also suggested a significant reduction in the crop cutting experiments. But this recommendation would cause reduction in the number of samples. Consequently, the size of each sample will unnecessarily increase. The large size of sample will lead to the inaccuracy of results. Therefore before applying on a large scale, the practical usefulness of this recommendation should be thoroughly verified for arriving at valid estimates. Further, this committee also recommended for creating different mechanisms for making the national, state and district level estimates. But it is argued that the different sets of estimates will not match with each other and will create mystery and uncertainty. Therefore, before implementing the recommendations of this committee, a mechanism for the integration of two sets of estimates needs to be identified and developed. In this connection use of small area estimation techniques will be useful for making district level estimates.

The estimates made by the crop statistics centre at the national level will help in avoiding duplication and reaching to the factual results that will help in accurate fixing of credit limit for each and every farm operation.

4. Maintaining Cost Register:

The farmers should be encouraged for maintaining a register for writing the details of the cost of cultivation, cost of the HYV seeds used, cost of chemical fertilizers used, expenses made on pesticides, charges of irrigation, cost of transportation, cost of sources hired, charges of energy used for lifting the water etc. The farmers should also be stimulated for writing the income earned from selling the produce. This information will be useful in planning future surveys in a better way. Thus, maintaining a cost register for agricultural operations will make possible to calculate the accurate limits of credit. This is barely necessary for getting sufficient
credit to farmers. This register will also help in understanding the cost-benefit details of every farm operation. The banks will be able to understand the paying capacity of the farmers.

5. Frequent Surveys for Checking Actual Area Under Crops:

For ascertaining the reliability of the land utilization for different crops, there is a need for conducting frequent surveys for checking the cropping pattern. These surveys will also disclose the changes in use of land for agricultural and non-agricultural uses. Data regarding the actual area under different crops will help in estimating demand for farm credit. These surveys can be used for updating the land records.

Thus, frequent surveys for checking actual area under crops will certainly be useful in estimating actual demand for credit that will avoid unnecessary high estimates of farm credit. The accurate estimation of area under different crops will lower the gap between demand for and supply of farm credit.

6. Strategy for the Development of Horticultural Crops:

The horticulture is the cultivation of fruits, vegetables and flowers. Area under different types of fruits, vegetables and flowers is obtained under the crop estimation surveys on fruits and vegetables. The IASRI has developed the methodology for this purpose. But this methodology needs to be tested and revised for getting comprehensive and accurate data. Further, the available data base connecting to horticulture sector needs to be strengthened. Efforts should be made for conducting horticulture census after regular intervals. For quick collection and assessment of data, more effective horticultural information system may be developed.

Encouraging the farmers for cultivating horticulture products like vegetables, fruits and flowers will add in their income source. This will improve the paying capacity of the farmers and ultimately result in lowering the overdue of credit institutions.

7. Financial Diversification:

Financial diversification means providing finance for different crops instead of providing it to a single crop or to a few selected crops. Giving credit to a single crop on a large scale increases the risks of repayment. Therefore, the banks should diversify their credit on different crops. The banks should lend both to agricultural and non-agricultural activities also.
8. Banking Product innovation:

The credit institutions should develop and use various types of new banking products for well-timed, hassle free and proper credit to farmers. The KCC Scheme is one of the modern banking products. The credit institutions should earnestly request the government for preparing online documentation of all the land records. While advancing loans, the banks should refer to the required online documents. This will reduce the cost of taking credit and also save the valuable time of the farmers in getting loans. The borrower farmers should not be asked individually to submit no dues certificate but the creditor bank should obtain it online. For reducing the cost of credit the use of online data has proved fruitful.

9. Strengthening Food Security:

In overpopulated country like India, making food available to the people below poverty line is the more significant task of the government. Therefore, the government should encourage the production of food grains by directing the credit institutions for providing credit at concessional rates. This will help to stabilize the prices of food grains.

Thus, strengthening the food security will improve the health and efficiency of the people who are in poverty. The improvement in efficiency will result in the increase in agricultural output. Finally, this will cause an increase in the repaying capacity of the farmers.

10. The Government Support Policies:

The government should adopt the supporting measures for the development of the institutions providing agricultural finance. The supporting measures will increase the number of institutions supplying credit to agriculture. Fixing revised targets of lending for the banks will improve the credit supply. Transparency, efficient management and professionalism would certainly bring the further development of the agricultural credit institutions. The government should pass and implement the regulations in this direction. Strict implementation of the rules and regulations for rapid recovery will surely help in improving the financial health of the rural credit institutions.

Thus, the effective continuation of the supportive policies of the government will cause further the development of credit institutions. This will enlarge the institutional credit to agriculture.
11. More Crop Diversification:

Rapid urbanization in the developing countries has an impact on consumption pattern in these countries. India is one of the developing countries. In total number of farmers, the percentage of small and marginal farmers is 88%. Most of the small and marginal farmers are poor and they own mostly the non-irrigated land. Being poor these farmers need credit. Generally, small farmers do not become familiar to new farming techniques. Therefore there is higher risk in providing credit to these farmers. The pattern of crop diversification now is becoming widespread in developing countries. The crop diversification provides an opportunity for farmers to minimize the risk. Nutritional improvement is the most important benefit of diversification. Thus, crop diversification reduces the risks of lending institutions regarding the repayment of credit.

12. Development of Animal Husbandry:

Animal husbandry is defined as the taking care of the farm animals for earning income. The income earned through animal husbandry can be either used for meeting day to day expenses or for repayment of previous credit. Animal husbandry also provides employment to the rural workforce. Therefore, the government should adopt effective measures for the development of this occupation. Thus, the income earned from the animal husbandry will definitely increase the repaying capacity of the farmers.

13. Technological Up-gradation for Productivity Improvement:

Government should support the private sector for increasing its spending on technology upgradation. It would help farmers in growing more output and earn more income also. Lowering tax rates on the use of modern technology will help in the expansion of such technology. The adoption of the modern technology helps in increasing the production of farm output and processed foods also. Technology transfer will cause hike in the quality of farm product. Consequently demand for such improved farm product will also rise. The public-private partnership will help in making the capital available for the adoption of technology. The credit institutions also play a vital role in providing finances for purchasing modern equipments. Thus, with lowering the cost of production, technological upgradation will cause increase in the agricultural output. This will increase the income and repayment ability of the farmers.
14. Increasing the Water Level:

There is continuous decline in water level which has adversely affected the productivity of crops and paying capacity of the farmers also. So, availability of water is the key for farming. Therefore with increasing underground water sources, their proper utilization should be minutely supervised.

15. Supporting the Lending Activities:

The lending approach only emphasizes on credit supply. This approach neglects other factors such as infrastructure development, providing irrigation facilities, measures for improving productivity, availability of inputs, development of small farmers and marginal farmers, development of marketing etc. The credit supply should be linked to the use of inputs. Instead of focusing only on providing credit to production activities in agriculture, the rural banks should extend credit to infrastructural projects also. Credit should also be sanctioned to processing and marketing activities. Use of modern methods in agriculture will not be possible without the adequate availability of credit. The infrastructure development projects should also be financed by the financial institutions.

Thus, lending activities should be supported by other supporting development activities that will bring an increase in the rate of return on the use of credit.

16. Encouraging and Extending Microfinance:

Microfinance means giving small loans. Under microfinance small loans are provided for small business. Along with other beneficiaries, small and marginal farmers are benefited from micro finance. So, micro finance is also regarded as the backbone of agriculture credit. The micro finance is based on the principal of “poor are bankable.” Their saving can be used for giving small loans to the group members. Micro finance is very useful in India where most of the farmers are poor. Therefore, the policy makers should formulate appropriate policies for creating the favorable environment for the wide spread of microfinance. Microfinance is very useful for small farmers and marginal farmers to whom the banks still hesitate to lend.

Thus, widening of micro finance in rural area will certainly help the marginal and small farmers in getting easy and sufficient credit. The microfinance will also bring expansion in the institutional credit to farm sector.
17. Strengthening Rural Financial Institutions:

If the agriculture sector has to play an important role in the economic expansion of the country, the following measures will have to be adopted for solving the issues in rural finance.

a) The policies for further expansion in the institutional credit network have to be modified.
b) The access of the underprivileged people in rural area will have to be improved. The policies for covering the agriculturally less developed regions by formal credit institutions on priority basis should be formulated and applied sincerely.
c) The economic feasibility of rural banking system has to be ensured over time.

For improving the productivity in agriculture enough investment has to be made in infrastructure like irrigation, electrification, transportation, processing, marketing, storage etc. However, development of irrigation facilities is considered the most essential. Agriculture being less irrigated, seventy per cent of the net area sown in the country is under monsoon rain. Therefore, watershed development, minor irrigation, and modern methods of irrigation should be given top priority in formal lending. The processing and marketing activities should also be developed by giving enough credit.

Thus, strengthening of the rural credit institutions will bring further expansion in institutional credit to all the operations in agriculture. The rural farmers will be free from the exploitation of non-institutional sources especially moneylenders.

18. Introduction of New Types of Loans:

The credit institutions giving loans to agriculture should discover new types and more easy loans. These new types of loans include processing credit, marketing credit as well as loans against warehouse receipts, pledge financing, export credit and venture capital.

All the new types of loans have to be made available, if agriculture has to face the new challenges of globalization successfully.

19. More availability of Post-production Credit:

The post-production credit is necessary to perform the post production operations such as transportation, processing, storage etc. The current credit delivery
system emphasizes only on lending for production and neglects post-production credit. This creates imbalance between production credit and post-production credit. Even the access of formal agricultural credit is not available to all the needy farmers.

20. Effective Implementation of Crop Insurance Programs:

Crop insurance schemes should be implemented more extensively and effectively for minimizing the risks arising out of crop failure. The crop insurance creates confidence among the bankers regarding the repayment possibility of the loans disbursed because the insured farmers receive compensation from insurance companies against natural calamities. Therefore, the crop insurance scheme should be made mandatory for all the crops at the lowest installments.

Thus crop insurance creates and develops creditworthiness among the farmers. This creditworthiness makes easy to borrow.

21. Reduction in Cost of Credit:

From the beginning, the increasing cost of borrowing agricultural credit has been an important and burning issue that adversely affected the flow of credit. The cost of credit of cooperative institutions is still high because at every tier certain costs and margins are added. The public and private sector banks also recover a number of hidden charges directly or indirectly from the borrower farmers. These mal-practices are done at the last stage of the loan sanction procedure. It becomes impossible for the farmer to oppose such mal-practices because they are really in intense need of credit. For reducing the cost of credit the government should subsidize the interest rates of honest borrowers. But subsidy policies are thought as the direct government intervention in banking. Reduction in cost of credit is also possible through using online documentation, ICT, internet facility etc.

Thus, reduction in cost of agricultural credit will save money and valuable time of the borrower farmers. More amounts out of the sanctioned credit will be available for spending on productive activities.

22. More Emphasis on Social Responsibility of Credit Institutions:

The globalization of agriculture has brought a number of changes in Indian agriculture. These changes include the change in cropping pattern, change in agricultural technology and change in technology of food storage. Hence, the rural credit institutions must lend on priority basis to diversification and commercialization of agriculture. As a social responsibility, these credit institutions should concentrate
more on advancing credit to small and marginal farmers that are from underprivileged category.

23. Strengthening Multi-agency Approach:

Adoption of the multi-agency approach to rural credit is thought as the real solution for increasing institutional credit flow to farm sector. The strengthening of multi-agencies will help the farmers to become independent from the control of money lenders.

The Working Group under the chairmanship of C. E. Kamath noted the following problems of these agencies:

a. A steadily declining share of cooperative banks in total flow of institutional credit from 55% to 28% indicates the need of restructuring and reforming these banks.

b. Lack of coordination among different agencies operating in the same area has increased multiple financing that lead to over-financing in some area or under-financing in other areas. So, proper co-ordination among these agencies should be made.

c. In spite of the acceptance of the Lead bank scheme and district credit plans, the credit agencies often failed to formulate and implement the meaningful agricultural credit programs in a given block. Therefore, the Lead banks should co-ordinate the credit activities of other banks in the block.

d. Despite the guidelines issued by the RBI, different agencies adopted different procedures and policies in providing and recovering loans. This created unnecessary competition among these banks. Therefore, RBI should take strict action against those banks who do not obey its guidelines.

e. Practical problems caused by the same securities in the recovery of loans should urgently be solved.

f. It is observed that the politically weak borrowers are harassed but politically strong borrowers are unnecessarily favored. The unnecessary harassment of honest but politically weak borrowers should be stopped and politically powerful borrowers should not be shown favor at the time of recovery.
24. Removing Weaknesses in Service area Approach:

Although the "service area approach" definitely improved the credit delivery system but it has still certain weakness that could be removed for the development of multiple agency approach. Most unsatisfactory recovery of the overdue is the key problem faced by the lending institutions like cooperatives and RRBs. The ratio of overdue to demand is nearly to 42% in the case of the co-operatives and 47% in the case of RRBs. This adversely affected the financial position of these banks. Hence, the overdue should be strictly recovered from willful defaulters.

25. Stop Writing off Agricultural Loans of Willful Defaulters:

The number of willful defaulters is increasing even in the advanced states like Gujarat and Maharashtra. To writing off the agricultural loans of these willful defaulters has created a shocking example to the whole country. It has also adversely affected the repayments by honest customers. Due to the mounting overdue, the banking system could not provide sufficient credit to meet the increasing needs of the farmers. If the government for its cheap popularity repeats the decision of writing off the agricultural loans, monetary resources for the development of the agriculture will not be sufficiently available.

Thus, the writing off agricultural loans has adversely affected the availability of funds for lending to agriculture. This policy has also largely demoralized the borrowers. Hence the repetition of this strategy should be banned.

26. Simplifying Loan Formalities:

For timely availability of agricultural credit at low cost, the procedure for borrowing should be simplified and the number of documents should be minimized. An online data base of the land record documents of the borrower farmers should be created by the government. Then this data bank should be used by the banks for collecting the documents required the sanction of loans.

27. Easy Availability of Banking Services:

The banking services at the reasonable rate should be provided to farmers by extending the working hours if necessary. These services include easy transfer of funds, improved remittance facility, the KCC etc. The staff of the banks should be trained and encouraged for devoting his skill for providing efficient banking services.
28. Strict Implementations of Recovery Measures:

The "Recovery Cell" of the banks should be properly utilized for avoiding the delay in repayment of loans. This cell also be utilized for reducing the mounting overdue.

29. Adoption of Management Information System:

For updating the records and minimizing number of documents every bank should take necessary steps like introduction of Management Information System (MIS) to update the reporting system for easy transfer of funds. To overcome the delay in transfer of funds "chest" facility can be extended to co-operative banks also.

30. Decentralization of the Power of Sanction:

For avoiding delay in obtaining small loans, the power of sanction of loans up to a certain limit, for example, up to Rs.2 lakh should be given to the branch manager.

31. Soundness of Banking:

The Narasimham Committee in 1991 gave stress on financial soundness and operational efficiency of the financial institutions. This suggestion is also applicable to the co-operative banks.

32. Rural Infrastructure Development Fund:

The banks which could not fulfill the targets of lending to the priority sector were required to deposit the deficit amount in the Rural Infrastructure Development Fund created by NABARD.

33. Wider application of Kisan Credit Card Scheme:

In 1989, NABARD introduced the Kisan Credit Card Scheme for easy and well-timed availability of farm credit. This KCC Scheme has proved as the powerful mechanism for reducing the transaction cost both for the farmer and the bank. Therefore, this scheme should be implemented more rigorously.

34. Strict Implementation of the Special Agricultural Credit Plans:

Since 1994-95, the commercial banks have preparing and implementing the Special Agricultural Credit Plans with prescribed annual growth rates. The weaknesses in these plans should be removed.

35. Comprehensive Credit Policy:

The "Comprehensive Credit Policy" was announced in 2004, with an objective of increasing institutional credit by 30% every year. It was also anticipated
that every bank branch should finance to at least 100 farmers and two or three agricultural projects every year. This policy also included the debt relief measures like debt reformation, one-time settlement of debt and return of borrowing from money lenders. Thus in the ‘Comprehensive Credit Policy’ all the probable measures were taken to enhance the ground level institutional credit supply.

36. An Interest Subvention Scheme:

The government of India, in 2006-07, announced the Interest Subvention Scheme. This scheme was planned for the regular repayment of short-term credit extended to cultivators. In the budget for the financial year 2011-12, the government declared an extra financial backing of 3% for timely repayment of loans by farmers.

37. Multi-service Centers:

To satisfy the credit and non-credit needs of the small farmers and marginal farmers. The PACS should work more effectively as the multi-service centers. Along with the lending funds, all these societies should provide other services to their members. The other services include the provision of agricultural inputs, cheap implements, expert guidance etc.

38. Financial Literacy:

Financial literacy is very important for bringing the weaker and poor farmers in the banking net. Awareness about banking products and services should be made through the special programs like seminars, lectures and plays. Financial literacy will help to stop the exploitation made by the banks using mal-practices and hidden charges. It will also useful in understanding the exploitation from the non-institutional sources.

39. Diversification of Credit Flow:

The flow of credit to agriculture should be diversified. The credit institutions should continue to provide enough credit to the agro-processing industry, horticulture, floriculture, aquaculture, dairying; poultry etc Agricultural credit should not only help in increasing the income of the farming sector but also be useful in restricting the migration of the rural people from rural to urban areas. To make the farm credit more fruitful, the banks should strictly supervise the use of such credit. The credit might be used for the development of irrigation facilities, rural roads and other infrastructure.
40. Active Participation:

Agriculture is included in the list of the state subject. Therefore, the state
governments should actively engage themselves in the development of agriculture.
The state government should take an active interest in the development of co­
operative credit institutions. Efforts should be made sincerely to remove the
corruption in the co-operatives. The state government should concentrate on the
effective implementation of the agricultural projects.

41. Differential Interest Rates:

Interest rates charged should be discriminatory for different categories of
farmers as well as for different uses. The concessional rate of interest should be
exclusively charged for small and marginal farmers. Higher rate of interest should be
applicable to the rich agricultural borrowers. Special concessions need to be given for
the adoption of new technology. Initiative should be taken to provide interest free
loans to small and marginal farmers. Small farmers are unable to provide required
security for taking loans. Therefore, while sanctioning the loans to small and marginal
farmers, the credit institutions do not insist more upon security. Decision of loan
sanction should be related to the productivity of land and the type of crop produced.
Instead in cash, the loans should be given in the form of goods like seeds, pesticides,
fertilizers etc. The sanction of credit should be linked to other agricultural operations.

42. Professional Management:

To make institutional finance successful, it is important that the credit
institutions should be managed by those who have full knowledge of management.
The member farmers themselves should involve actively in the working of the co­
operative. These co-operatives should be managed in the interest of the farmers. The
farmers should be trained for using the improved farming methods, new research and
innovative techniques. The farmers should also be provided sufficient and
inexpensive credit. To tackle the issue of the suicides of farmers, the government and
the voluntary organisations should come forward. The government should arrange
special vocational training programmes for small and marginal farmers. The farmers
should be taught the alternative means of earning livelihood. Adequate financial
assistance should be provided to the farmers.
43. Adoption of Modern Methods of Banking:

The co-operative banks on a large scale, should adopt the modern methods of banking like internet banking, credit cards, ATM, core banking etc. They should improve the customer service for attracting new customers and satisfying the present ones. These co-operatives are required to use the Information and Communication Technologies (ICTs) and value chain financing for promoting both the efficiency and inclusiveness.

44. Restricting the Multiple Borrowing:

For avoiding the multiple borrowing by an individual borrower, the co-operative banks should provide Credit Code Number to each borrower. The borrower should be directed to quote his credit code number in his loan application. The credit code number will also be useful in assessing the creditworthiness and repayment capacity of the borrower. The banks should maintain a web-site where a borrower will get detailed information of his existing loan.

45. Maintaining Capital Adequacy:

Capital adequacy is essential for the self-dependence of the credit institutions. Capital adequacy depends on the owned funds but average growth in owned funds is less than 9%, hence co-operative banks should increase their own funds by increasing reserves. Capital adequacy is essential for the good health and stability of the credit institutions.

Summary:

The performance of agriculture credit in India reveals that although, the total institutional credit increased during the study period, but there were widening gaps and imbalances. There is vast gap in demand for and supply of farm credit by the small and marginal farmers. Modernization and technological up gradation of rural financial system is the only solution to the problems in agricultural finance. Financial products and credit delivery channels should be made more innovative and need based. The pre-assumed hypothesis (i) The agricultural credit institutions have succeeded in freeing the farmers from the control of non-institutional lenders, (ii)Agricultural credit institutions usually fulfill the targets set for agricultural lending and (iii) Institutional credit still remains the most important source of agricultural credit have been proved with the data available. Thus, the current study provides an insight on the various aspects of agricultural finance. In the era of intense competition the role of financial institutions becomes very critical.