CHAPTER - IV

ROLE OF CREDIT IN AGRICULTURAL DEVELOPMENT

Purpose and Overview :

The present chapter has been divided into mainly three parts. First part deals with the role of credit in agricultural development. Second part narrates the objectives of agricultural credit. Third part gives a bird's-eye view of the credit needs of agriculture, classification of credit requirements and criteria for a good system of credit.

Part - I

Commercial Banks' Credit and Agricultural Development :

The agricultural credit is provision of money for productive purpose so as to increase the production and productivity. So, credit is a phenomenon of development and the banking system along with entrepreneurship is a key input in the process of economic development in general and agricultural progress in particular. Large masses of small and marginal farmers in the underdeveloped countries are generally illiterate, uneducated and unskilled. The capital equipment they use extremely small and crude without any technological improvement. Most of the small cultivators are resource poor. They follow primitive methods of cultivation. The great masses of small farmers live so close to a bare subsistence level that their low rate of savings from their own...
net income is barely sufficient. Due to the pressure of rapidly growing population and increasing unemployment, modernization of the small farms appears to be the most desirable strategy of agricultural development in underdeveloped countries. A number of factors have been identified as the causes for the slow growth of agricultural productivity like, defective land tenure systems, market imperfections, under employment, primitive techniques of production, deficiency of capital, absence of reasonable prices, existence of intermediaries and absence of farm entrepreneurship.

Credit is a significant factor in agriculture, even more so in modern agriculture. Among the essential prerequisites for achieving sizable progress in the agricultural sector, credit occupies a very important place. It is well postulated in the statement of T.W. Schultz that "Once there are investment opportunities and efficient incentives, farmers will turn sand into gold". Providing agricultural credit for agricultural operations is like oiling agriculture to make its wheels move softly and smoothly. That means, credit plays a important role in the process of agricultural transformation. Provision of credit can encourage the modernization of agriculture to a very great extent. Similarly, non-availability or scarcity of credit often retards agricultural progress in particular and rural development in general. Not only can credit remove financial constraint but it may accelerate the adoption of new technologies. Credit facilities are also an integral part of the process of commercialization, higher productivity or income among the rural poor. Success in this respect depends on many factors including
the availability of inputs and services, sound credit policies, well-managed institutions and appropriate delivery channels.

The role of credit consists in laying the foundation stone of farm revaluation and maintaining the structure built thereon. Thus, it is clear that agricultural credit is one of the most important resource inputs and the timely supply of credit will help to increase agricultural production, thereby leading to modernization and commercialization of agriculture. Further, it helps in maintaining sustaining sustainable growth in agriculture. By using more credit on the farm, the farmer expects to improve his financial position. By enlarging his credit, the farmer may expect to increase his financial welfare. By credit, the farmer can increase his work and his efficiency, he can procure better implements. Thus, credit enables the efficiency of the borrower, thereby helps him to buy better implements. Another important role of credit is, it helps the farmers to increase productivity and his standard of living.

Credit for agriculture has become more important in recent years owing to new technological developments which have increased capital requirements, which cannot be met from the farmer's own funds, and the inadequacy of capital has been identified as a major cause of low farm farmers.

Credit is a very powerful instrument in bringing about development, particularly agricultural and rural development. The significance of credit is more in case of poor families as their savings are meagre. They are in a vicious
circle of low income, low savings and low capital, low productivity and consequently, low income. Credit, if properly channelled, can break this circle by providing them means to acquire productive assets or by providing employment opportunities. Hence, in raising rural incomes, credit has a substantial role to play.

In India, agriculture has always been a way of life rather than a business and has suffered from stagnation due to low productivity arising from inadequate investment. The only way to bring about a solution from such a state of affairs is to find way of increasing capital investment. The only way to bring about a solution from such a state of affairs is to find ways of increasing capital. Credit makes it possible for farmers to take advantage of new machines, good seed, fertilizer, live stock and labour, all of which enable the farmer to organize and operate his farm on a more profitable basis. In order to adopt High Yielding varieties, farmers need huge finance. since their own savings are negligible, expansion of credit institutions is a pre-requisite for technological change which will facilitate agricultural prosperity. Provision of good credit facility to the farmers at the right time, in the right place, in the right proportion is a requisite for the transformation of traditional agriculture. It is a well accepted fact that credit is an essential input to adopt new technology so as to achieve agricultural prosperity.

To conclude, it is observed that the provision of adequate and timely credit is the pre-condition of agricultural development.
Part - II

Objectives of Agricultural Credit:

The main objective of credit is to accelerate the rate of agricultural growth by facilitating capital flow in agriculture. The following are the important objectives of agricultural credit:

i) To increase agricultural production,

ii) To fill the existing credit gap in the field of agriculture,

iii) To provide adequate and timely credit for viable agricultural schemes,

iv) To achieve the national plan objectives, with special emphasis on the weaker section,

v) To inculcate banking and saving habits among the rural people, and

vi) To assist cultivators in adopting improved methods of agriculture.

vii) To assist the cultivators to adopt the hi-tech methods in their cultivation, storage and marketing of the produce.

In order to fulfil these objectives, a country must have firstly a wide network of branches of banks and other financial institutions; and secondly, a sound system of agricultural credit. The requisites of a sound system of agricultural credit are:
a) it should generate and mobilise savings in rural areas by devising appropriate mechanisms;

b) it should ensure a net inflow of funds into agricultural sector;

c) it should deploy credit with maximum efficiency and quality; and

d) it should reduce risks as far as practicable to the borrower, credit institution and the lender. Institutional agencies should keep in mind these requisites while advancing in rural areas.

Thus, agriculture, being the oldest industry, needs credit to fulfill its commitment to the society. Hence, it is the commitment of the financial institutions to make available the credit required by the agriculturists, at the right time and in right quantity.

Part - III

Need for Credit in Indian Agriculture:

The Indian agriculture requires a 'push' of capital. Without adequate equipment, peasants may only be wasting the land on which they work and also the resource they wish to exploit. Credit is a vital factor in farm production in Indian agriculture where the prospects for a plough back is weaker as compared to trade and industry. Nearly 65 percent of total Indian farmers are small and marginal; and are at the subsistence level virtually without surplus or savings left for future investment and production purpose. After harvest, they have to
repay the old loans; as a result, very little surplus remains for consumption. All farmers, especially small proprietors must of necessity will borrow at one time or other. The need for credit is more urgent in India, because of two basic characteristics, namely, small units of production and uncertainty of rains. Hence, credit is not necessarily a sign of weakness, credit is a way by which capital can be formed without reducing the borrower's present consumption level.

There are many reasons for the need of credit for Indian agriculture:

1) Agriculture is susceptible to natural calamities and in countries like India, it is still depending on the monsoon. Enormous risk in the form of uncertain income, bad weather, drought, flood, cyclone, pest attack, low prices, etc., have encumbered agriculture. Hence, to continue cultivation in good and bad seasons, credit is required.

2) Indian agriculturists are having debt as an ancestral property and it is passed on from generation to generation. To liquidate the old debt, finance is needed by the farmers.

3) To safeguard the interests of agriculturists and to keep them to continue the occupation of agriculture, credit is needed. Farmers, who are indebted to the money-lenders, must be released from their clutches; otherwise, all possibilities are there for the transfer of lands to such inexperienced people. Thus to keep agriculture in the hands of the trained agriculturists, credit must be given to them.
4) To make agriculture a viable business, credit is very much needed, this is quite applicable in the case of cultivation of commercial crops when the motive is to get fair income, heavy investment must be made and for that purpose credit is indispensable.

5) Returns in agriculture are not certain. Right from sowing to the marketing of the produce, lots of risks and uncertainties make the farm income uncertain. To continue the cultivation for next season, he has to borrow.

6) In order to increase the agricultural productivity, adoption of intensive agriculture and improved agricultural practices are essential. Modern inputs like improved seeds, chemical fertilizers, pesticides, etc., are costly and to meet such costly inputs, the farmers have to borrow.

7) To make permanent improvement, and to purchase machinery, finance is a must. Digging of wells, fixing of pumpsets, purchasing of tractor, land reclamation, etc., are costly and the farmers must borrow money from institutional agencies to meet such heavy costs.

8) To institute subsidiary farming like dairying, poultry, etc., farmers must be given credit. Only by encouraging such activities, the farmers can stabilize their income.

9) To convert the small farmers into viable farmers, credit is essential.

10) In agriculture, there is a time-gap between the investment and return. The gestation period of crops varies from months to years. To meet all the
expenses till the income period, credit is essential. Hence, to meet the continuing expenses, credit is needed by the farmers.

Agricultural credit is needed both for production and for consumption. Because, the nature of agricultural operations is such that in quite many cases, it is not possible, nor helpful to make any distinction between the two, Agricultural operations are seasonal in character in the sense that the production activity is not spread throughout the year. This character is stronger in traditional agriculture, wherein most of the places, a single crop is grown and there no diversification. So, the farmers should either have savings from the past harvest or they should borrow against a future harvest.

The All India Rural Credit Survey stated that "the cultivator's need for credit may arise in a number of ways. He may, in the course of business, want short-term funds for current production; or he may have to borrow a long-term loan for digging a well or improving his land. The same situation may arise in connection with family expenditure; there are current consumption needs, there may be occasions such as illness calling for somewhat larger expenditure, and a special event like marriage may mean even larger expenditure and a large period of repayment. The need for production credit is related to the structure of farm business".

A broad classification of agricultural credit can be made as:

i) directly productive expenses, and
ii) indirectly unproductive expenses.
It has rightly been said that "one fertilizers and the other water-logs the soil. From one springs the crop, by which debt can be reapid and from the other half, the ills that shackle body and mind".

Unproductive Needs:

As against the productive credit for such purposes as buying of inputs, digging of wells, etc., and for consumption during the waiting time between sowing and sale of the produce, which can be repaid, there are items of expenditures which have no returns. Money spent on birth and death ceremonies, marriages, litigations, etc., do not contribute to production. These loans are essentially unproductive.

Unusual Needs:

There are also the credit needs arising out of unusual events like crop-failures which reduce the income of farmers well below the average. These events occur more in traditional agriculture since environment control is far less compared to modern farming. The losses - associated with crop-failures are normally huge, and hence the credit requirements are twoo large to be repaid in a very short period. The occurrence of such losses and their magnitude cannot be known in advance; yet they occur frequently.

Needs of Technical Change:

The credit is need to purchase chemical fertilizers, tube wells, spraying equipments, farm-based storage facilities, high yielding varieties of seeds,
instruments for new practices of irrigating land like sprinkling, buying or hiring of tractor, etc. The crux of the new technology is the introduction of intensive cultivation using new high yielding varieties of seeds backed by more and better plant nutrients, effective plant protection and adequate water supply. So, the use of this new agricultural technology has increased the demand for farm credit.

An important feature of agricultural credit in India is that the aggregate credit requirements of farmers vary from season to season, region to region and from crop to crop.

The short-term farm credit refers to the amount of money required by the farmer to meet the costs of inputs and to modernize the equipment during a given period of time. The short-term loan includes the working capital for the purchase of seeds, manure and other raw-materials, a reasonable amount for the maintenance needs for the farmer and his family. The duration of the short-term loan does not exceed 15 months.

Medium-term credit represents the loans advanced for a period ranging from two years for the purposes like buying of bullocks, small agricultural equipments, digging of a well or bringing about minor improvements on cultivable land, construction of farm houses and cattle sheds.

Long-term credit denotes loans repayable in periods exceeding five years. Generally, long-term loans are granted for the following purposes:
1) Minor irrigation such as dug-wells, bore wells, tube-wells, seed bed tanks, improvement of old wells and tanks and lift irrigation schemes.

2) To buy devices of lifting and supplying water like oil engines, electric motors, sprinkle irrigation equipment, laying of pipelines and field channels, etc.

3) To buy tractors, power tillers, sprayers, crushers, threshers, transport equipments, etc.

4) Land development purpose like travelling, bunding, land reclamation, soil conservation, etc.

5) Orchards, plantations, horticulture, etc.

6) Farm houses, godowns, motor sheds, cattle sheds, tobacco barns, cold storage, etc.

7) Purchase of land and land rights by tenants, paying of old debts, purchase of shares in agro-based industries in the co-operative sector, etc.

8) Other purpose such as sericulture, piggery poultry farming, dairy-farming, etc.

9) Credit needs of infrastructural agencies such as those engaged in the distribution of fertilizers, processing and marketing of produce.
The credit requirements of farmers are classified generally as follows:

**Classification of Credit Requirements**

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<thead>
<tr>
<th>Basis of Classification</th>
<th>Items of Requirements</th>
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<tbody>
<tr>
<td><strong>A) Purpose:</strong></td>
<td></td>
</tr>
<tr>
<td>1) Capital Expenditure</td>
<td>Purchase of land, land reclamation, construction and repair of wells, irrigation sources, purchase of farm machineries, their repair, replacement addition, etc.</td>
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<tr>
<td>2) Current expenditure</td>
<td>Purchase of seeds, manures, fodder, hire charges of water, machines, wages, rent, etc.</td>
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<tr>
<td>3) Family expenditure</td>
<td>Purchase of clothes, utensils, medical and educational expenses, litigations, marriages, festivals, etc.</td>
</tr>
<tr>
<td>4) Repayment of debts</td>
<td>Repayment of debts and interests.</td>
</tr>
<tr>
<td><strong>B) Period:</strong></td>
<td></td>
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<tr>
<td>1) Short-term credit</td>
<td>Recurring expenses for the period exchanging 15 months.</td>
</tr>
<tr>
<td>2) Medium-term credit</td>
<td>Expenses on farm assets of temporary nature like deepening of Wells, etc., for the period not exceeding more than 60 months.</td>
</tr>
<tr>
<td>3) Long-term credit</td>
<td>Covering a period of 5 to 20 years; redemption of debts, purchase of heavy machinery, etc.</td>
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<td><strong>C) Nature:</strong></td>
<td></td>
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<tr>
<td>1) Consumption credit</td>
<td>Personal, domestic etc.</td>
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<tr>
<td>2) Production credit</td>
<td>Farm Expenses of recurring nature and related to agricultural operations.</td>
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<tr>
<td>3) Investment credit</td>
<td>Expenses incurred on permanent additions and improvement of farm assets.</td>
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Thus, if agriculture in India is to be developed. Timely and adequate supply of finance or credit must be made by the financial institutions.

Criteria for a Good System of Agricultural Credit:

The following are the criteria for a good system of agricultural credit:

1) Credit should be adequately secured to avoid any abuse of credit facilities, but the security need not necessarily be material; it should, if necessary, be in the form of personal credit secured mainly by the borrower's moral standing and farming ability.

2) It should be granted for a sufficiently long period commensurate with the operation which it is designed to facilitate.

3) It should be granted at a low rate of interest.

4) It should be adapted to the average yield and capacity for repayment of the farms, particularly during periods of economic depression.

5) It must be allowed to flow in the right direction for the right purpose in right size at right time.

The policy-makers and institutions must keep in mind the above mentioned criteria in order to have a smooth flow of credit to the farm sector.