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Resolution of Quandary Issues for Agriculture Sector In India Through Credit Management

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ABSTRACT

The rural credit system entrapped by the twin problems of high transaction cost and poor repayment performance reduces the profitability of rural branches of nationalised banks. The incompetence of management of individual banks also increased the non-viability of the rural credit delivery system. The creditworthiness criteria adopted by institutional credit are alienating small farmers from borrowing as lending is closely linked to the landholding status of the borrower. The formal credit institutions neglected consumption needs of the poor and emphasised only on production credit. The spread of the system has been uneven across regions and wealth groups. The proportion of the poor obtaining credit from the banking system has been lower than their share in the total population. In this paper we try to find the various problems and issues faced by Indian agriculture sector.

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Introduction

Agriculture is, and will remain, a major global building block in achieving the Millennium Development Goals. Recent statistics show that by 2050 at least a 70% increase in agricultural production will be required to feed the world, while climate change, soil degradation and urbanisation will reduce cultivable land areas. Volatile food prices, record price peaks, food shortages, frequent natural disasters, persistently high poverty levels in rural areas and predictions of a steadily growing world population with a more sophisticated demand structure have increased the political pressure on many emerging and developing countries to act immediately. There is now broad consensus that rural development and agriculture investment require more support to increase food production and to combat poverty.

Indian Agriculture has made rapid strides in Agricultural Sector since Independence, with the Green Revolution of the 1960s ushering in manifold increase in farm production and productivity. The Indian Agriculture has rallied to become self-reliant in providing overall food security to its population of more than 1 billion. However, inadequacies of serious long-term concern are now affecting Indian Agriculture. The rising input costs and poor pricing mechanism, to be candid, have only increased the plight of majority of the farmers. The Green Revolution has not necessarily translated into benefits for the lower strata in the economic pyramid in terms of greater food security or economic opportunity and well being.

Various Problems and Issues faced by Agricultural Sector in India:

There are many issues that have a bearing on bringing synergy to agricultural growth through credit.

- 1) **Reduced Investment:** During the last decade, the overall growth in capital formation in agriculture has been inconsistent with the share of public sector showing a negative growth rate of 0.22%. Public sector capital formation generally tends to create infrastructure, which leads to private investments in agricultural assets for productive purposes.
- 2) **Stagnating Productivity:** Growth in agriculture, which in the earlier decades benefited from increased area being brought under the plough now, has to rely mostly on productivity gains - both through increasing cropping intensity and increasing yield. The yields have been declining throughout the decade of the 1990s. A comparison reveals that the average yield in India is

generally 30% to 50% of the highest average yields in the world.

- 3) **Fragmentation & Exclusion of Small Holders:** Agriculture in India has been the preserve of Small and Marginal Farmers. In terms of number of holdings, the Small and Marginal Farmers (less than 2 ha. land) account for 78% in 1990-91. Yet it is reported that 73% of the farmer households are outside the formal financial system and the exclusion is 87% among this segment of farming community. Small holdings are often the barriers to adopt modern technology, often over manned resulting in disguised unemployment and low labour productivity.
- 4) **Declining trend in prices and Profitability:** This is on account of a combination of factors—rising input cost, falling prices, stagnant productivity and lack of mechanism to make long-term and short-term forecast of prospects of different crops / farming systems in the light of globalization. The declining trend in prices of a host of agriculture commodities and plantation crops has severely affected the investment capacity of the farmers. Substantial increase in cost of cultivation has been a general trend in the cultivation of crops with increase in labour costs accounting for the major share. On the other hand, the yield levels of crops have almost been stagnant and although there was general increase in market prices of the crops, the rise was not commensurate with the increase in cost of cultivation. Thus profitability has declined on account of yields and market prices failing to keep pace with rising input costs.
- 5) **Stagnation in creation of more irrigation potentials:** Major parts of the country still depend on the vagaries of the monsoons and droughts & floods have been a part of the economy. There lies a necessity to increase irrigation potential for effective utilization of the rainwater including rain harvesting technique and watershed development for better productivity and financial stability for the farmer.
- 6) **Inadequacy of Post Harvest Management Policy:** This is leading to wastage of commodity at farmer's fields and poor realization, loss of income, lower realization thereby reduced investment. Further it has damaged the morale of farmers to make a higher level of investment.
- 7) **Insufficient Investment in Infrastructure:** It commensurate with growth of agriculture and regulatory restrictions in commodity logistics resulted

in higher cost of handling and giving scope for inefficiencies in the supply chain management.

8) Inadequate Integration of value chain: This is also a major issue. Inadequate Integration of value chain for each crop through developing relationship with growers, processors and brand owners, a significant factor in success of agribusiness worldwide and in sugar in India.

National Policy on Agriculture:

There is an urgent need to make agriculture demand driven, increase value addition in agriculture products and leverage competitive advantage to maximize opportunities in the domestic as well as global market. The farm production level has to grow consistently to maintain food security in the face of ever-growing population.

The 11th Five-Year Plan aims at faster and more inclusive growth. Even as the growth of more than 9% is projected for the economy, the income can be doubled in Ten years if the population growth is pegged down at 1.50%. The major challenge will however be to regain agricultural dynamism - a revisit of Green Revolution. The planners envisage that a growth rate of at least 4% under agriculture alone can help to sustain the overall economic growth at

about 10%. The National Policy on Agriculture seeks to actualize the vast untapped growth potential of Agriculture; strengthen rural infrastructure to support faster agricultural development, promote value addition accelerate growth of agro business and create employment in rural areas.

The National Policy on Agriculture has the following prime objectives:

- A growth rate in excess of 4% per annum in the agriculture sector.
- Growth that is based on efficient use of resource and conserves our soil, water and bio-diversity.
- Growth with equity, i.e., growth which is widespread across regions and farmers.
- Growth that is demand driven and caters to domestic markets and maximizes benefits from exports of agricultural products in the face of the challenges arising from economic liberalization.
- Growth that is sustainable technologically, environmentally and economically.
- The policy envisages development of animal husbandry, poultry, dairy and aquaculture for diversifying agriculture and generating exportable surpluses paving the way for rapid expansion of agri-business.

Emerging Opportunities and Trends in Indian Agriculture:

a) Contract Farming:

Contract Farming is a vital element of policies aimed at raising the level of food processing from 2% to 10% in the next 10 years. India will need an investment of Rs.1.4 lac crores to achieve this. India is the 3rd largest food producer with an output of 601 million tonnes and ranked 2nd in horticulture production with 132 million tonnes. The share of the nation in the global agriculture market is less than 2%. It is expected to achieve at least 10% annual growth over the next 5 years. The National Agricultural Policy envisages that private sector participation will be promoted through contract farming and through land leasing arrangements, will allow accelerated technology transfer, capital inflow and assured market for crops, particularly for cotton, oil seeds, sugarcane, milk, poultry, fruits and vegetable processing. Large scale organic farming to raise the share of the nation in the global markets is also one of the methodologies for increasing the share in global markets.

In view of the importance given for food and agro processing industries, a lot of corporate are going for contract farming to source the raw material from the farmers. Though contract farming is practised on a large scale, it is still to be legalized. Govt. may think of creating proper legal and institutional framework so that the corporate who are undertaking contract farming are able to enter into agreements and source, required finance from the Banks and Financial Institutions. This will also to a great extent neutralize the deficiencies of fragmented holdings and fair returns to the small and marginal/tenant farmers.

Some examples of region and crop specific models of contract farming are—

- Tomato cultivation in Punjab, Haryana and Rajasthan
- Mushroom in Haryana
- Sunflower in AP and Karnataka
- Gherkins in Karnataka
- Fruits and vegetables in Tamil Nadu, AP and Maharashtra

b) Marketing Infrastructure—Strengthening and Development:

The State has been taking efforts to promote and strengthen agri-produce marketing infrastructure through Venture Capital Schemes. These are aimed at providing necessary impetus and value addition to the entire chain through processing, packaging, grading, standardization of farm produce and thus effectively link the farmers and production to market.

c) Agro Processing:

Agri-business ventures have tremendous scope for fresh dried, preserved and dehydrated fruits and vegetables, marine foods, meat and poultry food, milk and agri-products, soya and jaggery, natural honey, pets use products cattle and poultry feed, pickles, processed foods

and snacks, seed processing tea, coffee, tobacco species and derivatives, etc.

d) Hi Tech Agriculture:

Application of biotechnology in tissue culture and genetic engineering for development of genetically modified crops, improvement in animal husbandry and aquatic life farms, bio-fertilizers have added additional dimensions to agri-business and agri-exports, thereby enlarging scope of agri-business.

e) Organic Farming:

Total Indian organic farming industry is currently estimated at around Rs.100 crores. Though at a very nascent stage, it has already made its ways into the world market in sectors like tea, coffee, spices, fruits and vegetables, frozen / dried banana, cotton, dried nuts, oil seeds, pulses and sugarcane.

Key Areas:

The Key areas and hotspots of rural finance, which have been the main concerns of practitioners, governments and development partners over the past decade. These are grouped into three categories:

1) Advances in financial products and services development:

- Agricultural lending
- Rural savings mobilisation
- Payment services and remittances
- Insurance and other risk management instruments.

2) Advances in developing institutions to expand sustainable rural outreach:

- Reforming agricultural banks
- Strengthening member-based financial institutions
- Enhancing outreach through financial linkages

3) Advances in delivery mechanisms:

- Value chain finance
- Banking beyond branches

Although some encouraging progress has been made in each of these areas, the scale is often limited. Some of these product and delivery mechanisms are new to the world of development finance, but not to the world of commercial finance, such as index weather insurance and branchless banking, and they are still confined to a few institutions or countries. Hence, the scope for scaling up and replication under different institutional and country conditions still needs to be proven. Other products and delivery mechanisms have been used and tested for many years in some parts of the world but still require up-scaling and adaptation to different country and institutional environments.

Conclusions:

After more than a decade of decreasing rural aid flows, the issue of rural and agricultural development has recently become a highly discussed topic again in the international donor community and in international politics. Volatile food prices, food supply shortages, an increasing frequency of natural disasters and persistently high poverty levels in rural areas have caused mounting political pressure in many partner countries of German development cooperation. There is now a broad consensus that more support for rural development and agriculture investment is needed to increase the production of basic foods and combat poverty.

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