
CRITICAL OVERVIEW OF AGRICULTURAL CREDIT IN MAHARASHTRA STATE

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Received: Oct. 2018 Accepted: Nov. 2018 Published: Dec. 2018

Abstract: Agriculture plays a crucial role in the life of economy. It is a backbone of our economics system. Agriculture not only provides food and raw material but also employment opportunities to large ratio of population. Despite large industrialization in last 50 years, agriculture still occupies a place of pride. There are many government schemes to finance agricultural sector through banking and financial institutions. Agricultural credit is one of the main components of Agricultural finance.

Government has initiated focusing towards agricultural credit through various banks and financial institutions. Finance to the agriculture has played an important role in supporting agricultural productivity and production. The green revolution is characterized by the greater use of inputs like use of high yielding varieties (HYV seeds), pump sets, tractors, and machines and so on, which has resulted into an immense rise in the agricultural production. Agricultural loan is said to be the lifeblood of increased production in modern farming. Nearly 80% of rural population is directly dependant on agriculture in Maharashtra. As there is weak financial condition of rural population, there is a need to provide timely credit or loan to small and marginal farmers which will enable them to cater the agricultural inputs. Importance of agricultural credit is to help in purchasing new technological inputs, increase farm income, purchasing new land. The objective of this research paper is to study the need of agricultural credit, role of bank in providing loan, to explore the economic impact of agricultural credit. The researcher made a small attempt to find out root causes and consequences of agricultural credit. On the basis of research findings, we the researcher try to sketch the alternative solutions to redress the illness of agricultural finance. The study is basically confined to the Maharashtra state.

Keywords: Agriculture, Bank , Credit , Finance , Waiver.

Introduction: Agriculture plays an important role in economic development such as provision of food to the nation, enlarging export, transfer of manpower to non-agricultural sector, contribution to capital formation. Agricultural development is an integral part of overall economic development. Maharashtra is the second largest state in India in terms of population and third in respect of the area. Though Maharashtra is one of the industrialized states in the country, agriculture and allied activities are still predominant in the state. Agriculture is to be continuous major source of income for most of the population. Maharashtra has a history of droughts and there exists significant amount of information about the failing monsoon, but there hasn't been a well thought out plan. The agricultural loan waivers act only as a temporary relief yielded to the farmers and it will not make them free from issues like decreasing farm income, debt trap or crop failures. The problems need creative engagement through which the surplus workers in the farming sector can be taken away to more productive sectors through education and skilling thereby making farming more profitable and sustainable for all stakeholders.

Objectives of the Study:

1. To study the need of Agricultural credit.
2. To understand the key players in Agricultural credit.
3. To analyze the economic impact of Agricultural credit.
4. To find out the root causes and consequences of Agricultural credit in Maharashtra.

Research Methodology: The data required for the present study is collected by using secondary method and the source of secondary data is collected by referring books, journals, magazines and newspapers.

Hypothesis:

Ho: 1. Agricultural credit has helped the farmers to come out from the clutches of moneylenders.

Ho: 2. It has improved the economic standard and helps to adopt modern techniques of cultivation.

H1. 1. Poor farmers are exploited by rich landlords.

H1. 2. It has widened the gulf between rich and poor farmers.

Agricultural Credit: Agricultural credit is a credit and is generally obtained from primary credit co-operative society of a village or also from commercial bank. The period of loan depends upon the crop pattern used by the farmers. Agricultural credit can be dealt with both micro level and macro level. Macro-credit deals with diverse resource of arising finances for agriculture as a entire in the economy. It is also concerned with the loan process, rules, system, monitoring and controlling of diverse agricultural credit organizations. Hence macro-credit is associated to financing of agriculture at aggregate level. Micro-credit refers to financial management of the individual farm business units. And it is concerned with the study as to how the farmer considers various resource of credit, quantum of credit to be on loan from each source and how allocate the same among the alternative uses. It is also concerned with the future use of money. Therefore, macro-credit deals with the facet relating to total credit requirements of the agricultural sector, the terms and conditions under which the credit is available and the method of use of total credit for the development of agriculture, while micro-credit refers to the financial management of individual farm business.

Agriculture in Maharashtra: Western Maharashtra, comprise six districts, would have the most access to agriculture loan and long term credit at Rs 34,058.05 crore of the total Rs 93,618.36 crore allotted for the entire state, says National Agriculture and Rural Development Bank (NABARD) in its annual status paper of 2018-19. With this, the agriculture credit share of Kolhapur, Sangli, Satara, Sholapur, Ahmednagar and Pune districts would come to 36.38 per cent of the allotted funds. On the other hand, Vidarbha region with 11 districts and Marathwada with eight, which have a larger population of small and marginal farmers, would have less access to agricultural loan. While the figure for Vidarbha region would be Rs 20,401.56 crore (21.79%), it would be Rs 19,424.18 crore (20.75%) for Marathwada, the report stated. In the state, almost 78 per cent of the total 1.37 crore farmers are in the small and marginal category, with average land holding size of less than 2 hectares. Of the total 36 districts in Maharashtra, 14 distress districts are in Vidarbha and Marathwada regions, where farmers often find it hard to get access to bank agricultural loans. The report also pointed out the steady decline of the agriculture sector — from 50 per cent (in 2011-12) to 30 per cent to 40 per cent in last four years. Moreover, the report stated that when it comes to non-farm sectors, regional analysis with regards to access to credit puts Mumbai and its suburbs — which have zero crop loan — ahead of all with Rs 10,9539.60 crore (73.76%) being allotted to them. It is attributed mainly to the Micro, Small and Medium Enterprises (MSME) sector.

The main food crops of Maharashtra are mangoes, grapes, bananas, oranges, wheat, rice, jowar, bajra, and pulses. Cash crops include groundnut, cotton, sugarcane, turmeric, and tobacco. The priority sector lending (PSL) mechanism seeks to provide an access to credit for those vulnerable sections of the society, who are often deprived of it due to their perceived lack of credit worthiness. Small value loans to farmers for agriculture and allied activities, micro small and medium enterprises, poor people for housing, students for education, other low income groups and weaker sections are included under the

priority sector. Social infrastructure and renewable energy sectors are also covered under the priority sector. The performance of scheduled commercial banks (SCBs) in terms of their achievement on priority sector lending (PSL)

Targets are given in Table:

Performance in Achievement of Priority Sector Lending Targets

End-March	Public Sector Banks	Private Sector Banks	Foreign Banks
2017	19,889 (39.5)	7,110 (42.5)	1,238 (36.4)
2018	20,723 (39.9)	8,046 (40.8)	1,402 (38.3)

Note: Figures in brackets are percentages to adjusted net bank credit (ANBC) or credit equivalent of off balance sheet exposures (CEOE), whichever is higher, in the respective groups.

Source: Priority Sector Returns submitted by SCBs.

Key Players in Agricultural Credit System: The Farmer, Government and the bank are major key players in the agricultural credit system.

For a potential defaulter (Farmer) the positive implication of waiver is that in the short term their loan gets waived off thereby reducing their liability. There is a negative side to this as well. The default history marks their credit ability, the bank will think twice before giving them a loan next time. History has shown that such schemes get in electoral benefits for the government/party which announces concession. Since the government takes the liability to make payment on behalf of the farmers this increases the deficit. The bank suffers if the government makes payment in bonds the bank does not get immediate money. The farmers get encouraged to default.

Issues Related to Agriculture:

Fragmented Land Holding: The rational use of agricultural land is influenced by land use limitations. One of the obstacles for agricultural development is land fragmentation. Land fragmentation is defined as the situation in which a single farm or ownership consists of numerous spatially separated plots. Dominant problem associated with land fragmentation is the small size, irregular shape, and dispersion of parcels. Agricultural land fragmentation is a widespread phenomenon in highland areas of the state. The major causes are being land distribution and redistribution, inheritance rules, and risky peasant agriculture.

Depletion of Water Table Level: A large section of the rural population in Maharashtra and urban to some extent, is dependent on groundwater for drinking purposes. Also more than 50% irrigation in the state is through groundwater and more and more industries also prefer groundwater due to its uniformity in temperature. In a situation where groundwater resources have limitations, there continues to be the phenomenon of over extraction of groundwater for irrigation in the state.

Weakening Soil Quality: It means decline in the soil's productivity through adverse changes in nutrient status, soil organic matter, structural attributes, and concentrations of electrolytes and toxic chemicals. Soil degradation is a process, which lowers the current and/or future capacity of the soil to produce goods or services. Some of the main reasons of land degradation are deforestation, improper soil conservation practices, extension of cultivation on marginal lands, improper crop rotation, and imbalanced use of fertilizers, excessive surface irrigation, and paucity of land, economic pressure and poverty. Heavy use of fertilizers results in excess nutrients including nitrates that are leached into groundwater causing its contamination. Improper use and maintenance of canal irrigation also significantly contributes to soil degradation.

Low Productivity: The real culprit behind majority of the agriculture problems in Maharashtra is low productivity. This has long chain impacts over the entire sector. Lower productivity results into lesser

income for farmers, this in turn affects the investment in the farm resulting once again much lower productivity. In this way it creates a vicious cycle of the low agricultural productivity.

Vagaries of Monsoon: Unexpected rains or winds just before harvest destroy crops and reduce the quality of the produce. Better local weather forecasting is needed to harvest the crops before rains or winds arrive.

Poor Post Harvest Processing: Poor post harvesting results in poor quality produce and high loss of grains or other produce. Late harvest leaving the harvested crops in the field for drying, inadequate drying and cleaning, before storage, etc.

Kisan Credit Card: KCC scheme aims at providing adequate and timely support from banking system to the farmers for their short term credit need for cultivation of crops. Kisan Credit Card was started in year 1998-99. This model scheme was prepared by the national Bank for Agriculture and Rural development (NABARD) on the recommendations of R.V.Gupta Committee to provide term loans and agricultural needs. This brought integration of the multi-credit product system by offering farm entrepreneurs a single window for multiple purposes. The card would be valid for 5 years, of which crop loan and working capital components have to be renewed annually. The Maharashtra State Co-operative Bank and Regional Rural Banks issued 2.37 lakh and 0.75 lakh new Kisan Credit Cards (KCC) respectively in the State during 2015-16. The amount of loan sanctioned to new KCC holders during 2015-16 by these banks was ` 44,919 lakh and 14,927 lakh respectively.

The progress on the scheme for the last two years is presented in Table.

Year	Number of Operative KCCs	Outstanding Crop Loan	Outstanding Term Loan
2016-17	23.37 (in millions)	3,851.89 (in billions)	498.13 (in billions)
2017-18*	23.53 (in millions)	3,911.34 (in billions)	419.80 (in billions)

Source: Public Sector Banks and Private Sector Banks.

Regional Rural Banks: Regional Rural Banks (RRBs) also known as Gramin banks, are Indian scheduled banks (Government banks) operating at regional level in different States of India. They have been created with a view of serving primarily the rural areas of India with basic banking and financial services. There are total 56 Gramin (RRB's) banks in India. Regional rural Banks are the key financing institutions at the rural level which taken the responsibilities of fulfilling credit needs of many types of agriculture credit in rural areas. They are specially designed financial institutions run under the guidance of NABARD and the sponsor commercial banks, spread in rural areas with the close network of branches serving a various districts of the country. The rural sector is the backbone of our economy, because nearly 70% of our population lives in villages. Rural income plays a significant role in the national income. Agriculture needs huge finance for its development and modernization.

Co-Operative Institutions: The cooperative banking sector is one of the main partners of Indian banking structure, the cooperative banks have more reach to the rural Maharashtra, through their huge network of credit societies in the institutional credit structure. State Co-operative Banks organize and manage the working of the central Co-operative Banks in each state. They serve as the association between the Reserve bank and the normal money market on the one side and the central Co-operative and primary societies on the other. They obtain their funds mainly from the general public by way of deposits, loans and advances from the Reserve Bank and they have share capital and reserves. These Banks are the apex banks of the Co-operative credit structure. It serves as a link between NABARD from which it borrows and lends to the co- operative central bank and primary societies of villages.

Targets and Achievements for Agricultural Credit

Year	Commercial Banks		Co-operative Banks		RRBs		Total	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
1	2	3	4	5	6	7	8	9
2016-17	6,250	7,998	1,500	1,428	1,250	1,232	9,000	10,658
2017-18	7,040	8,772	1,560	1,504	1,400	1,410	10,000	11,685

Note: Figures might not add up to the total due to rounding off of numbers.

Source: National Bank for Agriculture and Rural Development (NABARD).

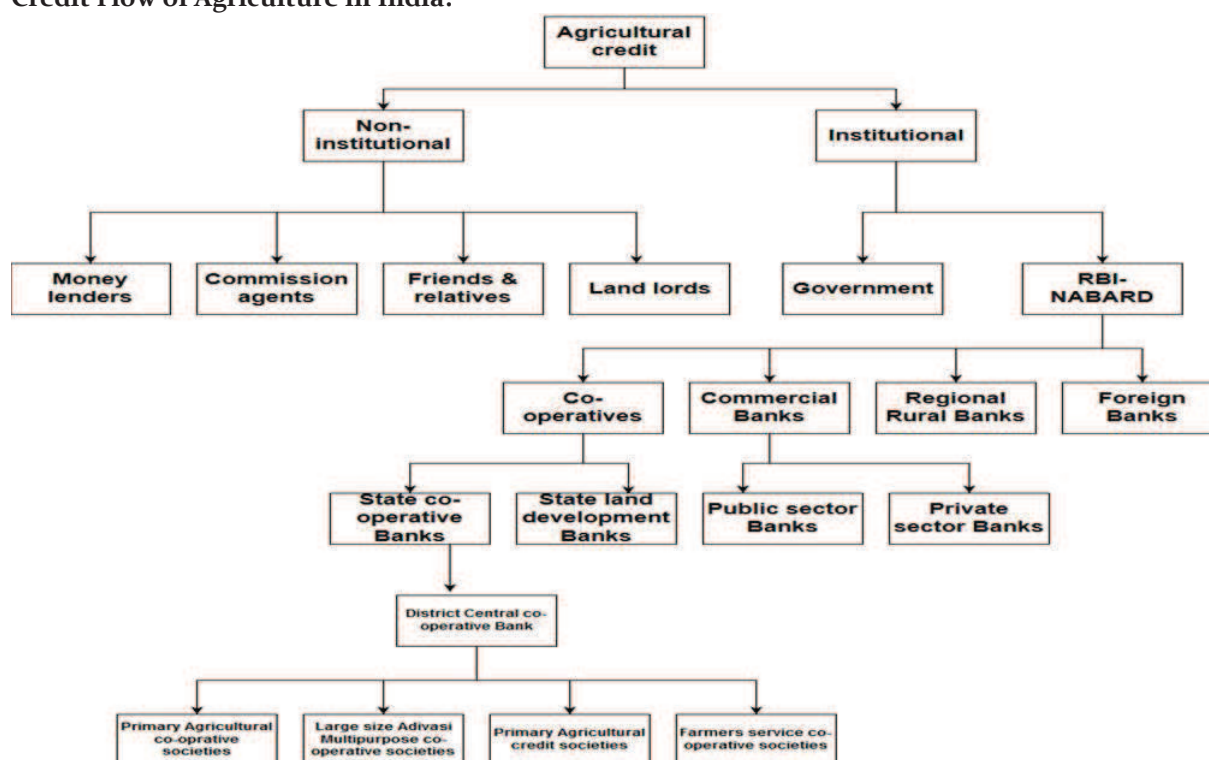
Agricultural Credit Terms:

Short-Term Loans: Short-term loans are given for financing seasonal agricultural operations. The short-term loans constitute the core of production credit provided to the farmers. Bulk of the short-term loans are for agricultural purposes such as seasonal agricultural operations i.e. for paddy, sugarcane, groundnut, ragi, bazra, jawar, and maize etc. purchases of agricultural implements, marketing of crops, processing of agricultural produce, industrial and other purpose and consumption purposes. The short-term loans are for about nine months to one year and in case of sugarcane cultivation for 15 months to 18 months.

Medium-Terms Loans: Medium-terms loans are given for three years for affecting growth on land such as sinking of or repair to wells, purchase of cattle, bullock, carts, and diesel engines and pump sets for making minor improvements on land and for sericulture, milk animals, calf rearing and bio-gas etc. In exceptional cases these loans are extended for beyond five years.

Long-Term Loans and Advances: The long-term credit is known as investment credit. This credit is extended for a period of ten or fifteen years. The long-term credit is given for minor irrigation works like digging wells, purchasing tractors and other machinery, land renovation, poultry and other diversified works. In this an attempt has been made to analyze the categories of loans and advance of district central cooperative bank in Maharashtra.

Credit Flow of Agriculture in India:



Loan Waiver: A loan waiver is the waiving of the real or potential liability of the person or party who has taken out a loan through the voluntary action of the person or party who has made the loan. Farm debt waivers announced by large States could widen the fiscal deficit of the States by 1,07,700 crores this fiscal. It could, however, be argued that loan waivers are no different from bad loans, and NPAs have been large in other sectors too. As per RBI, the gross fiscal deficit (GFD) of States rose to 3.1 per cent of GDP in 2017-18, breaching the threshold of 3 per cent GFD/GSDP ratio recommended by the Finance Commission. This still has been acknowledged by States in their respective Fiscal Responsibility and Budget Management (FRBM) Acts.

Does Farm Loan Waiver Helps??: The success of the loan waiver lies on the extent to which the benefits reach the needy farmers. Loan waivers suffer from several drawbacks in this respect. First it covers only a tiny fraction of farmers. Secondly farmers investing from their own savings and those borrowings from non-institutional sources are outside the purview of loan waiver. It appears that loan waiving can provide a short term relief to a limited section of farmers.

Issues Related To Agricultural Credit And Its Economic Impact In Maharashtra: Farmer's suicides have emerged as a single biggest challenge for the entire agriculture stakeholder's community. This cannot be done through a single masterstroke. The real culprit behind majority of the agriculture problems in Maharashtra is low productivity. This has long chain impact over the entire sector. Lower productivity results into lesser income for farmers, this in turn affect the investment in farm resulting once again much lower productivity.

Considerable Share of Middlemen in Margin of Produce: For decades, farmers in India have had little or no say in choosing markets or buyers for their selling they produce. Most of the state government laws in India mandate marketing and selling of farm produce only through state-owned mandis and retail markets where middlemen pressurize farmers to increase the margins.

Post Harvest Losses of Agricultural Produce: Due to lack of infrastructural facilities of storage of agricultural produce, a substantial amount is lost in post-harvest stages. Poor roads, lack of tractors and trucks and long distance to city markets collectively make it difficult for farmers to extract reasonable prices. In addition to this insufficient cold storage and cold chain transportation system which are unable to extend of shelf life of produce as little as a few days to weeks.

Root Causes and Consequences of Agricultural Credit: Agriculture in India is undergoing a structural change leading to a crisis situation. The rate of growth of agricultural output is gradually declining in the recent years. The relative contribution of agriculture to the GDP has been declining over time steadily. The performance of agriculture by crop categories also clearly indicates the slowing down process of agriculture in India. The trends in the area, input use, capital stock and technology also reflect the agricultural collapse and the farmer's reply accordingly. It is disturbing that India is moving towards a point of no return, from being a self-reliant nation of food surplus to a net importer of food. All these trends indicate that the agricultural sector in India is facing a crisis today. It is argued that the root cause of the crisis was that agriculture is no more a beneficial economic activity when compared to other enterprises. It means that the income derived from these activities is not sufficient enough to meet the expenditure of the cultivators. And therefore, unless agriculture is made a profitable enterprise, the present crisis cannot be solved.

The related factors responsible for the crisis include dependence on rainfall and climate, liberal import of agricultural products, reduction in agricultural subsidies, and lack of easy credit to agriculture and dependence on money lenders, decline in government investment in the agricultural sector and conversion of agricultural land for alternative uses. The contribution of Agricultural GDP is reducing consistently. Getting credit/loan for farmers is very difficult. The risk factor associated with giving loan to farmer is very high. Crop loan is one of main reason for farmer's suicides in Maharashtra. The government loan waiver scheme did not work, since they don't understand ground realities

Conclusion: In Maharashtra where cooperative banks are controlled by politicians, the farmer's loan waiver gives the leaders golden opportunity to make money. To start with, they give loan to their own people taking cuts. The beneficiaries take the loans as a grant and never plan for its return. The real farmers look as fools when the loan waiver comes. Agriculture credit waiver is a populist move announced mostly before elections. It does not address the original problems faced by the agricultural sector. It is counter-productive in the long run for farmers and adversely impact banks as well as the state. The RBI governor Urjit Patel warned that loan waiver will create moral hazard. It will incentivize farmers not to pay in anticipation of future waivers. It destroys credit culture and also impact the state budget. Loan waiver is not lead to any benefits to the farmers in term of productivity. It is a short term solution which is counter-productive to the farmers in the long term. The government should work to build up the repayment capacity of the farmers by ensuring that they have the means to utilize the loan productively.

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