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MICRO FINANCE INSTITUTION AND MARGINALIZED FARMERS IN INDIA: ISSUES AND CHALLENGES

Maneka Yadav [1], Dr. Anu Radha Tiwari [2]

[1] Research Scholar
[2] Registrar, SOLA, GD Goenka University, Sohna Gurgaon, Haryana

Corresponding Author
Maneka Yadav,
maneka.yadav77@gmail.com

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ABSTRACT

Agricultural financing is a critical component of all agricultural development operations aimed at improving the productivity. Farmers must have access to sufficient and timely financing for irrigation, farm mechanisation, and land expansion. The present study is based on secondary sources and try to understand the issues and problems which the farmers are facing with regard to micro finance. In India, it has been observed that most of the farmers are marginal, small and semi-medium as per the agriculture census 2011-12. According to NSSO (70th round) around 52 per cent of the farm households remained indebted in India as a whole of which the state of Andhra Pradesh had the highest share of indebted agricultural households in the country (92.9 per cent) and Tamil Nadu (82.5 per cent)..

Keywords: Credit, Finance, Marginalised, Debit, Farmers, Problems and Challenges

1. INTRODUCTION

In India, the majority of farmers particularly those in the marginal, small, and semi-medium categories, which make up 95% of the farming population according to the 2011-12 Agriculture Census. These issues primarily revolve around the economic challenges that hinder agricultural development, and they contribute to the ongoing cycle of poverty for small-scale farmers.

The average size of holdings of the small and marginal farmers is about 0.38 ha when compared to 17.37 ha for large farmers, which cannot generate adequate employment and income from crop cultivation (Dev, 2017). Agricultural development requires timely and adequate supplies of essential farm inputs. But the investment capacity of majority of the Indian farmers is quite low as they are poor and they cannot afford to meet the increasing demand for the purchase of improved seeds, recommended dosage of fertilisers, hiring costly farm machinery etc. So, lack of finance and its

accessibility are one of the main reasons for low productivity of Indian agriculture. Furthermore, the absence of adequate farm and non-farm employment opportunities lead them to perpetuate in poverty trap.

In India, the share of formal sources varies from 22.6 per cent to 58 per cent for small and marginal farmers. In states like Tamil Nadu, Punjab and Andhra Pradesh, the dependency of small and marginal farmers on informal sources is higher. According to NSSO (70th round) around 52 per cent of the farm households remained indebted in India as a whole of which the state of Andhra Pradesh had the highest share of indebted agricultural households in the country (92.9 per cent) and Tamil Nadu (82.5 per cent). (Sudha and Ashok. 2020).

Microcredit can play an important role in agricultural development in the small, marginal and tenant farmers. One element of an effective strategy for poverty reduction is to promote the effective use of farm inputs. This can be done by creating opportunities for raising agricultural productivity among small and marginal farmers. Many microfinance institution loans are used for agricultural production, trading, processing and transport, resulting in an increase in the use of agricultural inputs and increased output of agricultural production (Zohir and Matin, 2004). Self-Help Group (SHGs) plays a significant role in reaching out and connecting with rural poor women. These groups enable its members to gain their identity as individuals, while realising and utilising the immense power of mutual aid (Mohammad and Mohammed, 2007). Pandit et al. (2007 c.f Sudha and Ashok. 2020) in his study on financing agriculture, a study of Bihar and West Bengal potato cultivation has identified that in Bihar only about 15 per cent farmers opted for institutional loans, whereas, it was more than 34 per cent in case of non-institutional loans. Input traders, fellow farmers, money lenders were the important non-institutional sources in Bihar.

Ensuring demand of agricultural credit for small and marginal farmers means ensuring food security of the country. Availability and access to adequate, timely and low-cost credit from institutional sources has great importance especially to small and marginal farmers. Credit is an important instrument for improving the welfare of the poor directly through consumption smoothening that reduces their vulnerability to short-term income (Okurut and et al., 2004)

It also enhances productive capacity of the poor through financing investment in their human and physical capital. Agriculture credit is one of the pre-requisites for farmers to increase the agricultural output in the process of agricultural development of a country (Kumar and et al., 1987).

Along with other inputs, credit is essential for establishing sustainable and profitable farming systems. Most of the Indian farmers are small producers engaged in agricultural activities in areas of widely varying potential. Experience has shown that easy access to financial services at affordable cost positively affects the productivity, asset formation, income and food security of the rural poor. Many Micro Finance Institution loans are used for agricultural production, trading, processing and transport, resulting in an increase in the use of agricultural inputs and increased output of agricultural production (Zohir and et al., 2004). Microcredit played a positive role in agricultural development, which considerably enhanced the crop production (Muhammad, 2012)

There are so many factors which inhibit especially small and marginal farmers from accessing agricultural credit and financial services timely and at required amount namely age of the household, gender, size of landholding and the role of agent are significantly affected accesses to credit (Vinod and Prajapati, 2012). Moreover, the low bargaining power, bureaucratic and procedural formalities required, asset-based lending and policies of financial institutions and corruption prevailing in the agencies, all worked against small farmers (Kailas,1990). The small size of holdings, the informal and oral nature of tenancy contracts, illiteracy, and low caste status were other inhibiting factors. The higher transaction costs with formal lending have led to an increase in effective rate of interest.

2. BENEFICIARIES & NON-BENEFICIARIES OF KCC.

Kumar et al. (2007) reported that half of the farmers had less than or equal to 5 acres of land. However, 24.67 and 25.33 per cent of the beneficiaries were categorized as medium and large farmers, respectively. The involvement of small farmers (61%) was more in rainfed agro ecosystem than irrigated agro eco-system (38.67%).

Singh and Kumar (2007) reported that, the use of Kisan Credit Card is encouraging and its distribution is less skewed. Age, male-headed households, household size, farm size, level of education, and self-employment in agriculture appear as significant variables positively determining the choice of institutional sources of credit and possession of Kisan Credit Cards.

Vimalraj (2010) reported that, 90.00 per cent of the respondents belonged to middle age group, whereas 6.70 per cent belonged to old and 3.30 per cent belonged to young age group and 10.00 percent of the awarded farmers had small land holding followed by semi medium (30.00%), medium (43.30%) and large (16.70%) land holdings.

Desai et al. (2012) found in their study that a high proportion of the respondents (44.00%) belonged to old age group. More than one third of the respondents had education up to graduation and above (39.00%) level. A large majority of the respondents (89.00%) were having big land holding (>2 ha) while, very negligible per cent of the respondents (1.00%) were landless. More than three-fourth of the respondents (77.00%) belonged to big family. As high as (82.00%) of the respondents belonged to forward caste while, remaining respondents was from backward caste (10.00%) and scheduled caste (8.00%).

Rai Rajesh and Rai j. (2012) revealed that the beneficiaries have some better education as compared to non-beneficiaries due to credit facilities with better return. Overall 56.7 percent respondents from all size groups were found with better socio-economic status through credit facilities provided by lead bank as compared to non-beneficiaries.

Sahu et al. (2012) revealed that the majority of the beneficiary and non-beneficiary respondents were of middle age groups (36 to 50 years) having middle school and primary school level educated, residing in nuclear family system with small size of family (up to 5 members). Majority of the respondents were having marginal land holding (up to 2.50 acre). Majority of the beneficiaries belonged to Rs. 30,001 to Rs. 50,000 (High category) annual income group as compare to non-beneficiaries earned Rs. 20,001 to Rs. 30,000 (Medium category). Meena and Reddy (2013) revealed that, the income of Kisan Credit Card (KCC) holders is 25 to 30 per cent more than the Non-Kisan Credit Card (KCC) holders. This income gap is attributed because Kisan Credit Card (KCC) holders use good quality input material in agricultural operations. However, the study also says that, the large number of the farmers in both the categories opined that the rate of interest was high (61.67% in Kisan Credit Card (KCC) and 93.33% in Non Kisan Credit Card(KCC)). Hence, the study suggests that as the large number of the farmers in both the categories opined that the rate of interest was high 61.67% in Kisan Credit Card (KCC) and 93.33% in NonKisan Credit Card (KCC) and also there is a need to consider the additional activities related to crop production while fixing credit limit under Kisan Credit Card (KCC).

3. CREDIT CARD, ISSUES AND CHALLENGES IN INDIA

Pandey and et al., (2019) major role in causing farmer distress in Maharashtra. The findings also show major reasons like grapevine bureaucracy, lengthy documentation, etc. as the major reasons for choosing private lenders over the formal financial institutions. The most interesting finding of the study was a phenomenon observed during the field study. The borrowers first borrow from financial institutions for their credit needs, when they fail to repay the debt borrowed, they again borrow money from the private money lenders and with this borrowed money they try repaying a part of the old existing loan in order to make themselves eligible for the next loan cycle.

Mohan (2006) studied the overall growth of agriculture and the role of institutional credit. Agreeing that the overall supply of credit to agriculture as a percentage of total disbursal of credit is going down, he argued that this should not be a cause for worry as the share of formal credit as a part of the agricultural GDP is growing. This establishes that while credit is increasing, it has not really made an impact on value of output figures which points out the limitations of credit. It also states that there are several gaps in the system like inadequate provision of credit to small and marginal farmers, paucity of medium and long-term lending and limited deposit mobilisation and heavy dependence on borrowed funds by major agricultural credit purveyors. These have major implications for agricultural development as also the well-being of the farming community. Golait (2007) examined the issues in agricultural credit in India. The analysis revealed that the credit delivery to the agriculture sector continues to be inadequate. It appeared that the banking system is still hesitant on various grounds to purvey credit to small and marginal farmers. It was suggested that concerted efforts were required to augment the flow of credit to agriculture, alongside exploring new innovations in product design and methods of delivery, through better use of technology and related processes. Facilitating credit through processors, input dealers, NGOs, etc., that were vertically integrated with the farmers, including through contract farming, for providing them critical inputs or processing their produce, could increase the credit flow to agriculture significantly. (Awotide et al, 2015) shows that access to appropriate credit sources has been instrumental in reducing poverty and enhancing rural households' income. Access to credit is an important factor in the quest to achieve increase agricultural productivity and hence, access to credit should be included in any agricultural development. Arouri, Nguyen and Youssef (2015) estimate the effect of natural disasters on welfare and poverty of rural households in Vietnam, and subsequently examines

household and community characteristics that can strengthen resilience of households to natural disasters. Households in communes with higher mean expenditure and more equal expenditure distribution are more resilient to natural disasters. Access to micro-credit, internal remittances, and social allowances can help households strengthen the resilience to natural disasters. Narayanan (2016) examines the nature of the relationship between formal agricultural credit and agricultural GDP in India, specifically the role of the former in supporting agricultural growth. Overall, it is quite clear that input use is sensitive to credit flow, whereas GDP of agriculture is not. Credit seems therefore to be an enabling input, but one whose effectiveness is undermined by low technical efficiency and productivity. Notwithstanding these aggregate findings detailed microstudies would be necessary to provide insights into this issue.

Bauer (2016) explains how credit access affects recipient groups heterogeneously. Although there is strong evidence of positive impacts on non-farm income, credit has no effect on farm income, even for recipients with more annual visits to agricultural extension. Credit tends to have significantly positive impacts on household income of the better-off, the richest and those receiving larger credit volumes which implies that households with favourable economic conditions tend to benefit from accessing rural credit. While inadequate access to credit is a major concern in India in general. Previous studies have identified inadequate access to credit as one of the primary impediments to agricultural development (Joshi and Kumar, 2017). However, the source of credit is equally important as some of it may be offered at an exploitative rate of interest. It is well-documented that the rural credit market in India is characterised by the coexistence of formal and informal credit agencies. Formal and informal sources have different implications for agricultural households' welfare, but little empirical evidence has been derived from comparative analyses of the impacts of different sources of credit. Against this background, and with the help of a field survey to be conducted in the state of Haryana, this study aims to contribute to the literature on the impact of different sources of credit.

4. CONCLUSION

Microcredit can play an important role in agricultural development in the small, marginal and tenant farmers. One element of an effective strategy for poverty reduction is to promote the effective use of farm inputs. But it has been observed that there are several gaps in the system like inadequate provision of credit to small and marginal farmers, paucity of medium and long-term lending and limited deposit mobilisation and heavy dependence on borrowed funds by major agricultural credit purveyors. Major reasons like grapevine bureaucracy, lengthy documentation, etc. as the major reasons for choosing private lenders over the formal financial institutions. Kisan Credit Card is encouraging and its distribution is less skewed. Age, male-headed households, household size, farm size, level of education, and self-employment in agriculture appear as significant variables positively determining the choice of institutional sources of credit and possession of Kisan Credit Cards.

CONFLICT OF INTERESTS

None.

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