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Pilot Study on Sources of Agriculture Finance and Challenges for Farmers

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Abstract:
A pilot study is one of the essential stages in research. This paper aims to describe the important steps involve in executing a pilot study by using an example of descriptive study of agriculture finance. Agricultural finance refers to the of the financial aspects of the farm business. Agriculture is the economy's key sector. Finance concerns connected to agricultural product production and disposal are included in the financial elements. When we talk about the financial aspects of agriculture, we're talking about the capital required for agriculture practice, the essential finances raised, and the pattern of use of those funds. Agricultural finance is also a part of agricultural economics that deals with the provision of bank services and financial farm units, as well as their management.

Keywords: Rural Credit, Farmer, Institutional Sources, Non- Institutional Sources Agriculture, Production, Pilot Study

Introduction:
A pilot study can be defined as a small study to test research protocols, data collection instruments, sources of agriculture finance and farmers approaches towards agriculture finance and research technique in preparation for large study. A pilot study is an important step in research and is conducted to identify deficiencies and potential problems in research instruments and protocols prior to implementation during the study. It can also help researchers to become familiar with the procedure and practices. This article aims to describe the steps involved in understanding a pilot study of sources of agriculture finance and associated problems. This paper will try to see what sources of agriculture finance and various problems associated with farmers to obtain finance. Agricultural credit is an important yardstick for channeling funds from savers to borrowers in amount necessary to finance production expenses and capital expenditure. For the agricultural sector to perform creditability well, credit is essential for the achievements of sound economic and social development, which the nation required. Suitable credit delivery and collection systems can be used to facilitate the procurement of production needs of the farmers. Agricultural sector still faces challenges such as lack of capital formation, regional disparity, dependence of farmer's especially small and marginal farmers, tenant farmers, landless laborers' and sharecroppers on non-institutional sources of credit at significantly higher rates, non- realization of the fair price for agricultural produce causing farmers' distress and farm loan waivers impacting credit culture and weakening state finances.

Objectives

To understand the concept of agriculture finance and its sources.
To understand the problems of farmers related to agriculture finance
To suggest methods for improvement of agriculture finance.

Research Methodology

For writing this paper secondary source of data is been used along with some primary data of questionnaire.

Scope of agriculture finance

Financing of agriculture-related activities, from production to market. Not all agricultural finance is rural, and not all rural finance is agricultural. Yet financial service providers offer rural, micro- or agricultural finance often have overlapping objectives and opportunities. Agriculture finance is a type of finance which farmers required for their day-to-day activities for farm like purchasing of fertilizers, seeds, pesticides, implements and tractor, pipelines farms etc. and so on.
Features of Agriculture finance

Features of Agricultural Finance

The following are some of the unique features of agricultural financing, which are outlined and explored below:
Risks in Agriculture: It is difficult to predict risks and uncertainties in the agriculture business. A farmer faces numerous risks and uncertainties, such as droughts, floods, and other natural disasters, all of which can cause significant damage to the farmer. Furthermore, due to a lack of suitable storage facilities to hold back surplus when supply exceeds demand, agricultural produce tends to deteriorate in storage. It leads to even more problems. With so many unknowns, agriculture has traditionally been a difficult business for commercial banks and insurance firms to handle.
Difficulties of Co-operation in Agriculture: There is virtually limited room for cooperation in the agricultural industry. This is because farmers are mostly individualistic and distrustful of working together for a common goal. This makes it harder for farmers to obtain low-cost borrowing.
Economic Lags in Agriculture: There is a considerable time between reward and work in the agricultural production process, especially during the period when costs are incurred. Demand for agricultural products may fluctuate throughout this time, causing farmers' financial arrangements to be disrupted. Farmers will have to deal with yet another source of uncertainty as a result of this. Credit supplying organizations use this as a justification to withhold credit for farm activities.
Credit for Consumption Purpose: Credit is needed by Indian farmers not just for production but also for consumption. Small farmers require financing in the event of crop failure, which they use to meet their consumption needs. Furthermore, Indian farmers are accustomed to overspending on social and religious events. In addition to all of this, litigation is a significant non- productive financial demand.
Small Size of Farm: Farms in India are modest in contrast to the amount of labor engaged and the amount of capital invested. Furthermore, the yield and quality of the products are uncontrollable. As a result, there is a scarcity of security to be supplied as collateral for loans.
Lack of Proper Securities: Large farmers have their own resources, allowing them to borrow money from financial organizations. Small farmers have a difficult time obtaining credit to meet their demands.

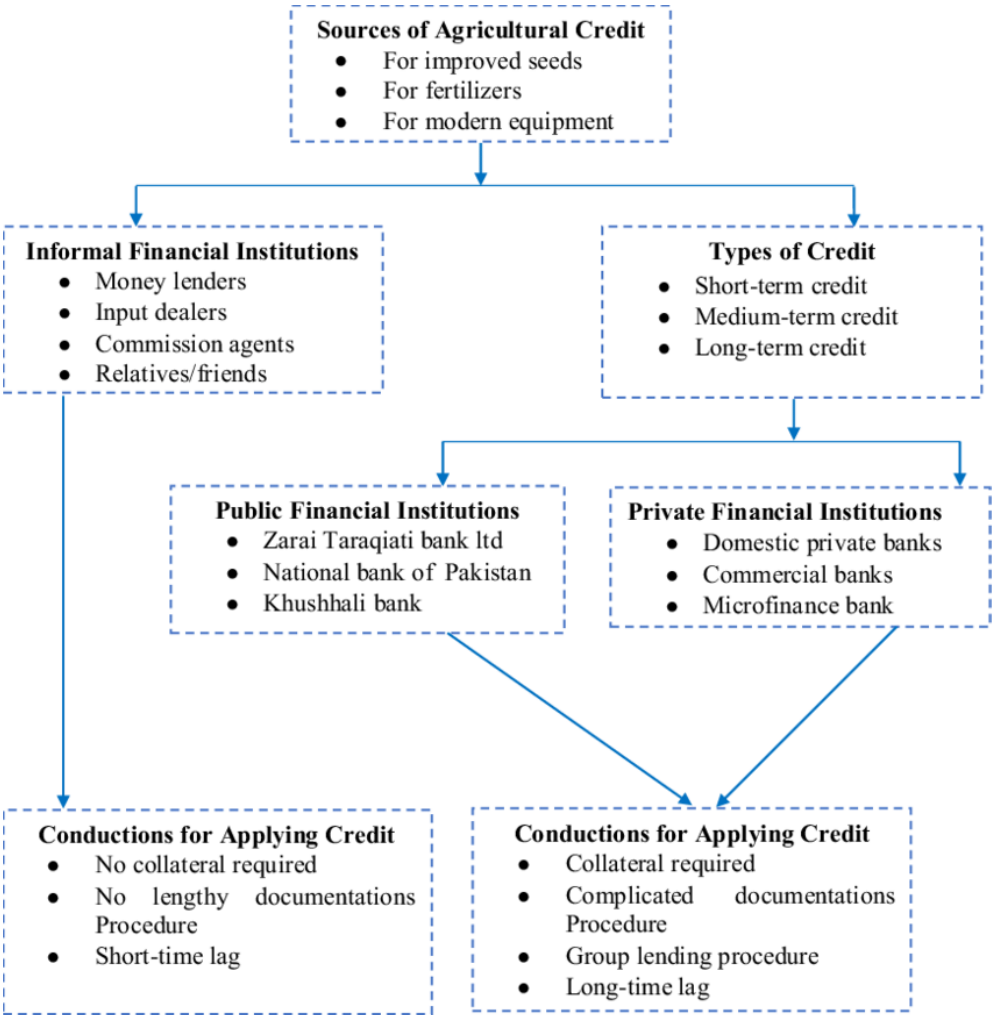
It's because small farmers don't have adequate collateral to put up as collateral for loans, nor do they have the financial means to repay them. As a result, small farmers are forced to seek financial assistance from money lenders.

The complex of Many Industries: Agriculture is a diverse industry with many different types of production and marketing. The number of landholdings and the types of land tenure vary by region. These disparities result in a variety of intricate relationships amongst farmers, making funding the agricultural sector problematic.

Sources of Agricultural Finance in India

The agriculture sector in India is one of the biggest employers of labor force and grew at 3.9 per cent in 2021-22. With such a large percentage of the population employed in agriculture or allied sectors, agricultural finance plays a significant role in supporting activities related to farming and other allied aspects such as production or processing and marketing of produce.

The sources of agricultural finance in the country are broadly classified as institutional and non-institutional sources. Institutional sources are related to institutions such as cooperatives, regional rural banks (RRBs) or scheduled commercial banks (SCBs). Non-institutional agricultural finance refers to financing support offered by traders, money lenders or other individuals like agents, landlords or even family members.



Graph : Rural financial services provided by formal and informal source

Institutional Sources of Agricultural Finance in India

1. **Co-operative societies** Co-operative societies offer the least expensive loans for agriculture and related activities. Primary Agricultural Co-operative Societies (PACS) are among the oldest forms of Agri finance in India and provide short and medium- term loans for agricultural activities. Long-term loans are provided by Primary Co-operative Agriculture and Rural Development Banks (PCARDBs). State Co-operative Agriculture and Rural Development Banks (SCARDBs) also offer long-term loans.
2. **Land Development Banks** Among the various sources of agricultural finance in India are land development banks. Also called land mortgage banks, they are registered under the Co-operative Societies Act. In some states, they are known as Agricultural and Rural Development Banks (ARDBs). These banks offer long-term loans with land as collateral.
3. **Commercial Banks** While co-operative societies offer credit to farmers in need of finance, commercial banks also offer credit to farmers in need of financial support. Scheduled commercial banks offer loans to farmers for buying farm equipment and costs related to activities after harvest. Loans are also offered for dairy and fisheries. Banks offer Kisan Credit Cards, which can beused for the withdrawal of cash at an ATM. The Kisan Credit Card scheme was introduced in 1998 in order to enable credit easilyfor farmers.
4. **Regional Rural Banks** One of the essential sources of farm finance is regional rural banks, which are scheduled commercial banks owned by the government. They were set up based on the recommendations of the Narasimhan Working Group in 1975, followed by the Regional Rural Banks Act, 1976.
5. **Micro Finance** Micro finance is another option that farmers who don't have access to credit via banks and financial institutions or those who don't have adequate collateral can fall back on. Micro finance involves small loans with no collateraland is provided by Microfinance Institutions (MFIs).
6. **Non-Banking Financial Companies** Apart from all these various sources of agricultural finance in India, there is one more significant source – the NBFC. Backed by online and easy-to-use app-based platforms, an NBFC takes banking and credit to those farmers not touched by mainstream banking.

Non-institutional Sources of Agricultural Finance in India

Moneylenders, family and friends, traders, landlords or commission agents are non-institutional sources of agricultural finance.

1. Moneylenders, Agents, Traders, and Landlords

Moneylenders have for decades served as the source for many agricultural families in India's rural credit landscape. However, the interest rates are high, and moneylenders have in many instances pushed families into a debt trap. The same applies to landlords who also charge high and unsustainable rates of interest. Commission agents or traders also offer finance to farmers, but interest rates are relatively high when compared to institutional sources of farm finance.

An easy alternative is to look for small business loans, available on Bajaj MARKETS, at convenient interest rates. What's more, the loan can be availed online in a hassle-free manner.

2. Relatives and Friends

Although relatives can prove to be of help, they may help us in case of financial emergencies and not frequently. Agriculture is acrucial sector of the country's economy and contributes to employment and the nation's GDP. The importance of farm credit and financing is vital for adopting the best agricultural practices and boosting production. Although non-institutional sources of farmincome have been available for decades now, interest rates are high and there is a lack of proper documentation. Customized loan products, made available by NBFCs empowered by technology, have ensured that farmers now have access to institutional credit. Agriculturists can now opt for loans made available by commercial banks, rural banks, and land development banks, microfinance institutions or NBFCs to avail loans. Business loans, available on Bajaj MARKETS from various partners, come with affordable rates of interest and zero collateral. These loans are available at the click of a button and come with flexible repayment options.

Challenges of Agricultural Finance: Governments in India have been working to enhance the availability of loans to the agriculture sector. However, there are some issues with agricultural loans that must be addressed. As a result, the following issues are highlighted:

Complicated Procedures of Loans: It has been discovered that several requirements must be met in order to obtain credit. Most farmers are uneducated and unable to provide the necessary information. As a result, farmers prefer to borrow money from money lenders and pay a higher interest rate. Furthermore, there is a significant time gap between the submission of a loan application and the approval of the loan.

Wastage of Time and Manpower: Most financial institutions, including commercial banks and state cooperative banks, are in urban areas. Farmers must visit bank offices several times to complete a multitude of requirements that lead to loan approval. As a result, time and main power are wasted.

Lack of Co-ordination: Another issue with agricultural finance is the lack of coordination between co-operatives and commercial banks when it comes to credit planning. As a result, credit flows to those places where the due credit structure is robust, while areas with limited credit availability remain deprived. As a result, a lack of cash has been a major factor in low agricultural yield and, as a result, cultivator poverty.

Improper utilization of Loans: In the agricultural industry, there is a discrepancy between payout and demand. When farmers misuse the loans, they have been given, the situation becomes much more pitiful. In other words, the loans are being used for non- productive uses in the country's rural areas.

Inefficient Administration: Another issue is that cooperatives and commercial banks are run by ineffective and inept individuals. These organizations have weaknesses that are tough to overcome. Clearly, they are not working for the benefit of the farming community. Rather, they are concerned with their own personal advantages.

Mounting over dues: Agriculture's slowdown has resulted in a rise in overdue. Efforts to cancel loans in various sections of the country should be taken seriously. In fact, it has set an unfavorable precedent that will stymie future agricultural progress.

No Provision of Consumption Loans: Due to the seasonal nature of farm revenue, peasants require credit for both the production and purchase of durable commodities, but this facility is only available in metropolitan regions. As a result, farmers are forced to borrow money from money lenders for their consumption needs, who suck their blood through deception.

Low Rate of Share in Development: Agriculture's low productivity has resulted in a little percentage of the economy's development. This is due to a lack of technological uptake. This information demonstrates that commercial banks continue to view industry and trade as the safest area in which to invest rather than agriculture. Furthermore, wealthy farmers take a big portion of total loan facilities, leaving impoverished farmers at the whim of unscrupulous money lenders. Loan disbursement by co-operatives, which are managed by well-to-do farmers, follows a similar pattern.

Lack of Savings: In the country, there is a scarcity of rural savings. Rural savings are insufficient to meet rural demands, resulting in a larger need for outside financing in rural sections of the country. It is the efforts to make rural savings conceivable, not the mobilization of rural savings that are required.

The predominance of Private Agencies: There are private agencies in India. There is a pressing need to replace private agencies, as we have been able to achieve in the country's industrial finance sector. Institutional credit can be private or public but continuing to use professional money lenders as the primary source of rural finance would not solve the problem.

Suggestions to Improve Agricultural Finance

It is impossible to overstate the importance of increasing institutional lending to the agriculture sector and modernizing it. To this goal, some recommendations for improving agricultural finance are presented.

Repayment of Loans: In this instance, the government should take strong and substantial steps to provide suitable repayment facilities and offer required assistance to institutional credit agencies in the recovery of loans. Credit institutions should be able to provide additional loans to farmers because of this.

Reduction in Regional Imbalance: To eliminate disparities between rural and urban areas, new bank branches should be established in rural areas, and banks should be directed to make loans to only small and marginal farmers at lower interest rates.

Provision of Consumption Loans: To counteract money lenders' exploitation, cooperatives, and commercial banks should step forward to offer rural residents consumption loans. They will think about selling their produce at market price after they are free of the exploitative tendencies of money lenders, which will aid to increase their farm income.

Co-ordination of Credit Agencies: In this circumstance, genuine efforts should be made to coordinate the operations of diverse cooperative societies and commercial bank institutions. These organizations may be able to work together to satisfy the needs of the rural agricultural community. Farmers will undoubtedly adopt moderate and sophisticated agriculture technology as a result ofthis approach.

Proper Utilization of Loans: This may result in increased crop productivity. A separate unit should be established in all financialinstitutions to ensure proper loan utilization by farmers or cultivators. They should keep a tight eye on the loans to make sure that they are being used for the intended purpose.

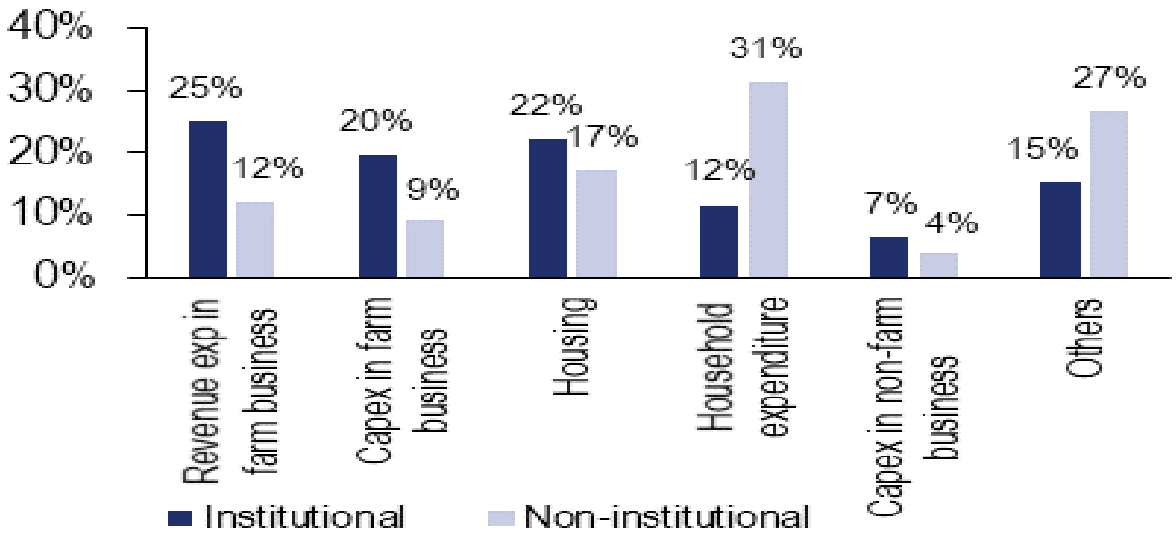


Fig 1: Purpose of Agriculture loan

Sources: All India Debt and Investment Survey 2019; PRS.

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Suitable Representation: Small and marginal farmers will feel more responsible if they are properly represented in the management of cooperative institutions. In this scenario, they are watching out for the interests of their community in order to give loans.

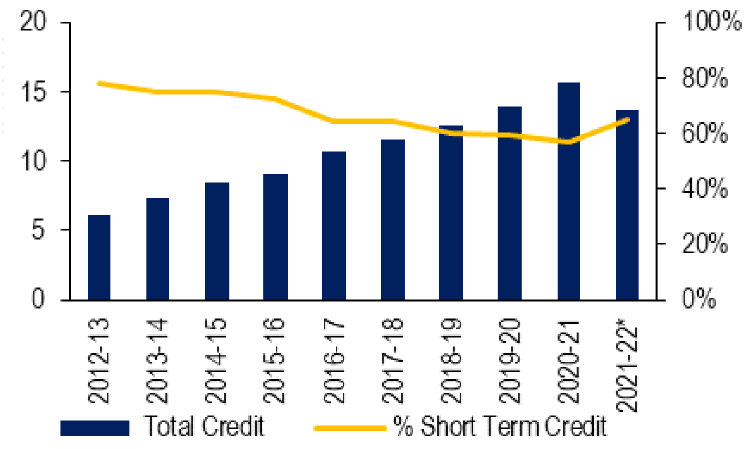

Fig 2: Flow of institutional credit availed by agricultural sector (in Rs lakh crore)

Sources: Agricultural Statistics at a Glance (2021); PRS.

Conclusion:

From the above analysis it has been revealed that the extent of agricultural credit in India is very much inadequate and the private non-institutional sources remained very important in supplying credit to the farmers. Further, the major problem of institutional credit faced by lending institutions, particularly the co-operatives, is the unsatisfactory huge level of over dues ranging between 40 to 47 per cent.

This has resulted in bad health for the institutional credit and thus these lending institutions will not be able to advance more credit for meeting the growing needs of our farmers. In-spite of that, these institutional sources nowadays are advancing more than 60 per cent of the required short-term production 'credit of the Indian farmers.

But the major portion of these credits is being appropriated by the 30 per cent of the middle and affluent farmers of India. At the end of the Seventh Plan, co-operatives, commercial Banks and RRBs extended credit facilities to the extent of Rs 14000 crore as compared with only Rs 24 crore in 1960-61. Thus A pilot study can help the researcher spot any ambiguities (i.e., unusual things), confusion in the information given to participants, or problems with the task devised. Pilot studies also provide researchers with preliminary data to gain insight into the potential results of their proposed experiment.

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