



## Mains Practice Question

**Q.** Apart from technological know-how, ensuring institutional credit for farmers is a challenge. Examine

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### Approach

- Start with the significance of the technical know-how and institutional credit on the farm productivity.
- Examine the challenges in ensuring institutional credit for the farmers.
- Provide solutions for tackling such challenges.

### Introduction

- **Significance of institutional credit:** Agriculture finance assumes essential and significance in the agro- socioeconomic growth of the country and plays a catalytic role in strengthening the farm business and augmenting the productivity of scarce resources.
- **Significance of technology:** Farmers no longer have to apply water, fertilizers, and pesticides uniformly across entire fields. Instead, they can use the minimum quantities required and target very specific areas, or even treat individual plants differently which result in higher crop productivity, decreased use of water, fertilizer, and pesticides, which in turn keeps food prices down.

### Body

However, there are some challenges in ensuring institutional credit for the farmers.

- **Accessibility:** It is observed that still 30.3% of agri-households still borrowed money from non-institutional sources like money lenders, relatives and input suppliers etc. due to inaccessibility to formal crediting system.
- **Unfriendly procedures in Bank:** Banks offer concessional interest rates for the rural credit. However, small farmers are unable to access them because of borrower-unfriendly products and procedures, inflexibility and delay, and high transaction costs, both legitimate and illegal.
- **Size-wise Credit Flow:** Despite impressive growth in direct credit to farmers from the scheduled commercial banks between 1991-92 and 2003-04, contrary to expectation, credit disbursement to small and marginal farmers has not been encouraging. Though the number of accounts increased for small farmers yet the credit flow favoured the richer farmers
- **Region-wise Credit Flow:** The proportions of bank deposits and credit shares have moved in favour of the South, West and North regions. While the share of loans in the total disbursement of credit for agriculture and allied activities were the maximum for the South region, it was the minimum for North-east region.
- **Lack of Awareness of credit policies and schemes:** Illiteracy of poor farmers is yet another challenge. They are not aware of credit policies and procedures
- **Difficulty in collateral:** The ownership of land is complicated to verify as land accounts are not updated. Farmers' income is seasonal; repayment schedule is drawn in harmony with income from investment.

## Solution to meet the challenges:-

- **Revamping the Cooperative Credit Structure:** The Cooperative Credit Structure should be strengthened to make use of its wider reach. These have to be recapitalised so as to provide funds for improving their financial positions. There is a need of capacity building, human resource development, institutional restructuring to ensure democratic functioning, and improving the regulatory regime to empower the RBI to enforce prudent financial management.
- **Strengthening of institutional arrangement:** Institutional sources consist of the government, co-operative societies, Commercial bank including the regional bank, lead bank etc. should be well within the reach of poor farmers.
- **Microfinance Institution:** The experience of micro-finance scheme in India suggests that
  - It is the cost effective way of financing the rural poor
  - The repayment rate of SHGs is more than 95 percent due to peer pressure
  - It reduces transaction costs of borrowers as well as lenders
  - It inculcates the habit of thrift among members and provide timely credit
- The banks should take the help of NGOs and local formal institutions in their lending programmes to reduce the transaction costs and improve recoveries.
- **Awareness:** Farmers should be made aware about the credit policies of the government and procedures. Village level awareness and training camps can be organized.
- **Collateral free loans:** For poor farmers the limit of collateral free loans can be increased.
- To increase technical know-how among Indian farmers: Farmers, especially big farmers should be encouraged to adopt the newer methods of technology such as Micro irrigation methods, GM crops etc.

## Way Forward

The financial cum consultancy approach needs to be followed. For meeting the credit needs of the poor, the programmes like linking of self-help groups (SHGs) with lending agencies are to be further strengthened. The institutional credit system is critical for agricultural development and its role has further increased in the liberalized economic environment.

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