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Role of Financial Institutional for Agriculture Development in Jammu and Kashmir

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Gurcharn Singh Lecturer in Govt. S.P.M.R College of Commerce, Jammu

Dr. Rajni Sharma Lecturer in Govt. R.S. Pura College, Jammu

ABSTRACT

The present study highlights the agriicultural credit scenario in Jammu and Kashmir with special focus on institutional finance to agriculture sector. It also identifies the important issues in agriculture credit market in J&K. It is well known that most of the farmers dependent on external finance to enable cultivation. In the recent years, increasing diversification of agriculture has seen an increase in credit needs. Easy availability of adequate agriculture finance at the right time has an important role in the development of the agriculture as well as for rural development. The result shows that in India, demand for agriculture credit is much higher than its actual supply. In this situation the farmers are left with no alternatives but to move to the informal market. In this market they get trapped and are even compelled to commit the suicide. For the development of agriculture, it is necessary that these problems should be address on priority.

Introduction

Jammu and Kashmir State is basically Rural State and Rural State virtually includes the cultivators, the village craftsmen and agricultural laborers. The institutional structure of rural banking today consists of a set of multi-agency institutions, namely commercial banks, Regional Rural Banks (RRBs) and land development banks. Rapid expansion of the banking system had a positive effect on rural farm and non farm output, income and employment, especially after green revolution. It helped farmers to avail services and credit facilities and a variety of loans for meeting their production needs. Thus to strengthen the institutional rural credit, the regional Rural Banks were introduced in 1975.Till 1968 the official policy were in favor of developing cooperative system. In 1969 All India Rural Credit Review committee found the over large parts of the country, small farmers have been lacking in their access to cooperative credit. Apart from this, the Govt. has also realized that co-operative are not adequately meeting the credit requirements of agriculture. . Indian agriculture is plagued by several problems; some of them are natural and some others are manmade. The various sources of agricultural credit can be classified in two groups. 1) Non Institutional Agencies 2) Institutional Agencies Non institutional agencies include the local village money lender and their agents and landlords and institutional agencies includes cooperatives societies, commercial banks regional rural banks and NABARD.

Reasons for Low productivity in agriculture in J&K

1. Small and fragmented land-holdings:

Sub-division and fragmentation of the holdings is one of the main causes of our low agricultural productivity and backward state of our agriculture. A lot of time and labour is wasted in moving seeds, manure, implements and cattle from one piece of land to another.

2. Seeds:

Seed is a critical and basic input for attaining higher crop yields and sustained growth in agricultural production. Distribution of assured quality seed is as critical as the production of such seeds. Unfortunately, good quality seeds are out of reach of the majority of farmers, especially small and marginal farmers mainly because of exorbitant prices of better seeds.

3. Manures, Fertilizers and Biocides:

Manures and fertilizers play the same role in relation to soils as good food in relation to body. Just as a well-nourished body is capable of doing any good job, a well nourished soil is capable of giving good yields. It has been estimated that about 70 per cent of growth in agricultural production can be attributed to increased fertilizer application.

4. Irrigation:

Although India is the second largest irrigated country of the world after China, only one-third of the cropped area is under irrigation. Irrigation is the most important agricultural input in a tropical monsoon country like India where rainfall is uncertain, unreliable and erratic India cannot achieve sustained progress in agriculture unless and until more than half of the cropped area is brought under assured irrigation.

In Jammu and Kashmir disguised unemployment and low productivity is the negative feature of this sector. Credit plays a vital role for the development of agriculture .As this sector generates low income or surplus due to increasing cost of inputs and implements. It results, J&K agriculture a way of sustenance not a surplus yielding work. Use of technology and high yielding varieties of seeds is still cry for mars for marginal and small farmers. Credit needs is beneficiary for all types of farmers. However it is inevitable for small and marginal farmers which constitute 80% of the total farmers. Small farmers having holding less than 2 hectares and marginal farmers having holding less than1 hectares. Economy of Indian farmer is dualistic where existence of two different segments. One segment of the economy is developed, makes use of modern technique of production and is usually market oriented and have a few problems regarding bank finance. The other segment is subsistence type of economy that makes use of primitive methods of production and has lot of problems in financing agriculture credits.

Need of Rural Credit in Jammu and Kashmir:

The financial requirements of the J&K State farmers can be classified into three types depending upon the period and the purpose for which they are required:

a). Farmers need funds for short periods of less than 15 months for the purpose of cultivation or for meeting domestic expenses e.g. they want to buy seeds, fertilizers, fodder for cattle, etc. They may require funds to support their families in those years when the crops have not been good or adequate for the purpose. Such short terms loans are normally repaid after the harvest.

b). The farmers required finance for medium period ranging between 15 months and 5 years for the purpose of making some improvement on land, buying cattle ,agricultural implements, etc. These loans are repaid over longer period of time.

c). The farmers require for long periods of more than 5 years for the purpose of buying additional land, to make permanent improvement on land, to pay off old debts and to purchase costly agricultural machinery.

Objectives of the study

1. To evaluate the role of rural banks for J&K farmers.
2. To find out the various problems faced by J&K farmers.
3. To assess the quantum of loans issued and outstanding by institutional agencies in India.
4. To examine the progress of Scheduled Commercial Banks in supplying agricultural credit in India.

Methodology

This paper is based on secondary data that is collected from newspaper, books magazine, and journals and from different banks. The different institutions in India played very important role in financing agricultural sector in India.

Function of Financial Institution in Agriculture in J&K

Short-Term Lending:

1. Seasonal Loans:

The farmer requires a loan to buy seasonal productive inputs, such as seeds, fertilizers or to pay for tractor rents. Loans are usually granted one-two months before the rainy season and expire after harvest. Seasonal loans can also be granted to breeders for the time they grow their animals before sale.

2. Counter-Seasonal loans: Some agricultural products grow between two common agricultural seasons (i.e. in the dry season); special loan schemes can be provided to finance input purchase.

3. Personal Loans: Especially in the dry season, producers may need bridge loans to cover personal (and productive) expenses, either because they have already invested all the proceedings of previous harvest, or because they have not sold yet all their crops. Banks may intervene with a consumer loan.

4. Trade Loans: Traders of agricultural products are usually offered bank loans covering the purchase of the product; these loans are often very short-term and are repaid when the products acquired are sold.

Long Term Lending

Investment loans: farmers that want to improve their productive structure, to increase the crop surface, to buy machinery or animals can apply for a long-term loan (often 3-5 years). Repayments are done by annual installments; mortgage or pledge is usually required.

Role of Institutional Finance in J&K

While the above-mentioned functions of financial institutions are conventionally accepted, agricultural and rural development would require performing certain new functions like better access to extension, inputs, and marketing services as a result of technological changes in this sector. These new functions are widely recognized to institutionalize rural credit. However, commercial banks, regional rural banks (RRBs), and to some extent cooperative banks are not sure as to 'how' and 'by whom' can these functions be performed. The rural financial institutions (RFIs) can promote access to inputs, marketing, and processing services by serving the agricultural inputs sub-system (AIS) and the agricultural produce marketing and processing sub-system (AMPS) besides the agricultural production sub-system (APS)*.

The rationale behind direct and indirect rural credit policies.

1. Agricultural inputs marketing sub-system (AIS) credit in total institutional credit.
2. Agricultural production sub-system (APS) credit for current production growth and stability (CPGS)*
3. In total cooperative credit and the 'kind component of crop loans in this type of APS credit.

The study, moreover, shows that the degree of agricultural progress is negatively associated with the share of Current production diversification and growth (CPDG) loans (for supplementary activities like dairy, poultry, sheep farming, and biogas) in APS credit. Agricultural produce marketing and processing sub-system (AMPS) credit in total institutional credit. The degree of agricultural progress is negatively associated with the share of:

a) Current production diversification and growth (CPDG) loans (for supplementary activities like dairy, poultry, sheep farming, and biogas) in APS credit.

b) Agricultural produce marketing and processing sub-system (AMPS) credit in total institutional credit.

The Regional Rural Banks have the following certain objectives:

1. To identify a specific and functional gap in the present institutional structure.
2. To supplement the other institutional agencies.
3. To fill the gap within a reasonable period of time.

Operation of Rural financial institution in J&K (RIF$_s$)

From the preceding discussion; it follows that RFIs should perform the following operations to fulfill their multi-functional role:

1. Promoting and recovering APS short-term loans
2. Facilitating coordinated supply of inputs against the 'kind' component of short-term crop loans (APS and AIS linked credit) and organizational arrangements
3. Extending and recovering inputs distribution credit for farmers not borrowing crop loans and for those farmer-borrowers whose demand for inputs exceeds the one shown under the 'kind' component, i. e. AIS credit promoting and recovering agricultural term loans, i. e. APS term credit.
4. Facilitating supply of assets against APS term credit.
5. Extending and recovering credit for supply of productive agricultural and other assets (AIS credit for assets like agricultural implements, equipment and machineries, electrification, dairy animals, etc.)
6. Arranging agricultural produce marketing and/or processing for farmer-borrowers.
7. Promoting and recovering credit for agricultural commodity-based cooperatives and other agencies or units, i. e. AMPS credit.
8. Promoting extension services in coordination with government agencies and input industries.

Agricultural credit needs can be classified in three categories:

1. Short term
2. Medium term
3. Long term

Short term needs varies between 3 months to 15 months it is seasonal and for purchasing of seeds, fertilizers, pesticides and payment of wages and operational expenses. This type of need is mostly required by all farmers. Medium term needs varies between 15 months to 5 years for the purchase of cattle, small agricultural implements, repairs and constructional wells etc. Long term needs are required for the permanent improvement on lands , digging tube wells, purchase of larger agricultural implements and machinery like tractor, harvesters etc and repayment of old debts . The period of such credit extends beyond 5 years. Commercial banks provide two types of loan i.e. crop loan and investment loan. Crop loan is a short term loan, stands due for repayment immediately after the harvesting of the crop whereas investment loan is a long term loan required for the purposes of capital formation on land.

Problems Faced by the Farmers in J&K

a. Problems of marginal and small farmers.
b. Problems of medium farmers
c. Problems of big farmers.

Almost all marginal and small farmers faced the same problems which are – high rate of interest on loan, lack of financial knowledge about bank products and plans and cumbersome process of getting loans and lack of security and collateral. Medium farmers faced there problems rank wise as cumbersome process of getting loan, lack of financial knowledge and high rate of interest and bank staff is not cooperative. Problems faced by big farmers are as – cumbersome process of getting loan, bank staff is not cooperative, lack of financial knowledge and high interest rate. Some common problems faced by all the three groups of farmers are cumbersome process of getting loan, high rate of interest and bank staff is not cooperative.

Financial institution and Poverty reduction In J&K

Agricultural growth can reduce poverty directly, by raising farm incomes, and indirectly, through labor markets and by reducing food prices. The poverty-reducing effect of increasing farm incomes depends on the participation of poor smallholders in the growth process. Agricultural growth also reduces poverty to the extent that it creates employment opportunities for the poor. In J&K financial institution is making headway in its effort for reducing poverty and empowering rural women. The need of finance arises because the rural J&K requires sources of finance for poverty alleviation, procurement of agricultural and farms finance is a programme to support the poor rural people to pay its debt and maintain social and economic status in the villages. As we know that India is agriculture based economy, finance may be a tool to empower the farmers and rural peoples to make agriculture profitable.

Conclusion

In sum, financial institutions including the RBI and NABARD need to take action on a priority basis to forge effective and efficient backward and forward linkages of APS with AIS and AMPS by altering the scope of direct as well as in direct rural credit and promoting more flexible refinance and/or temporary credit. Accommodation, especially for working capital credit for the three sub-systems and evolving more suitable intermediation instruments for 'kind' loans, credit eligibility criteria, margin, collateral, interest rates, loan recoveries, etc. for these three sub-systems. Developing credit-linked deposits and similar other schemes evolving more appropriate intra and inter organizational innovations to serve the three sub-systems.

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