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CREDIT DELIVERY MECHANISM AND PROCEDURE OF OBTAINING FINANCE: AN EMPIRICAL STUDY OF FARMERS IN CACHAR DISTRICT OF ASSAM

Economics

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ABSTRACT

There is a multiple approach for delivery system of agricultural credit mechanism. There are around one lakh fifty thousand rural banking outlets of commercial banks, cooperative banks, and Regional rural banks. All these banking outlets have massive potential of providing financial services to almost every rural area of the country. For agricultural credit, commercial banks are reserved partners and Co-operative banks hold their own unprofessional system of decision making that is destroying their actuality. In the same reference, in order to utilize their inner power, Regional Rural Banks (RRBs) can play an important role. If it happens, the inefficiencies of cooperative banks, commercial banks will not be able to damage the entire credit delivery system to agriculture in India. The aim of the study is to find out the factor that affect farmers in obtaining credit finance. A sample of 175 respondents have been considered in which there were 70.29% males respondents and 29.71% females respondents filled a standard questionnaire created on five-point interval scale.

KEYWORDS

Agriculture; Credit; Banks; Co-operatives; Rural Banks

INTRODUCTION

Agriculture of India is always in necessity of credit and was always hooked to the traditional credit that has high-interest rates. Indian agriculture has got exploited due to this system of high-interest rates that outcomes in a rural defaulters and is a serious issues that needs to be looked after. In early 1870s.British government already focused on this issue of giving cheap and institutionalized credit needed by the farmers. Indian agriculture got commercialized with green revolution, where farmers relies upon the inputs they buy for huge credit requirement, but cooperatives longed for resources in order to meet the required demand, and commercial banks declined to lend money to small and marginal farmers. This issue needed the restructuring of banking system with the feel of local cooperatives and the professionalism and big resource base of commercial banks. In agricultural credit products, there was very little development; the cooperative banks were split based on terms to short-term credit and long term credit. The requirement of credit was met with the introduction of Kissan Credit Card (KCC) in the budget of 1998, and it played a considerable role in providing farmers easy, quick and flexible credit on timely basis. **(Subbarao, 2012)**After independence, in the first two decades, the channel for institutional credit to agriculture was the cooperative sector, but the cooperative sector failed to meet the expectations of the farmers. As commercial banks were nationalized, in the decade of 1970 they marked their entrance into agricultural credit arena. Narasimhan Committee of 1991, started in the reform of 1990, opined on sustainability and operational effectiveness of financial sector, and it includes financial institutions. The rule of interest rate is steadily liberalized by the Reserve Bank of India with the aim of improving the efficiency of banks. Various important inventions in agricultural credithave been witnessed in the next two decades. Such financial contracts can be seen as the monetization of promise, exchanging cash in present with a promise of future reciprocation. By the prices received, value is then placed upon these financial contracts, the time when traded in the market by buyers and sellers.

By making use of loans, Credit market is created that required an exchange of current cash or commodities with a promise to pay cash or commodity in future. The promise is usually followed with extra conditions and deals that determine the rights and behavior of parties. It is credit rationing, which usually features credit market, which means that an individual or groups are unable to attain loan at any interest rate. For instance, in some region or in some time, farmers have only limited or no access to credit, even if few of them may recommend good investments to financial institutions.

(Shraddha, 2013) Over the years, for the development in rural and agricultural sector in India, agricultural credit is one of the important invention in financial sector. As a percentage of total debt ,informal credit has unfortunately declined and at the same time, the flow of institutional credit towards agriculture has increased. It has helped institutional agencies to start new venture into rural areas, nationalization of major commercial banks, and setting up of regional rural banks with initiatives of the Reserve Bank of India. A clean shift has been noticed in the stricture of source of credit, however, the Regional Rural Banks and scheduled commercial banks appeared as an important source of direct and indirect institutional credit to agriculture in recent years. In a planned versus market economy, the notion, role and nature of credit is little dissimilar. In a market economy, the control of total money supply is the main monetary policy instrument that leaves the allocation of credit within the country largely to independent financial institutions that base their lending policies on viewpoint of risk and financial returns. In a centrally planned economy, credit allocation is the major instrument of monetary policy. It can be quarrelsome that under centrally planned economy is more of an accounting instrument and less of a monetary one. Indian government has introduced various policy measures in order to improve the approachability of farmers to institutional source of credit. The importance of these policies is on progressive institutionalization for giving timely and appropriate support of credit to farmers with special focus on small and weaker section of farmers in order to convince them adopt modern technology and agricultural practices that are improved to increase their productivity. **(Satish, 2011)**In the year 1982, an initiation was taken through Farmers' Club Programme to bring all the farmers together in voluntary groups. The "Farmers' Club Programme" was started with the philosophy if development through credit. A renewed focus was received from 2007-08 onwards towards institutional inventions. The action of technology transfer, facility of credit and counseling advocacy of market, support of market as well as facilitation of input have been adopted by big number of Farmers Club.

Literature Review

C. Goswami and S. Hazarika (2019) found that credit facilities to farmers are not yet nationalized. Property owners, moneylenders, traders, as well as commission agents have exploited farmers for long period. Farmers should be covered by formal credit institutions in order to determine their well-being. Farmers are suffering because there is lac of inventive technologies, they have no access to physical units, and there is shortage of food and nutrition as well as support of price protection. Hence, it can be concluded that there must a simple system of credit disbursement to farmers, where even a less or uneducated can approach to credit facility. In association with National Bank for agriculture and Rural Development (NABARD) the banks must focus on developing a farmer's club. Such clubs can do a remarkable work as they can assist banks to find out the issues of loans, organize training for farmers, mobilization of deposits as well as help farmers in recovery of loans etc.

Hanumanthappa (2017) explained that in India, public policy with reference to rural credit is been focusing on institutionalization for providing credit to farmers at cheap rates. For giving choice to farmers, the multi-agency system has found to be ineffective because of insufficiencies of design and architecture. As well as poor co-operatives, retarded Regional rural banks and commercial banks with decreased interest rates in credit of rural sector have engendered to the inefficiencies of system of multi-agency, which is hindering the delivery system of credit. Different procedures have been taken to refresh the system. A package assistance has been given to co-operatives for revitalization of Vaidyanathan Committee Report. Regional Rural banks are been incorporated and are been provided capital to clean up the balance sheet. A successful involvement if found by commercial banks in credit package of farms to double its credit as well as other initiatives of Indian government.

C. Addo et al (2016) revealed that there are different meaning with reference to the provision of credit provided to agricultural sector. There is a requirement to introduce finance education program for adults by government and other development partners. Farmers will get more information and knowledge about the credit facilities available for them and their farming business. Making farmers powerful and increasing, their strength must also be considered by the policy makers, which will also give them a collective capital and for small farmers a social collateral. Such social assets will increase accessing credit by farmers and for providers of credit it can reduce their cost of transaction. Co-operative organization of farmers must be strengthen which could be a training units for farmers for their business of farming and management of credit as well as provide scale of economies to assist farmers to buy inputs that are improved and cost of marketing will be reduced.

F. Singh (2016) studied that credit limit as well as refinancing facilities is sanctioned by National Bank for Agriculture and Rural Development (NABARD) to State Cooperative Banks, Land Development Banks, and the Regional Rural Banks to amplify their resources for short as well as medium term loans for different agriculture and non-agricultural purposes. For commercial banks, only refinancing facility is provided by NABARD against term loans that is been issued by them under simplified lending for agriculture and non-agriculture purpose as commercial banks are anticipated to meet short term needs.

S. Sharma and P. Kalra (2015) studied the appraisal of credit with the involvement of management evaluation, technical practicability, and sustainable finance, analyzing risk, and rating the credit. As per the risk level of credit, securities that are collateral and have to be provided by borrowers are determined. The service debt is fully analyzed by credit department. In order to appraise the project, the banks have conservative principles. Twenty percent raise in projects has been allowed by banks. There are different stages as well as evaluation of appraisal of credit, before it is approved. Banking as well as financial system has been put forward the sector of MSME as fully ready, efforts have been appreciated, and incentives ben provided for hard work. The opportunities and scale of new heights must be availed by the sector.

P.C. Seena, (2015) studied that even after having a good flow of institutional credit and after reviewing the performance of agriculture credit, various gaps have been identified by the researchers gaps such as improper provision of credit to farmers who are at small as well as marginal levels, gaps related to limited mobilization of deposits and massive dependency on funds that are borrowed. All such gaps needs to be handled properly and needs to be rectified. Reformation in banking sector is also required, such as prudential norms needs to be fixed, CRR and SLR needs to be reduced, Indian agricultural sector is influenced by diversification in banking sector. CRR has fallen down to 4 percent; it assists banks in providing loans. Socio-demographic factors are affecting the choice of credit outlets and quantity of institutional credit utilized by farmers. There is a need of education to build the capacity of borrowing funds by farmers. In order to increase the access of farmers towards institutional credit, providing them training related to procedural formalities and documentation would be helpful for farmers.

R. Godara (2014) investigated that, as compared to the pre-reform period, the drift of institutional credit is high towards agricultural sector, and there is a considerable transformation in the composition as well. In post-reform period, the drift of long as well as short-term credit has increased. A tremendous increase has been noticed in the indirect credit system in agriculture in post-reform time. In order to improve the delivery system of credit in rural sector and to improve its efficiency, the credit structure of co-operative needs to be revamped. Merger and alteration in Regional rural banks who are mostly located in the outer regions is found to be highly considerable institutional alignment to finance formerly abandoned population. Changes in policies and practices of banks and the outcome of and access to bank credit at the time of post-nationalization period is not adequately handled and not even efficiently delivered to farmers. Because of shortage in formation of public capital in rural as well as agricultural sector and determined uninterested attitude of bankers of rural areas towards formal financing, it is possible that micro finance will provide formal banking to rural sector as believed by policy makers as well as planners.

R. Thejeswini et al (2014) examined that one of the important and effective means of rural development is credit for agriculture. Over the years, the agricultural credit is receiving importance. It is found in the study that, as a percentage of total debt, the informal credit has instantly fallen down and in parallel to this there is an increase in the institutional flow of agricultural credit since the institutional agencies have started business into rural sectors. Commercial banks have been nationalized, as well as regional rural banks have been setup with leadership of Reserve Bank of India. A clear shift have been noticed in the structure of credit source, where as an important source of finance both direct and indirect scheduled commercial bank and regional rural banks have come up in recent years. The market of agricultural credit must be designed in such a manner, which will not misrepresent market by giving low cost related to market.

Veerpaul Kaur Maan, Dr. Sandeep kumar(2013) conducted a study on the performance and growth of agricultural sector state-wise. The study reveals that in India agriculture is an important sector as a source of income for farmers, employment, as well as export earnings. Considerable part is played by commercial crops, not just in domestic sector but in external trading as well as it meets the domestic needs of sugar, fibers, and oil and earnings of foreign exchange through substitution of import and export. Because of globalization and liberalization, their importance has growth even more in India since year 1991.

G.C. Pande and S. Priyakumar (2013) found that Indian agricultural sector is face lot of issues as well as challenges. Challenges such as increased pressure on land, fertility of soil are fading, water shortage, and poor condition of environment etc. It is recommended that such rising challenges can be resolved by making use of latest technologies for growth of agricultural sector. Banks can play an important role by providing credit to farmers at low interest rates.

Weber, R. &Musshoff, O. (2012) found that even after taking so many efforts to provide good, effective and adequate facilities by MFIs as well as policy makers of agricultural credit in rural sector, there is a big chunk of farmers who are still unable to participate in the programs related to credit facilities. It is found that farmers who work at small-scale are at more risk. It is investigated by the researchers that in activities that are related to off-farming or farmers who are commercially oriented, the one with positive account balance and those who have increase the size of farms can successfully reduce the limitations of applicants of loan by lenders.

N.T. Kishore (2012) revealed that in order to remove poverty from rural section of India, agricultural sector needs to be strengthen; this will automatically remove the insecurity related to food, unemployment as well as soundness of natural resources. Even today, making agricultural sector powerful means increase in productivity by the launch of seeds that yield good products, applying chemical fertilizers, and pesticides and adoption of latest technologies as lastly availability of institutionalized system of credit. Making institutionalized credit system available will assist farmers buy inputs, but the outcome of this has not made agriculture sector profitable, but made it commercial. More by delivering, the intermediaries have been attracted due to this commercialization and making the marketing channels ineffective as they delivered the agricultural product at inflated price to customers and petty margins to producers that were putting them in debt.

OBJECTIVES OF THE STUDY

1. To find out the factors determining Credit Delivery Mechanism.
2. To check the significance of factors determining effectiveness of Credit Delivery Mechanism

METHODOLOGY

The presented study is exploratory in nature. A survey method was used to collect the primary data from farmers of Chachar District of

India for which a structured questionnaire was developed and used to validate the hypothesis of this study. A sample of 175 respondents has been considered. The sampling method was purposive sampling. Mean and t-test was applied to find out appropriate results of the study.

Findings of the study

Table 1 shows the demographic profile of the respondents, it shows that the number of male respondents is 70.29% and female is 29.71%. Respondents with the "age" group of 21- 30 years of age are 31.43%, those who are 31-40 years are 23.43%, and respondents with the age group 41-50 years are 28% and those who are Above 50are 17.14%. With reference to the "Qualification," those with No formal education are 15.43%, Below High Schools 18.86%, higher secondary are 38.29% and Graduate is 27.42%. Regarding the "Family Size," family who have member Below 4 people is 24%, 4-6 members is 42.29%, and 7-9 members is 33.71%. With reference to the "Farm Size," those who have Below 5 acres are 26.29%, 5-10 acres are 33.71%, and Above 10 acres are 40%.

Table1 Demographic profile of the respondents

Variables	Number of respondents	%age
Gender		
Male	123	70.29%
Female	52	29.71%
Total	**175**	**100%**
Age		
21- 30 years	55	31.43%
31-40 years	41	23.43%
41-50 years	49	28%
Above 50	30	17.14%
Total	**175**	**100%**
Qualification		
No formal education	27	15.43%
Below High school	33	18.86%
Higher secondary	67	38.29%
Graduate	48	27.42%
Total	**175**	**100%**
Family Size		
Below 4 members	42	24%
4-6 members	74	42.29%
7-9 members	59	33.71%
Total	**175**	**100%**
Farm Size		
Below 5 acres	46	26.29%
5-10 acres	59	33.71%
Above 10 acres	70	40%
Total	**175**	**100%**

Table 2 Credit Delivery Mechanism and procedure of obtaining finance

Sr. No.	Statements	Mean Score
1.	Farmers are unaware about the finance related facilities that are available	4.46
2.	Due to complex documentation, farmers hesitate to apply for credit finance facility	4.11
3.	Farmers found lack of services from banks and other financial institutions	4.27
4.	Due to lack of education, farmers do not understand the advantageous and disadvantageous of credit finance facility	4.39
5.	Farmers found difficulties in opening bank account, hence unable to utilize the facilities	4.28
6.	Due to incomplete documents and other necessities there is inaccessibility to credit	3.46
7.	Farmers found the loan amount insufficient	3.77
8.	Due to high-interest rates of credit finance, farmers cannot afford of taking credit	3.43
9.	Due to the chances of not being able to re-pay the loan, farmers do not apply for credit finance	3.59
10.	Farmers have low exposure to the risks associated with credit finance	4.22

Table 2 shows the mean values of the procedure of credit delivery mechanism, with reference to the awareness and knowledge of farmers, "Farmers are unaware about the finance related facilities that are available" (mean value 4.46). Regarding easy procedure "Due to complex documentation, farmers hesitate to apply for credit finance facility," (mean value is 4.11), it is found that farmers are not satisfied with the services "Farmers found lack of services from banks and other financial institutions" (mean value is 4.27). As most of the farmers are uneducated "Due to lack of education, farmers do not understand the advantageous and disadvantageous of credit finance facility," (mean value is 4.39), "Farmers found difficulties in opening bank account, hence unable to utilize the facilities" (mean value 4.28). Inaccessibility faced by farmers, "Due to incomplete documents and other necessities there is inaccessibility to credit" (mean value 3.46), "Farmers found the loan amount insufficient" (mean value 3.77). Interest rates are found to be high by farmers, "Due to high-interest rates of credit finance, farmers cannot afford of taking credit" (mean value 3.43), "Due to the chances of not being able to re-pay the loan, farmers do not apply for credit finance," (mean value3.59). Farmers do not have enough understanding, "Farmers have low exposure to the risks associated with credit finance" (mean value 4.22).

Table 3 Credit Delivery Mechanism and procedure of obtaining finance

Sr. No.	Statements	t Value	Sig
1.	Farmers are unaware about the finance related facilities that are available	15.373	0.000
2.	Due to complex documentation, farmers hesitate to apply for credit finance facility	13.616	0.000
3.	Farmers found lack of services from banks and other financial institutions	10.518	0.000
4.	Due to lack of education, farmers do not understand the advantageous and disadvantageous of credit finance facility	12.540	0.000
5.	Farmers found difficulties in opening bank account, hence unable to utilize the facilities	8.648	0.000
6.	Due to incomplete documents and other necessities there is inaccessibility to credit	-0.536	0.296
7.	Farmers found the loan amount insufficient	4.254	0.000
8.	Due to high-interest rates of credit finance, farmers cannot afford of taking credit	-1.077	0.141
9.	Due to the chances of not being able to re-pay the loan, farmers do not apply for credit finance	1.212	0.114
10.	Farmers have low exposure to the risks associated with credit finance	9.116	0.000

Table 3 shows that all the statements related to the Credit Delivery Mechanism and the procedure of obtaining finance. It is found that statement number 1, 2, 3, 4, 5, 7 and 10 are found to be significant as their t-value is positive as well as significant value is less than 0.05. Statement number 6 and 8 "Due to incomplete documents and other necessities there is inaccessibility to credit," "Due to high-interest rates of credit finance, farmers cannot afford of taking credit" respectively have negative value as well as its significant value is more than 0.05. Statement number 9 "Due to the chances of not being able to re-pay the loan, farmers do not apply for credit finance" is also insignificant as its value is more than 0.05.

CONCLUSION

It is concluded that for economic development of any nation, credit finance facility is very essential. For the modernization and increased production of crops, it is important that farmers apply latest technologies and have finest facilities available with them, which is possible only if they have proper credit facilities available from banks and other financial institutions. In India, institutional as well as non-institutional credit delivery system is highly popular in rural sector. In this system, the rate of interest is quite high, which needs to be taken care of, as farmers are mostly unable to avail to credit facilities due to high interest rates. Commercial banks have made big progress in providing credit facilities to Indian farmers. "Mean" and "t-test" been used to find outcome of research to find out the procedure of credit delivery mechanism and about how to obtain finance by Indian farmers.

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