

# Impact of Microfinance in the Upliftment of Agriculture Sector

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**Abstract**— The agricultural production has been showing declining trend during 2001-07 and the income from agriculture is increasingly becoming insufficient to fulfill even the fundamental consumption needs of farm households. It's more thus far small and marginal farmers whose income falls in need of their consumption expenditure. during this situation, the bulk of farm households do not have savings to speculate in critical inputs like irrigation, seed, fertilizer and agricultural chemicals. Institutional agricultural credit is that the only option which may help in increasing investment in agriculture through improving the liquidity of the farmers for using critical inputs at proper time. The financial requirement of farmers has increased manifold because of adoption of contemporary technology Considering the raising demand for agricultural finance in Bihar, NBFC (National Bank for Agriculture and Rural Development, Regional Office, Patna) also raised the projection of agricultural finance within the state from Rs 1745 crore in 2001-02 to Rs 5720 crore in 2008-09. and Rs. 8427 crores in 2009-10.

**Keywords**— Agriculture loan, Credit Sources, Microfinance institutions.

## I. INTRODUCTION

Bihar is that the third most populous state after UP and Maharashtra may be a land of farmers and contains a large proportion of population dependent upon agriculture for his or her livelihood in India. Thus, agriculture yet forms the backbone of development. Agriculture plays pivotal role in Bihar's economy and this sector's better performance is significant for inclusive growth. Presence of sound national economy may be a symbol of the robust pillar of growth, economic prosperity and overall development of any economy. Microfinance institutions give microloans to entrepreneurs who otherwise don't qualify for a regular loan. Microfinance provides financial products and services to masses especially underprivileged and disadvantaged people at a reasonable terms and conditions. According to NSSO (National Sample Survey Organization), only 17.2% rural families in Bihar received institutional credit in 1971 which became less to 14.3% in 2003 and the remaining majority households (86%), mainly small and marginal farmers, have virtually no access to institutional source of credit within the State.

In recent development, Bihar is one of the largest producers of vegetables, which is dominated by potato, onion, eggplant, and cauliflower microfinance institutions. An average Indian still spends almost half his/her total expenditure on food and roughly half India's manpower remains engaged in agriculture for its livelihood.

Table A shows the contribution of these different sources to the total agricultural credit in India since 1951- 52 to 1996.

Table A: Borrowing of Cultivators from Different Sources (Percentages)

Sources	1951-52	1961-62	1971	1981	1995-96
<b>Non –Institutional</b>					
(i) Moneylenders	69.7	49.2	36.1	16.1	7.0
(ii) Traders	5.5	8.8	8.4	3.2	5.0
(iii) Relatives and friends	14.2	8.8	13.1	8.7	3.0
(iv) Landlords and others	92.7	81.3	68.3	36.8	25.0
<b>Sub-total [(i) to (iv)]</b>	92.7	81.3	68.3	36.8	25.0
<b>Institutional</b>					
(v) Government	3.1	15.5	7.1	3.9	5.0
(vi) Co-operatives	3.3	2.6	22.0	29.9	40.0
(vii) Commercial and Rural Banks	0.9	0.6	2.6	29.4	30.0
<b>Sub-total [(v) to (vii)]</b>	7.3	18.7	31.7	63.2	75.0
<b>Total A + B</b>	100.0	100.0	100.0	100.0	100.0

It is often revealed from Table A that among all the various non-institutional sources the contribution of cash lenders was highest which was to the extent of 69.7 per cent. But its contribution gradually decreased to 49.2 per cent in 1961-62 then to 7.0 per cent in 1996. Total contribution of non-institutional source towards agricultural credit has gradually declined from 92.7% in 1951-52 to 25.0% in 1996. The share of institutional sources to the overall agricultural credit which was 7.3% in 1951-52 gradually increased to 18.7% in 1961-62 then to 75.0% in 1996. Out of those institutional sources, co-operatives contributed 40% and commercial banks contributed 30.0% of the overall farm credit in 1996.

Table B: TA of Gross State Domestic Product (GSDP) at Factor Cost (2004-05 Prices) (2001-10) (Rs. Crore)

Sectors	TA 2001-04	TA 2004-07	TA 2007
Agriculture and Allied	22707	25126	27537
Industry	8828	12040	18753
Services	42546	45735	67010
Total GSDP	73964	82901	11312

Source: Economic Survey of Bihar, GOB

TA: Triennium average

State	No. Of SHGs (000) with Bank Linkage	Savings of SHGs With Banks (Rs crore)	Bank loans disbursed during the year (Rs crore)
Andhra Pradesh	902	4146	11505
<b>Bihar</b>	<b>279</b>	<b>360</b>	<b>611</b>
Chhattisgarh	160	160	96

Gujarat	221	184	266
Haryana	43	159	54
Jharkahnd	99	96	66
Karnataka	962	1442	6259
Kerala	273	629	1407
Madhya Pradesh	249	248	591
Maharashtra	789	857	1600
Odisha	487	486	860
Punjab	30	40	38
Rajasthan	264	187	322
Tamil Nadu	852	920	4826
Uttar Pradesh	364	382	294
West Bengal	831	1535	1954
<b>Total</b>	<b>7903</b>	<b>13691</b>	<b>37287</b>

**KEY INDICATORS OF BANKS IN BIHAR  
BANKING STATICS AS ON 31.03.2018**

(Rs. in Crore)

Sl. No.	ITEMS	MAR'17	MAR'18	Bench-mark
1	DEPOSITS	280369.95	312828.95	
2	ADVANCES	104944.86	127047.81	
3	ADVANCES INCLUDING ADVANCES GRANTED TO UNITS IN BIHAR BY BRANCHES OPERATING OUTSIDE BIHAR	117442.87	134996.93	
4	ADVANCES INCLUDING RIDF	123191.87	141967.93	
5	CD RATIO	43.94%	45.38%	
6	PRIORITY SECTOR ADVANCES	76760.47	86262.15	
7	SHARE OF PSA IN TOTAL ADV (SL.NO.2)(%)	73.14%	67.90%	40%
8	AGRICULTURAL ADV.	41831.56	45705.73	
9	SHARE OF AGL. ADV IN TOTAL ADV (SL.NO.2) (%)	39.86%	35.98%	18%

**FARM CREDIT**

A summarized statement of Farm Credit sanctioned and disbursed by Commercial Banks, Co-operative Banks and RRBs, vis-à-vis their respective targets, during FY 2017-18 is given below:

(Rs. In Crore)

Banks	Target	Sanctioned		Disbursement		% Achiev
	Amount	No.	Amount	No.	Amount	
Comm. Banks	25163	2619914	22039	2613609	21669	87.59
Co-op Banks	891	370746	2548	370746	2548	286.10
RRBs	16055	1648013	14897	1646976	14871	92.79
<b>Grand Total</b>	<b>42109</b>	<b>4638673</b>	<b>39484</b>	<b>4631331</b>	<b>39088</b>	<b>93.77</b>

Slbc, Bihar

**PROVIDING KCC TO ALL ELIGIBLE AND NON-**

**DEFAULTER FARMERS**

In the light of the directives issued by the Ministry of Finance, Government of India, KCC is to be provided to all of the eligible and non-defaulter farmers. Modified Common form, format of affidavit (for loan upto Rs. 50,000) and Checklist for KCC loan has been provided to the Agriculture Department, Government of Bihar with asking to circulate the identical down the road to facilitate generation of loan applications from all eligible farmers. The Agriculture Department, Government of Bihar has been requested to supply village-wise list of eligible farmers to Banks, to enable them to increase credit facility to all the such farmers.

The Revenue & Land Reforms Department, Government of Bihar is requested to rearrange for timely issuance of the LPCs by the concerned authorities on the prescribed formats, incorporating all required particulars.

**REVIEW OF ACP FOR THE FINANCIAL YEAR 2017-18**

(i) Target v/s Achievement:

The performance of Banks under the Annual Credit Plan 2017-18 up to March'2018, is as under: -

(Rs. in Crore)

Banks	Target	Achievement	% Ach.
Comm. Banks	86044	77594	90.18
Co-op. Banks	1036	2570	248.02
TTBs	22920	19770	86.26
<b>Total</b>	<b>110000</b>	<b>99934</b>	<b>90.85</b>

Sector-wise break-up of targets and achievement:

(Rs. in crore)

Sector	Target	Achievement	% Ach.
Agriculture	49000	42161	86.04
SME	17000	18985	111.68
OPS	13000	9781	75.24
TPS	79000	70927	89.78
NPS	31000	29007	93.57
<b>Total</b>	<b>110000</b>	<b>99934</b>	<b>90.85</b>

Slbc, Bihar

**KISAN CREDIT CARD OUTSTANDING**

(Amt in Cr)

Bihar	KCC Outstanding		NPA in KCC		%NPA
	No.	Amount	No.	Amount	Amount
	4301168	26459	666993	4158	15.72

Slbc, Bihar

**CROP LOAN OUTSTANDING TO SMALL & MARGINAL FARMERS & OTHERS**

Bihar	Small & Marginal Farmers		Other Farmers	
	No.	O/S Amount	No.	O/S Amount
	2709441	19496	1531373	10622

Slbc, Bihar

**AGRICULTURE TERM LOAN OUTSTANDING TO SMALL & MARGINAL FARMERS & OTHERS**

Bihar	Small & Marginal Farmers		Other Farmers	
	No.	O/S Amount	No.	O/S Amount
	846331	3587	1409345	9188

Slbc, Bihar

What is microfinance?

Microfinance means small savings, loans and insurance services for socially and economically disadvantaged sections of society.

Microfinance, also called microcredit, could also be a range of banking service that's provided to unemployed or low-income individuals or groups who otherwise would do not have the other access to financial services. While institutions participating within the realm of microfinance most often provide lending (microloans can range from as small as \$100 to as large as \$25,000), many banks offer additional services, like checking and savings accounts, and micro-insurance products; and some even provide financial and business education. Ultimately, the goal of microfinance is to offer impoverished people a chance to become self-sufficient.

**Self Help Groups (SHGs)**

SHGs (self-help groups) have emerged as organization’s innovation to provide savings-linked credit support, especially for the weaker section of the agricultural community. SHGs not only benefit their members, they also enable banks to cut their transaction costs and risks in disbursing small loans. This also improves banks’ outreach and credit flow to the poor.

Some 29 lakh credit linked SHGs have been established within the country by 2007 at this point. Bihar accounts for 8 % of national population but over 18% rural poor of the country reside within the state. Only 2.46 % of SHGs of country are established within the State upto 2007. Although adequate number of SHGs have been promoted by various agencies during the last two years, not all eligible SHGs have been credit-linked in Bihar. Out of 10716 SHGs organized by Mahila Vikas Nigam, Bihar, 7786 SHGs are associated with micro-financing institutions but only 2990 are credit-linked. Given the poverty line within the state, predominance of small and marginal farmers in addition as landless labourers in Bihar, SHGs have tremendous potential in lifting the disadvantaged groups and rescuing them from position.

It assumes special importance and urgency in view of the difficulties faced in getting loans from institutional sources in Bihar.

**Weather-based crop Insurance**

In 2007-08, the Weather Based Crop Insurance Scheme (WBCIS) was implemented on a pilot basis in selected regions of Karnataka. The WBCIS intends to provide insurance protection to farmers against adverse weather events such as losses and access rains that adversely affect crop production. It has the advantage of settling claims within a minimum period of time. WBCIS The premium is based on actual rates, but to make the scheme attractive, the premium actually taken from the farmers is equal to NAIS. AICIL (The Agricultural Insurance Company of India Limited) has implemented WBCIS (weather-based crop insurance scheme) in three districts (Patna, Muzaffarpur and Araria) during 2007-08 and claimed Rs 170.16 lakh to farmers in May 2008.

In the Rabi season 2008-09, all the blocks in the five districts (Patna, Muzaffarpur, Gaya, Bhagalpur and Purnia) are covered under WBCIS for wheat, lentils, gram and potatoes. The crop area covered under the scheme is less than one

percent of the total area of the respective crops grown in Bihar. The scheme appears to be beneficial for farmers and should be extended to all blocks including vegetables and fruits for all major crops.

**CROP INSURANCE SCHEME**

A new insurance scheme called Prime Minister Insurance Scheme has been launched Government of India.

The Department of Agriculture and Farmers Welfare, Ministry of Agriculture and Farmers Welfare, Government of India wrote a letter to the SLBC on 24 July 2017 advising all the participating banks to issue necessary instructions: -

- Before the scheduled cutoff date mentioned in the notification / GO, debit the premium for all notified crops and notified areas from the loan account of all farmers and electronically send them to the respective insurance companies (ICs) within the specified cutoff date.
- Announcement of crop names, number of farmers, sum insured in covered area (per hectare) and crop insurance for Kharif (YEAR). Details of premiums remitted by our bank branches along with the sum insured and UTR of the concerned insurance companies.

**Role of Credit Institutions**

All the three rural financing institutions that is; Co-operative Banks, Regional Rural Bank and Commercial banks are engaged in crop insurance scheme. Commercial banks granted about 56 percent of crop loans but covered only 16 percent of farmers under crop insurance in Bihar in 2005-06 (Table-1).

Table 1: Share of different lending institutions in granting crop loans and their share in coverage of farmers in Bihar. (2005-06) (%)

Name of Bank	Share in crop loan	Share in crop insurance
Commercial Banks	56	16
Gramin Banks	21	21
Co-operatives	23	63

Source: Agriculture Insurance Company of India Limited, Fraser Road, Patna (Bihar)

**Rural and Agricultural Finance**

Over the years it's emerged as a strong tool for financial inclusion in India. Financial inclusion could be a new paradigm of economic process that plays major role in driving away poverty from state like Bihar. Financial inclusion is that the top priority of any developing or backward state like Bihar in terms of economic process and advancement of society. It enables to cut back the gap between rich and poor people. The co-operative system remains a vital source of agricultural credit in Bihar. Despite several shortcomings, cooperatives are still a highly preferred agency for financing agriculture and allied activities.

The Bihar State Co-operative exploitation Bank was established to cater to the wants of long-term agricultural credit but it's been in recurrent loss for the last 13 years and therefore the bank doesn't qualify for any assistance from NABARD thanks to poor recovery performance. Bihar State Cooperative Bank is at the top level in short term cooperative credit structure.

**Who are smallholders?**

Small farmers are also defined as those farmers who have a small plot of land on which they grow subsistence crops and one or two cash crops depend exclusively on family labor.

A smallholding may be a piece of land and its adjacent housing for the smallholder and stabling for cattle. it's usually smaller than a farm but larger than an allotment, usually under 50 acres (20 ha).

Smallholder farming, smallholder family farming—small farms that rely mainly on family labor—is the backbone of agricultural production in developing countries. in step with the United Nations Food and Agriculture Organization (FAO), four-fifths of the developing world's food may be a product of small-sized farms.

We estimate the amount, size, and distribution of farms, and farmland worldwide. Most of the world's over 570 million farms are small and family-run. Small farms (less than 2 ha) operate about 12% of the world's agricultural land. Family farms operate about 75% of the world's agricultural land. Majority of the farmers in India are small and marginal, often performing on landholdings that are but one hectare or between one and two hectares.

**How MFIs can help smallholders?**

The World Bank estimated that approx 500 million have got benefit from Microfinance related work directly or indirectly. The International Finance Corporation (IFC), a part of the larger World Bank Group, estimates that, as of 2014, over 130 million people have directly benefited from microfinance-related operations.

However, these operations are only available to approximately 20 percent of the three billion people that qualify as among the world's poor.

**Overcoming Challenges to Agricultural Lending and the Role of Public Policy**

Agriculture would still play an integral part of the event process, as around 88 percent of the population still sleep in villages and that they would still depend upon agriculture as a major source of their livelihood.

**Conclusion**

Above discussions clearly indicate that there's vast scope for extending insurance support to an oversized number of loanee and non-loanee farmers for various crops. The method of agricultural insurance has to be accelerated to save lots of the weaker sections of society because the bulk of small and marginal farmers yet bear the brunt of crop failures. Therefore, the target group for preferential treatment should comprises small and marginal farmers, yet as tenant farmers and farm labourer.

**Thus, in order to remove limitations and problems of agricultural credit in India the following measures may be suggested:**

- (i) To monitor the taccavi loan offered by the govt in a very serious manner.
- (ii) Co-operative credit societies should be organised to form it efficient and purposeful for delivering the simplest in terms of rural credit. Moreover, these

- societies could also be transformed into a multi-purpose society with sufficient funding capacity.
- (iii) Middlemen existing between credit agencies and borrowers should be eliminated.
- (iv) Banking concern of India should arrange sufficient fund in order that future loans will be advanced to the farmers.
- (v) To end the exploitation of farmers, the power and activities of moneylenders and moneylenders should be investigated.
- (vi) The govt should introduce the credit guarantee scheme so on provide guarantee on behalf of the farmers for getting loans.
- (vii) The banks should adopt procedural simplification for credit delivery through rationalization of its working pattern.
- (viii) The govt should issue Kisan credit cards to the farmers to draw cash for his or her production needs on the idea of the model scheme prepared by NABARD.
- (ix) so as to test the fraud practices adopted by the farmer, for getting loans from different agencies by showing same tangible security, a master card should be issued against each farmer which is able to show the small print about the loans taken by them from different agencies.
- (x) Credit should also monitor the special use of credit by developing an efficient supervisory mechanism.

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

This has resulted a foul health to the institutional credit and thus these lending institutions won't be able to advance more credit for meeting the growing needs of our farmers. In spite of that, these institutional sources nowadays are advancing quite 60 per cent of the specified short term production 'credit of the Indian farmers.

But the foremost portion of those credits is being appropriated by the 30% of the center and affluent farmers of India. At the top of the Seventh Plan, co-operatives, commercial Banks and RRBs extended credit facilities to the extent of Rs 14000cr. as compared with only Rs 24cr. in 1960-61.

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