

# Current Issues in Agriculture Credit System in Telangana State: Evaluation and Effective

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## ABSTRACT

Telangana, a state known for its agricultural productivity, faces several challenges in its agriculture credit system. Despite various initiatives by the government and financial institutions, certain issues persist, hindering the smooth flow of credit to farmers. This paper will delve into the current issues affecting the agriculture credit system in Telangana and propose potential solutions. This study explores challenges in Telangana's agricultural credit system, emphasizing limited access for small farmers and administrative hurdles.

**Keywords:** Agricultural credit, Telangana, Crop loans, challenges

## INTRODUCTION

The agriculture credit system plays a vital role in supporting the farming community and ensuring the growth of the agricultural sector. In Telangana State, like in many other regions, access to credit is crucial for farmers to meet their financial needs, purchase inputs, and invest in modern farming practices. However, the effectiveness and efficiency of the agriculture credit system in Telangana have faced several challenges in recent years. This article aims to evaluate the current issues in the agriculture credit system in Telangana State and provide insights into possible solutions.

## LITERATURE REVIEW

The literature on agricultural credit emphasizes its crucial role in fostering sustainable economic growth by facilitating efficient agricultural transactions. Sidhu and Gill (2006) highlighted its significance for small and marginal farmers in India, stressing the need for financial institutions to mobilize savings towards productive agricultural activities. Golait (2007) identified challenges in credit delivery to small farmers and advocated for innovative approaches and alternative channels to enhance accessibility. Narayanan (2016) found that while formal credit impacts inputs, its influence on agricultural GDP is limited by low technical efficiency. Aggarwal and Narayanan (2019) studied the impact of demonetization on agricultural trade, revealing lasting effects on domestic markets. Hawaldar et al. (2020) explored NPAs in agricultural loans, attributing them to government policies and willful default. Patil et al. (2023) analyzed the symbiotic relationship between banking and agriculture,

highlighting the role of policies and schemes like PMFBY and KCC, while emphasizing the need for continuous policy refinement to address accessibility issues and ensure sustainable growth.

## Need for the Study

In the agricultural landscape of Telangana, the accessibility of credit is a vital factor in sustaining agricultural productivity, empowering farmers, and propelling rural development. Assessing the recent trends and projections in the agricultural credit system reveals both achievements and areas for improvement, necessitating a critical evaluation for effective solutions.

## Objectives of the Study

1. To identify the challenges faced by farmers in accessing and utilizing agricultural credit effectively
2. To evaluate the current state of the agricultural credit system in Telangana

## Challenges Faced by Farmers in Accessing And Utilizing Agricultural Credit Effectively

The shift from traditional cereal-based cropping systems to commercial crops has led to high input-high output-high risk agriculture. This transition is resulting in small and marginal farmers facing difficulties in coping and accruing significant debt due to higher production costs. Faster farm mechanization has increased scale economies, disadvantaging small farmers who receive less profit compared to larger farmers per unit area. This has widened the income gap between different categories of farmers. Tenant farmers, who have to pay a significant portion of their returns as tenancy fees, are especially vulnerable to yield losses or reductions in output prices. Despite lower yields, they are obligated to pay a fixed percentage, impacting their financial stability.

The livestock sector's contribution to the gross state domestic product (GSDP) is increasing, offering a potential remedy to the challenges faced in the crop sector. Diversification into livestock farming could provide alternative sources of income for agricultural households. The average agricultural household in Telangana needs a considerable landholding of 4.41 hectares to surpass the poverty line, indicating the significance of land ownership in poverty alleviation efforts.

Some of the most common challenges along with probable solutions are listed below:

**Table 1: Challenges and Solutions**

<b>Challenges</b>	<b>Solutions</b>
Limited availability of institutional credit for small and marginal farmers, especially in remote rural areas.	<ul style="list-style-type: none"> <li>- Establishing more bank branches and rural banking infrastructure.</li> <li>- Promoting financial literacy and awareness programs.</li> <li>- Strengthening credit delivery through SHGs.</li> </ul>
Unaffordable credit and increasing the risk of indebtedness.	<ul style="list-style-type: none"> <li>- Introducing interest rate subsidies or interest rate caps on agricultural loans.</li> <li>- Encouraging competition among financial institutions to offer lower interest rates.</li> </ul>
Administrative bottlenecks and procedural hurdles lead to delays in credit disbursement, impacting farmers' operations.	<ul style="list-style-type: none"> <li>- Streamlining loan approval processes and leveraging technology for online applications.</li> <li>- Establishing dedicated agricultural credit cells in banks for expedited loan processing.</li> </ul>
Limited access to credit for post-harvest activities such as storage, processing, and marketing, hindering value addition and market access for farmers.	<ul style="list-style-type: none"> <li>- Introducing credit products for post-harvest operations.</li> <li>- Investing in cold storage facilities and food processing units.</li> </ul>
Some farmers rely on informal sources of credit due to limited access to formal finance or unfavourable loan terms, leading to high debt burdens.	<ul style="list-style-type: none"> <li>- Strengthening rural banking infrastructure and expanding the reach of formal financial institutions.</li> <li>- Offering competitive interest rates and flexible repayment options.</li> </ul>
Certain marginalized farmers face barriers in accessing agriculture credit, including socio-economic constraints and lack of financial literacy.	<ul style="list-style-type: none"> <li>- Implementing targeted financial inclusion initiatives.</li> <li>- Providing financial education and capacity-building programs.</li> </ul>
Climate change poses risks to agriculture, requiring access to credit for adopting climate-smart practices and building resilience.	<ul style="list-style-type: none"> <li>- Introducing climate-adaptive agriculture credit schemes.</li> <li>- Promoting sustainable farming practices and resilient crop varieties.</li> </ul>
Many small and marginal farmers lack sufficient collateral to secure loans from formal financial institutions, limiting their access to credit.	<ul style="list-style-type: none"> <li>- Farmers can collectively guarantee each other's loans.</li> <li>- Insured crops serve as collateral for loans.</li> <li>- Loans secured against farm assets.</li> <li>- Loans against stored agricultural produce.</li> </ul>
Agriculture is inherently seasonal, resulting in irregular income flows for farmers, which can make loan repayment challenging.	<ul style="list-style-type: none"> <li>- Offering flexible repayment schedules aligned with crop cycles.</li> <li>- Introducing income-smoothing financial products such as crop insurance or savings schemes.</li> </ul>
Limited adoption of modern agricultural technologies due to lack of finance for investment in machinery, equipment, and inputs.	<ul style="list-style-type: none"> <li>- Introducing special loan schemes for investment in agricultural machinery and equipment.</li> <li>- Providing subsidies or incentives for adopting modern farming techniques.</li> </ul>
Rural financial institutions may lack the capacity to effectively assess creditworthiness and manage agricultural loan portfolios.	<ul style="list-style-type: none"> <li>- Investing in training and capacity-building programs for bank staff and loan officers.</li> <li>- Strengthening risk management systems and credit assessment tools.</li> </ul>
Farmers often face delays in receiving loan disbursements from financial institutions, leading to missed opportunities for timely investment in agricultural activities.	<ul style="list-style-type: none"> <li>- Streamlining loan approval and disbursement processes through digitization and automation.</li> <li>- Implementing online application and approval systems to expedite the process.</li> </ul>

Farmers are highly vulnerable to risks such as crop failure, natural disasters, and market fluctuations, but may lack adequate mechanisms to mitigate these risks.	<ul style="list-style-type: none"> <li>- Introducing crop insurance schemes to provide financial protection against yield losses.</li> <li>- Offering weather- indexed insurance products to safeguard against climate- related risks.</li> </ul>
Female farmers often face greater challenges in accessing agricultural credit due to cultural, social, and economic barriers, leading to gender disparities in farming.	<ul style="list-style-type: none"> <li>- Implementing gender- sensitive lending policies and programs to promote women's access to credit.</li> <li>- Providing targeted financial literacy and capacity- building initiatives for women farmers.</li> </ul>
Fragmentation and lack of coordination among various stakeholders in the agriculture credit ecosystem can hinder effective delivery of financial services to farmers.	<ul style="list-style-type: none"> <li>- Establishing collaborative platforms and partnerships between government agencies, financial institutions, and agricultural organizations.</li> <li>- Facilitating knowledge- sharing and coordination among stakeholders through workshops and forums.</li> </ul>
Encouraging sustainable agricultural practices requires access to credit for investments in eco- friendly technologies, conservation measures, and organic farming methods.	<ul style="list-style-type: none"> <li>- Offering preferential loan terms or subsidies for investments in sustainable agriculture practices.</li> <li>- Providing technical assistance and training programs on environmentally friendly farming techniques.</li> </ul>

### **Agriculture Credit Facilities in Telangana**

In Telangana, there are several agricultural credit facilities available to farmers, provided by various financial institutions and government schemes.

Some of the key agricultural credit facilities in Telangana include:

- Crop loans are short-term credit facilities provided to farmers for agricultural purposes such as crop cultivation, purchase of seeds, fertilizers, pesticides, and other inputs. These loans are usually availed for a cropping season and are repaid after harvest.
- The Kisan Credit Card scheme is a government initiative aimed at providing farmers with easy access to credit for agricultural and allied activities. Under this scheme, farmers are issued credit cards that can be used to withdraw cash or make purchases for agricultural inputs.
- The Government of India and the State Government of Telangana often announce interest subvention schemes to provide relief to farmers by subsidizing the interest rates on agricultural loans. This helps reduce the cost of credit for farmers.
- From time to time, governments may announce loan waiver schemes to provide relief to farmers burdened with debt. These schemes typically waive off a portion of the outstanding agricultural loans, thereby reducing the financial burden on farmers.
- Warehouse receipt financing allows farmers to use their agricultural produce stored in warehouses as collateral to obtain loans from banks. This facility enables farmers to access credit against their stored produce without having to sell it immediately.
- Microfinance institutions also provide agricultural credit to farmers, especially small and marginal farmers who may not have access to formal banking channels. MFIs offer small loans for various agricultural purposes at relatively flexible terms.

- : Cooperative banks play a significant role in providing agricultural credit in Telangana. They offer various loan products tailored to the needs of farmers, including crop loans, tractor loans, dairy loans, and more.
- The Telangana government implements several schemes to provide financial assistance and credit facilities to farmers. These include Rythu Bandhu Scheme, Rythu Bima Scheme, Rythu Runa Mafi Scheme, among others, which aim to support farmers financially and alleviate their debt burden.

These agricultural credit facilities aim to address the financial needs of farmers in Telangana and support them in improving agricultural productivity, enhancing livelihoods, and ensuring food security. Farmers can avail themselves of these credit facilities through various banks, cooperative societies, and government agencies by fulfilling the eligibility criteria and documentation requirements.

### **Current State**

In the agricultural heartland of Telangana, the availability of credit plays a crucial role in sustaining and enhancing agricultural productivity, empowering farmers, and driving rural development. The initial six months of the fiscal year 2023-24 witnessed significant developments in the agriculture credit landscape, reflecting the concerted efforts of financial institutions towards supporting the agrarian community in the state.

This amount represents an impressive 79.48% of the annual target, highlighting the proactive measures taken by financial institutions to provide timely credit access to farmers for their seasonal cultivation needs and agricultural activities.

Additionally, banks extended ₹26,730 crore as investment credit for allied agriculture activities during the same period.

This investment credit caters to a wide range of initiatives aimed at diversifying agricultural practices, promoting agro-based industries, and enhancing rural livelihoods, thereby fostering a more sustainable and resilient agricultural ecosystem in the state.

The robust performance of the agriculture credit system in Telangana is further evidenced by the substantial increase in total deposits and advances during the first half of the fiscal year. Total deposits surged by ₹52,153 crore, while total advances witnessed a significant uptick of ₹99,283 crore, reflecting the growing confidence of depositors and borrowers in the banking system of Telangana.

The National Bank for Agriculture and Rural Development (NABARD) has been a pivotal force in catalyzing agricultural growth and rural development in India. In Telangana, its efforts have been particularly significant, as evidenced by recent projections and disbursement figures.

#### **Projection of Credit Potential**

For the financial year 2024-25, NABARD has projected a substantial credit potential of ₹2.80 lakh crore for the priority sector in Telangana. This marks a remarkable increase of 51% compared to the previous year's projections. Within this ambit, the agricultural sector alone has been estimated to have a credit potential of ₹1.33 lakh crore, underscoring the crucial role of credit in bolstering agricultural activities and rural livelihoods.

#### **Rural Infrastructure Development and Micro-Irrigation**

NABARD's commitment to rural infrastructure development is reflected in the Rural Infrastructure Development Fund (RIDF) and Micro Irrigation Fund (MIF). As of February 29, 2024, Telangana has received significant loan sanctions under RIDF amounting to ₹3,478.83 crore, with ₹673.86 crore released. Similarly, under the MIF, Telangana has been sanctioned ₹290.33 crore, highlighting the emphasis on enhancing agricultural productivity through efficient water management.

#### **Crop Loan Disbursement and Investment Credit**

The timely disbursement of crop loans is crucial for sustaining agricultural activities throughout the cropping seasons. In the first six months of the fiscal year, banks in Telangana disbursed ₹35,023 crore in crop loans, achieving nearly 80% of the annual target set by the State Level Bankers' Committee (source: [www.thehindu.com](http://www.thehindu.com)). Additionally, investment credit amounting to ₹26,730 crore was disbursed by banks for allied agriculture activities, meeting almost 68% of the targets set. These figures demonstrate the concerted efforts to provide financial support to farmers for both crop production and diversification.

#### **Priority Sector Lending and Credit Potential Realization**

Priority sector lending forms the backbone of agricultural finance, encompassing various sections of borrowers crucial for rural development. Disbursements under the Priority Sector in Telangana totaled ₹133,819.21 crore until September, reaching over 72% of the annual target. These figures not only indicate the substantial credit flow but also highlight the imperative of meeting the credit potential estimated by NABARD to fulfill the diverse financial needs of the agriculture and rural sectors.

#### **Financial Support to Farmer Producer Organisations (FPOs)**

In line with the vision of empowering farmers and promoting collective action, NABARD has been actively supporting the formation and development of Farmer Producer Organisations (FPOs) in Telangana. As of February 29, 2024, a total of 388 FPOs have been registered in the state, with a membership of 158,733 individuals. This initiative aims to enhance market access, facilitate value addition, and strengthen the bargaining power of farmers, thereby fostering inclusive growth and rural prosperity.

#### **Findings**

Major findings from the study include:

- Tenant farmers are particularly vulnerable due to tenancy fees and income disparities.
- Diversifying into livestock farming could provide alternative income sources for agricultural households, reducing dependency on crop-based incomes.
- Farmers resort to informal sources of credit due to limited access to formal finance or unfavorable loan terms, resulting in high debt burdens.
- Socio-economic barriers and lack of financial literacy hinder certain marginalized farmers' access to agricultural credit.
- Climate change poses risks to agriculture, necessitating credit access for adopting climate-smart practices and building resilience.
- Small and marginal farmers lack sufficient collateral, limiting their access to formal credit. Alternative collateral options such as insured crops or farm assets are suggested.
- Irregular income flows from seasonal agriculture make loan repayment challenging, necessitating flexible repayment schedules aligned with crop cycles.
- Limited finance impedes the adoption of modern agricultural technologies, necessitating special loan schemes or subsidies for investment in machinery and inputs.
- Rural financial institutions still lack capacity to assess creditworthiness effectively, indicating a need for training and capacity-building programs.

- Recent data shows significant credit disbursement in Telangana, reflecting proactive measures by financial institutions.

### **Suggestions**

Suggestions for policymakers to address challenges in Telangana's agricultural credit system:

- Increase the number of bank branches and rural banking infrastructure, particularly in remote areas, to improve access to institutional credit for small and marginal farmers.
- Introduce interest rate subsidies or caps on agricultural loans to make credit more affordable and reduce the risk of indebtedness among farmers.
- Simplify loan approval processes and leverage technology for online applications to reduce administrative bottlenecks and ensure timely credit disbursement.
- Implement financial literacy and awareness programs to educate farmers about credit options, loan terms, and financial management practices.
- Introduce credit products specifically for post-harvest operations such as storage, processing, and marketing to enable value addition and market access for farmers.
- Expand the reach of formal financial institutions and strengthen cooperative banks to provide credit to marginalized farmers, including women farmers.
- Develop credit schemes tailored to climate-smart agriculture practices to help farmers adapt to climate change and build resilience.
- Establish collaborative platforms and partnerships between government agencies, financial institutions, and agricultural organizations to coordinate efforts and improve credit delivery to farmers.
- Offer preferential loan terms or subsidies for investments in eco-friendly technologies, conservation measures, and organic farming methods to encourage sustainable agriculture practices.
- Invest in training and capacity-building programs for bank staff and loan officers to improve their ability to assess creditworthiness and manage agricultural loan portfolios effectively.

### **CONCLUSION**

The agriculture credit system in Telangana has played a pivotal role in supporting farmers, promoting rural development, and driving economic growth in the state. The substantial disbursements made towards crop loans, investment credit, and priority sector lending underscore the proactive efforts of financial institutions in addressing the credit needs of the agricultural community. As Telangana continues its journey towards agricultural prosperity and rural development, the agriculture credit system remains a cornerstone in realizing the state's vision of inclusive growth, sustainability, and prosperity for all. However, the agriculture credit system in Telangana State faces several challenges that need to be addressed for the sustainable development of the agricultural sector.

Enhancing credit availability, improving financial literacy, strengthening institutional support, introducing flexible loan repayment terms, and promoting inclusivity are key areas that require attention. The government, financial institutions, and other stakeholders need to collaborate and implement reforms that ensure farmers have timely access to affordable credit. By addressing these issues, Telangana can pave the way for a more robust and inclusive agriculture credit system that supports the growth and prosperity of its farming community.

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