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Policy reforms and agricultural credit and marketing: Charting a path for the future-insights from India

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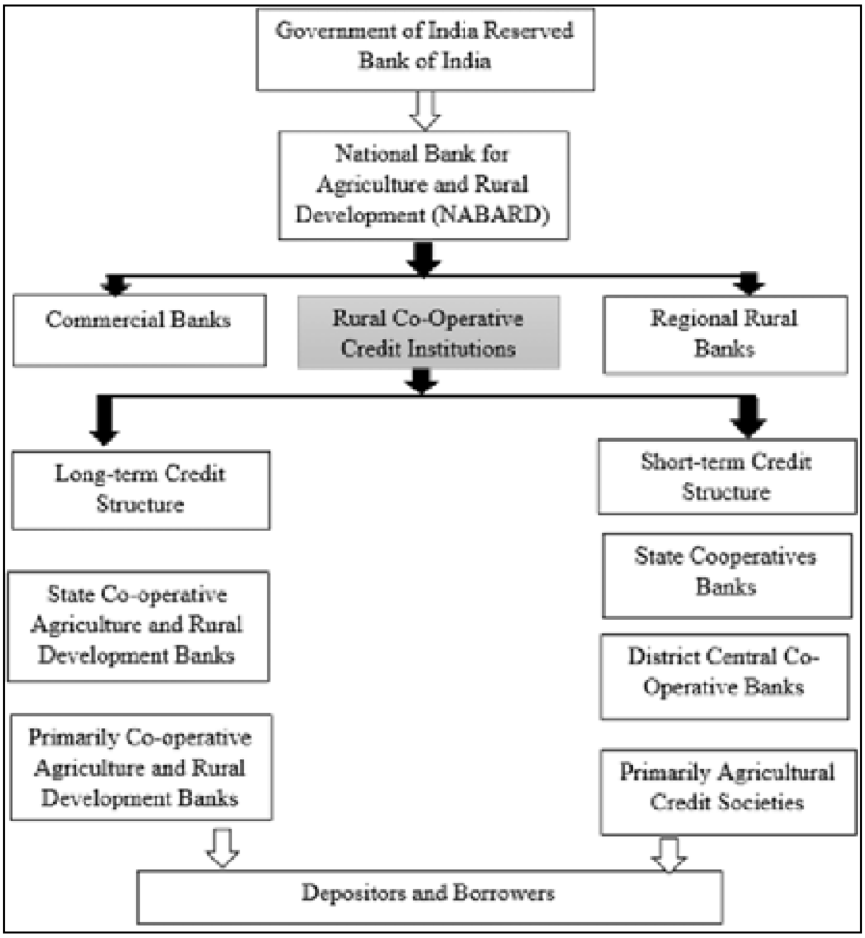
Abstract
Enhancing agriculture is crucial for addressing rural poverty, food insecurity, unemployment, and sustainable management of natural resources. Agriculture encompasses the entire spectrum of activities from production to marketing, encompassing food, feed, and fiber. Therefore, any strategy for agricultural development must not only support farmers but also enhance marketing, trade, processing, and agri-business sectors. Efficient marketing and rural credit systems play pivotal roles in this endeavor. The marketing system acts as a vital bridge between farm production and nonfarm sectors, industry, and urban economies. Beyond physically transferring goods, it plays a crucial role in price discovery and transmission across the marketing chain, influencing efficiency and market structure. A well-functioning marketing system optimizes resource use, enhances farm incomes, expands markets, stimulates agro-based industries, adds value to national income, and generates employment opportunities.
This paper examines critical policy reforms in agricultural credit and marketing systems in India, focusing on their implications and potential pathways for the future. India's agricultural sector plays a pivotal role in the economy, yet faces persistent challenges such as access to credit, market inefficiencies, and inadequate infrastructure. Drawing insights from recent developments and scholarly research, this study explores the impact of policy interventions aimed at enhancing credit availability, improving market mechanisms, and promoting sustainable agricultural practices.

Keywords: Policy reforms, agricultural credit, agricultural marketing

Introduction
Performance of Indian economy is dependent upon the growth of agriculture sector. It contributes nearly 16 percent of India's gross domestic product (GDP) and 13 percent of total exports. It provides employment to 52 percent of the country's work force and livelihood security to more than 620 million people. Agriculture plays an important role in economic development such as provision of food to the nation, enlarging exports, transfer of manpower to non-agricultural sectors, contribution to capital formation, and securing markets for industrialization. It is the backbone of any developing economy like India, as majority of the population depends directly or indirectly on it (Dr. S. Ganesan, 2016) [2].
Rural indebtedness is an age-old problem in India. In the nineteenth century, commercial banking was non-existent in rural areas, and farmers were completely in the hands of usurious moneylenders. Starting from the days of British rule, the central government has been striving to expand institutional lending to the rural agricultural sector. In recent decades, efforts in this direction have intensified and today, there is a vast network of institutions providing credit for agriculture (Anwarul Hoda, 2015) [1].

Structure of agriculture credit system
The agricultural credit system as it emerged had been a product of both evolutions and intervention and symbolizes the systems response to the stimulus from continuing dissatisfaction with credit delivery. Figure 1 shows the structure of agricultural credit system in India.



Source: RBI Bulletin 2011

Fig 1: Structure of Agriculture Credit System in India

Short-medium term loans

The short term credit structure consists as following:

1. Primary Agricultural Credit Societies at the base level.
2. Central Cooperative Banks at district level.
3. State Cooperative Bank at State level.

- **Primary Agricultural Credit Societies (PACS):** PACS occupy a predominant position in the cooperative credit system structure and form its base. It is the basic unit which deals directly with the rural borrowers, gives those loans and collects repayments of loans given. It serves as the final link between the ultimate borrower on the one hand and higher financing agencies, namely the SCBs and the RBI/NABARD on the other hand.
- **Central Cooperative Banks:** The district CCB being the middle tier of the cooperative credit structure, it is functionally positioned to deal with the concerns of both the upper and lower tiers. While the SCB may wish the DCCB to prioritize its task in a particular manner, the PACS may have their own demands on the DCCB. Balancing these competing concerns could often be a dilemma for the DCCBs.
- **State Cooperative Banks:** The SCBs provide finance, coordinate and control the working of the central cooperative banks in each state. They serve as the link between the Reserve Bank and the journal money market on the one side and the central cooperative and primary societies on the other hand. They obtain their funds mainly from the journal public by way of deposits, loans and advances from the Reserve Bank and they are own share capital and reserves (Ramakrishna, 2016) [10].

Review of literature

(Anwarul Hoda, 2015) [1] evaluate the measures taken over the years and assess the extent to which they have been successful. Rural indebtedness and dependence on private moneylenders are an age-old problem in India. For more than 100 years now, the Central Government and the Reserve Bank of India have been making efforts to enhance institutional credit in rural areas particularly to assist in agricultural operations. It began with the enactment of the Co-operative Credit Societies Act (1904) but efforts were redoubled after the nationalisation of Scheduled Commercial Banks in 1969 (Anwarul Hoda, 2015) [1].

(Rakesh Mohan, 2006) [9] agricultural credit has played a vital role in supporting farm production in India. Though the outreach and amount of agricultural credit have increased over the years, several weaknesses have crept in which have affected the viability and sustainability of these institutions. Following the shifts in consumption and dietary patterns from cereals to non-cereal products, a silent transformation is taking place in rural areas calling for diversification in agricultural production and value addition processes in order to protect employment and incomes of the rural population. In the changed scenario, strong and viable agricultural financial institutions are needed to cater to the requirements of finance for building the necessary institutional and marketing infrastructure (Rakesh Mohan, 2006) [9].

(K. Chandran, N.R. Padmanaban and K. Mani) agricultural marketing leads to the optimization of resource use and output management. An efficient marketing system can contribute to an increase in the marketable surplus by scaling down the losses arising out of the inefficient processing, storage and transportation. A well-designed system of marketing can effectively distribute the available stock of modern inputs and there by sustain a faster rate of growth in the agricultural sector (K. Chandran, N.R. Padmanaban and K. Mani).

(Mohanraj and Ponnarasu, 2015) [7] agriculture is the most important sector of the Indian economy from the perspective of poverty alleviation, and employment generation. Credit is the major factor all of them that affecting the agriculture development. Realizing the importance of agricultural credit in fostering agricultural growth and development, the emphasis on the institutional framework for agricultural credit is being emphasized since the beginning of planned development era in India. A large number of formal institutional agencies like Co-operatives, Regional Rural Banks (RRBs), Scheduled Commercial Banks (SCBs), Non–Banking Financial Institutions (NBFIs), and Self-help Groups (SHGs), etc. are involved in meeting the short- and long-term needs of the farmers. Several initiatives have been taken to strengthen the institutional mechanism of rural credit system (Mohanraj and Ponnarasu, 2015) [7].

(Pooja Giri, 2015) [8] attempts to analyses the issues in agricultural credit in India. The analysis reveals that the credit delivery to the agriculture sector continues to be inadequate. It appears that the banking system is still hesitant on various grounds to purvey credit to small and marginal farmers. The situation calls for concerted efforts to augment the flow of credit to agriculture, alongside exploring new innovations in product design and methods of delivery, through better use of technology and related processes. Facilitating credit through processors, input dealers, NGOs, etc., that are vertically integrated with the farmers, including through contract farming, for providing them critical inputs or processing their produce, could increase the credit flow to agriculture significantly (Pooja Giri, 2015) [8].

(Ramakrishna, 2016) [10] study the Institutional credit flow to agriculture. Institutional credit is the lifeblood of modern economic system without which no system can survive. In agricultural development also, its role is crucial. Agriculture is the backbone of our economy and its prosperity can largely be responsible for the wellbeing of the entire economy. Adequate institutional credit is considered to be the most important factor, which if suitably provided, will go a long way to put the economy of the farmers especially the small and marginal farmers on a sound footing. So, agriculture and rural development has been on the priority agenda of our policy makers since independence and considerable efforts have been made to develop the rural credit system as means of rural development.

Need for agricultural credit

Purchase of New Inputs

The farmers need finance for the purchase of new inputs which include seeds, fertilizers, pesticides, irrigation water and the like. If the seeds of high yielding varieties and other modern inputs are made available to the farmers, they can increase productivity not only of land but also of labour.

Purchase of Implements

Credit is required by the farmers for the purchase of cattle water pumping sets, tractors threshers and the like. The use of appropriate machinery in land will increase production by growing more than one crop on the same piece of land at the same time.

Better Management of Risks

Credit enables the farmers to better manage the risks of uncertainties of price, weather and the like. They can borrow money during bad years and pay back the loans during goods years of crops.

Permanent Improvements in Land

Credit also helps the farmers to make permanent improvements in land like sinking of wells, land reclamation, horticulture and for other purposes.

Better Marketing of Products

If timely credit is made available to the farmers, they will not sell the produce immediately after the harvest is over. At that time the prices of agricultural goods would be low in the market. Credit enables the farmers to withhold the agricultural surplus and sell it in market when price is high.

To Face Crisis

The credit is required by the farmers to face any crisis caused by the failure of crops, draught or floods and in other farms (Dr. S. Ganesan, 2016) [2].

Defining value chain finance

In our fast-paced development context, value chain finance is an evolving term that has taken on a range of meanings and connotations. The flows of funds to and among the various links within a value chain comprise what is known as *value chain finance*. Stated another way, it is any or all of the financial services, products and support services flowing *to and/or through* a value chain to address the needs and constraints of those involved in that chain, be it a need to access finance, secure sales, procure products, reduce risk and/ or improve efficiency within the chain. The comprehensive nature of value chain finance, therefore, makes it essential to analyse and fully understand the value chain in all aspects. The authors use the term here in reference to both internal and external forms of finance that are developing along with the agricultural value chains that they serve:

1. Internal value chain finance is that which takes place within the value chain such as when an input supplier provides credit to a farmer, or when a lead fi rm advances funds to a market intermediary.
2. External value chain finance is that which is made possible by value chain relationships and mechanisms: for example, a bank issues a loan to farmers based on a contract with a trusted buyer or a warehouse receipt from a recognized storage facility.

Importance of agricultural marketing

Agricultural marketing plays an important role not only in stimulating production and consumption but in accelerating the pace of economic development.

1. Optimization of resource use and output management

Agricultural marketing leads to the optimization of resource use and output management. An efficient marketing system can contribute to an increase in the marketable surplus by scaling down the losses arising out of the inefficient processing, storage and transportation. A well designed system of marketing can effectively distribute the available stock of modern inputs and there by sustain a faster rate of growth in the agricultural sector.

2. Increase in farm income

An efficient system guarantees to the farmer's better prices for farm products and induce them to invest their surpluses in the purchase of modern inputs so that productivity may increase. This again results in increase in the marketed surplus and income of the farmers.

3. Widening of markets

A well-known marketing system widens market for products by taking them to remote corners of the country to areas far away from the production point e.g. paddy produced in Punjab and Haryana are sold in remote tribal areas. Another example is potato. The widening of the market helps in increasing the demand on a continuous basis and there by guarantees a higher income to the producer.

4. Growth of agro- based industries

The agricultural marketing system helps in the growth of agro-based industries and stimulates the overall development process of the economy. Many industries depend on agriculture for the supply of raw materials e.g. sugar industry, cotton industry, and silk industry.

5. Price signals

An efficient marketing helps the farmers in planning their production in accordance with the need of the economy. This work is carried out through the price signals.

6. Adoption and spread of new technology

The marketing system helps the farmers in the adoption of new scientific and technical knowledge.

7. Employment

The marketing system provides employment to millions of persons engaged in various activities such as packaging, transportation, storage and rocessing.

8. Addition to National income

Marketing activities add to the nation's Gross National Product.

9. Better living

Any plan of economic development that aims at diminishing the poverty of agricultural population, reducing consumer food prices, earning more foreign exchange or eliminating economic waste has to pay special attention to the development of an efficient marketing for food and agricultural products.

Causes for poor marketing of agricultural products in India

Indian system of agricultural marketing suffers from a number of defects. As a consequence, the Indian farmer is deprived of a fair price for his produce. The main defects of the agricultural marketing system are discussed here.

1. **Improper Warehouses:** There is an absence of proper ware housing facilities in the villages. Therefore, the farmer is compelled to store his products in pits, mud-vessels; store houses etc. these unscientific methods of storing lead to considerable wastage. Approximately 1.5% of the produce gets rotten and becomes unfit for human consumption. Due to this reason supply in the village market increases substantially and the farmers are not able to get a fair price for their produce. The setting up of central warehousing corporation and state warehousing corporation has improved the situation to some extent.
2. **Lack of grading and standardization:** Different varieties of agricultural produce are not graded properly. The practice usually prevalent is the one known as "dara" sales wherein heap of all qualities of produce are sold in one common lot thus the farmer producing better qualities is not assured of a better price. Hence there is no incentive to use better seeds and produce better varieties.
3. **Inadequate transport facilities:** Transport facilities are highly inadequate in India. Only a small number of villages are joined by railways and Pucca roads to mandies. Produce has to be carried on slow moving transport vehicles like bullock carts. Obviously, such means of transport cannot be used to carry produce to far-off places and the farmer has to dump his produce in nearby markets even if the price obtained in these markets is considerably low. This is even more true with perishable commodities.
4. **Presence of large number of middlemen:** The chain of middlemen in the agricultural marketing is so large that the share of farmers is reduced substantially. For instance, a study of D.D. Sidhan revealed, that farmers obtain only about 53% of the price of rice, 31% being the share of middle men (the remaining 16% being the marketing cost). In the case of vegetables and fruits the share was even less, 39% in the former case and 34%in the latter. The share of middle-men in the case of vegetables were 29.5% and in the case of fruits was 46.5%. Some of the intermediaries in the agricultural marketing system are-village traders, Kutcha arhatiyas, Pucca arthatiyas, brokers, wholesalers, retailers, money lenders, etc.
5. **Malpractices in unregulated markets:** Even now the number of unregulated markets in the country is substantially large. Arhatiyas and brokers, taking advantage of the ignorance, and illiteracy of the farmers, use unfair means to cheat them. The farmers are required to pay pledging charge to the arhatiyas, weight charge for weighing the produce, "palledari" to unload the bullock — carts and for doing other miscellaneous types of allied works, "garda" for impurities in the produce, and a number of other undefined and unspecified charges. Another malpractice in the mandies relates to the use of wrong weights and measures in the regulated marks. Wrong weights continue to be used in some unregulated markets with the object of cheating the farmers.
6. **Inadequate market information:** It is often not possible for the farmers to obtain information on exact market prices in different markets. So, they accept,

whatever price the traders offer to them. With a view to tackle this problem the government is using the radio and television media to broadcast market prices regularly. The newspapers also keep the farmers posted with the latest changes in prices, however the price quotations are sometimes not reliable and sometimes have a great time lag. The trader generally offers less than the price quoted by the government news media.

7. **Inadequate credit facilities:** Indian farmer, being poor, tries to sell off the produce immediately after the crop is harvested though prices at the time are very low. The safeguard of the farmer from such "forced sales" is to provide him credit so that he can wait for better times and better prices. Since such credit facilities are not available, the farmers are forced to take loans from moneylenders, while agreeing to pledge their produce to them at less than market prices. The cooperative marketing societies have generally catered to the needs of the large farmers and the small farmers are left at the mercy of the moneylenders.
8. **Unfair practices by middlemen:** The middlemen engaged in the distribution of agricultural produce adopt several unfair practices, such as manipulation of weights and measures, manipulation of prices, taking always a large quantity of the produce as samples etc.
9. **Excessive marketing charges:** The marketing charges required to be paid by the farmers for the marketing of their produce are excessive. They are required to pay heavy charges for loading, unloading, commission, etc.
10. **Unorganized farmers and poor staying power of farmers:** While the merchants who buy the agricultural produce are well organized, the farmers who sell the produce are not at all organized. As they are not organized, they do not have bargaining power in marketing their produce. They have to dispose of their produce at the prices offered by the dealers.

The farmers in India are generally, poor and heavily indebted. As such, they do not have staying power (i.e. they cannot hold back their produce until they get better prices). They are forced to sell their produce immediately after harvest. As a result, they are not able to get fair prices for their produce. Some of the other various causes that led to poor marketing of agricultural products in the country are as follows:

- Fluctuations in agriculture prices and supplies (surpluses/scarcities)
- Conflicting interests of farmers, middlemen and consumers
- Underutilization of resources such as rural godowns, market yards etc.
- Inadequate transportation, communication and information network.
- Imbalance in the spread of internal marketing network as well as in products
- Other factors such as distribution, seasonability, perishability, and enormity of production, storage, lack of processing make the problem of marketing more complex.
- Problem of plenty due to increased agricultural production leads to glut in the market and ultimately fall in price.
- Problem of scanty due to inadequate production, crop failure may finally result in rise in prices.

Among these problems, communication plays a vital role in determining the success or failure of commercialization! marketing of the agricultural produce in rural India. The extension system in the rural areas should be re-oriented to meet the challenges in 21st century due to globalization. The following systemic approach will helps the extension officers to a greater extent in increasing the profits of small and marginal farmers in the rural India.

Needed strategies to improve the agricultural marketing system

1. Improvement of facilities, available at Regulated markets and attraction of farmers to use the facilities.
2. Use of metric system of weights and measures.
3. Increased provision of storage facilities at the village level. Encouraging farmers to make use of Rural godown, SWC and CWC godown.
4. Improvement in Transport facilities between taluk/district headquarters and villages. Provision of bus facilities to all villages.
5. Provision of market news through mass media in vernacular language.
6. Restructuring the functioning of co-operative marketing societies by periodically conducting elections.
7. Announcement of remunerative support prices before the commencement of season (K. Chandran, N.R. Padmanaban and K. Mani).

Recommendation for enabling the national agriculture market

- **Removal of entry barriers:** Allow buyers to participate across all markets with a single license. Allow farmers to sell in any market of their choice.
- **Assist price discovery:** Auction of the produce should take place simultaneously on the electronic platform in all regulated markets all over the country.
- **Standardized scientific assaying and grading:** Reliable assaying and quality testing infrastructure has to be established in every market, and quality-based bidding must be encouraged. Standardization of quality and quantity parameters, dissemination of these parameters to buyers, clearing and settlement mechanisms and dispute resolution are key prerequisites for encouraging participation from remote locations in a pan-India market.
- **Electronic settlement of sales:** Collection of sale proceeds from the buyer and remitting it to the bank account of the seller must be facilitated by the market;
- **Removal of controls:** Restrictions on inter- and intra-state transportation of commodities should be removed.
- **Move to warehouse-based trading system:** In the longer term, marketing system needs to transform into a warehouse-based trading system. A farmer brings his produce to a warehouse; the produce is graded as per a standard protocol and the farmer is issued a Negotiable Warehouse Receipt (NWR). The NWR guarantees the grade quality of the produce for a certain period of time.
- **Involvement of other stakeholders:** Participation of private players along with farmer producer organizations (FPOs) should be encouraged. The

Maharashtra model of linking FPOs with *Apni Mandi* concept of providing marketing platforms to retail FPOs production to consumers should also be considered.
- **Improve market infrastructure:** Existing physical infrastructure related to logistics, supply chain, storage should be improved.
- **New institutional mechanisms:** The public-private partnership (PPP) model adopted by Karnataka with the help of National Commodity and Derivatives Exchange Limited (NCDEX), wherein a SPV was floated to create a United Market Platform (UMP) model across 65 markets offers some key lessons on some aspects of operationalizing the NAM. Additionally, besides PPP model, build-operate transfer model also needs to be explored. Formation of a Special Purpose Vehicle (SPV) can be a way forward to implement the strategy (KV Raju, Gopal Naik, R Ramaseshan, Tushar Pandey and Partha Joshi TR Sreenivas S Rajeshwaran Srikanth Rupavatharam, 2016) [10].

Conclusion

Agricultural credit has historically been pivotal for supporting India's agricultural production, particularly during the green revolution when increased use of inputs necessitated greater credit availability. Over time, though the volume of institutional credit has grown, significant weaknesses have emerged. These include inadequate credit access for small farmers, a shortage of medium to long-term loans, and heavy reliance on borrowed funds by major credit providers. Outdated legal frameworks and tenancy laws further hinder efficient credit flow and institutional development. Addressing these issues is crucial not only for sustaining agricultural growth but also for enhancing the welfare of farming communities.

In response to changing consumption patterns and the need for agricultural diversification, a renewed mission approach akin to the green revolution is advocated. This would involve tailored packages for diverse agricultural sectors such as horticulture, aquaculture, and food processing, adapted to different agro-climatic zones. Each package would integrate technology inputs, infrastructure development, extension services, input supply mechanisms, and innovative credit models. Unlike the past, the new approach emphasizes greater involvement of private sector entities alongside traditional financial institutions like public sector banks and cooperatives, as well as micro-credit providers such as self-help groups.

The success of such a mission would hinge on comprehensive policy reforms that promote sustainable agricultural practices and incentivize crop diversification away from heavy reliance on subsidies. By fostering region-specific strategies and market-driven solutions, the proposed mission aims to not only enhance agricultural productivity and income but also to build robust agricultural financial institutions capable of meeting the evolving needs of producers and consumers alike in rural India.

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