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ADDRESSING THE RURAL LENDING GAP: A COMPARATIVE ANALYSIS OF ACCESS TO CREDIT FOR URBAN AND RURAL FARMERS IN ODISHA

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---ABSTRACT---
Access to credit is a critical factor in the growth and sustainability of agricultural activities, especially for farmers in both urban and rural areas. However, a persistent gap in lending practices between urban and rural farmers has been observed, hindering the potential of rural farmers for economic development. This research seeks to understand and analyse the factors contributing to the rural lending gap and explore potential solutions to bridge this divide. For the purpose of this research a questioner was prepared and distributed among a sample of 130 farmers hailing from the state of Odisha, India. These questionnaires were administered through one-on-one interactions as well as in focus group discussions, allowing for a diverse range of responses. The data collected from these questionnaires and interviews was analysed. The study revealed that collateral constraints, information asymmetry, geographical isolation, risk perception, lack of financial literacy, and inadequate infrastructure collectively contribute to the disparity in credit access. By identifying the challenges faced by rural farmers, this research will provide valuable recommendations to financial institutions and policymakers on how to design more inclusive and effective lending policies.

KEYWORDS- ***Urban, Rural, Farmers, Lending Gap***
JEL CODE*- O, G, Q* ---

INTRODUCTION

The growth and sustainability of agricultural activities, which are essential for ensuring food security and fostering rural development, are largely dependent on access to credit. Many economies are built on agriculture, especially those in developing nations where a significant portion of the population depends on farming for a living (Gautam et.al, 2022). Farmers in urban areas and farmers in rural areas make up two separate but related sectors of the agricultural landscape. Urban farmers, who frequently work in or near cities, cultivate their crops on smaller amounts of land and make creative use of rooftop gardens and vertical farming to make the most of their limited space. By lowering food miles, they support local markets and promote urban sustainability. Rural farmers, on the other hand, typically work in bigger rural areas where they cultivate larger land areas and play a crucial role in supplying both urban and rural people with vital food resources (Sandhu, 2021). Rural farmers frequently struggle with issues including limited credit availability, weak infrastructure, and inadequate resources, while urban farmers benefit from better access to formal financial institutions and resources.

Farmers are better able to invest in modern agricultural technologies, buy high-quality inputs like seeds and fertiliser, and handle risks related to things like weather, pests, and market changes when they have access to adequate funding. The impact of agricultural productivity on the economy and society is extensive. A nation's basic nutritional demands are met by increased agricultural output, which also provides surplus that may be invested in other industries to foster economic diversification and growth. Farm income rises as a result of greater agricultural output, which in turn increases demand for products and services in rural regions and strengthens local economies (Aditya et. al ,2019). Furthermore, by generating jobs in rural areas, a strong agricultural industry might reduce migration from rural to urban areas.

For food security, sustainable farming methods, and broadening rural development, it is essential to strike a bala nce between the demands and difficulties faced by urban and rural farmers. Rural farmers tend to cultivate enormous areas of land for staple crops and conventional farming methods, but urban farmers usually work on smaller plots of land and frequently grow specialised or high-value crops (Saraswat et.al.,2021). Despite these variations, both types of farmers need access to loans in order to maximise their operations and guarantee long-term output. However, there is disparity between these two groups' access to finance. Urban farmers typically gain from being close to financial institutions, having multiple sources of income, and having more access to market information. Their comparatively greater access to credit facilities is frequently influenced by these considerations. On the other hand, rural farmers frequently encounter obstacles such as being geographically far from financial institutions, a lack of collateral, lower levels of education, and perhaps unstable income streams (Kumar et.al ,2013). Due to these obstacles, rural farmers find it difficult to obtain loans, which limits their ability to expand and embrace new technologies as well as improve economically.

The credit gap between urban and rural areas is influenced by various factors. The perceived risk attached to financing to rural farmers is a significant influence. Due to their insufficient credit histories, fluctuating revenues, and the unpredictable nature of agricultural activities, rural farmers are frequently viewed by financial institutions as higher-risk borrowers (Liu et.al 2023). Due to strict lending requirements and higher interest rates as a result of this assumption, it is challenging for rural farmers to obtain loans. The difficulties faced by rural farmers are also made worse by the poor financial infrastructure and low levels of financial awareness in those communities.

LITERATURE REVIEW

Despite the vital role that agriculture plays, access to financing for farmers in urban and rural areas differs significantly. Due to their closeness to metropolitan centres where these institutions are concentrated, urban farmers frequently benefit from more favourable access to legally binding financial institutions like banks (Saraswat et.al.,2021). Their credit histories are established, their infrastructure is improved, and their financial literacy is enhanced. Contrarily, rural farmers have numerous obstacles while trying to obtain financing. These difficulties are made worse by their far-flung locations, scanty assets used as collateral, and frequently absent official identities or credit histories. Therefore, farmers in rural areas are more prone to turn to unofficial lending sources, which frequently levy high interest rates and impose unfair terms.

The differential in loan access between rural and urban areas is referred to as the "rural lending gap." This gap is the result of a complex web of interrelated circumstances that prevent rural farmers from accessing the capital they need to adequately invest in their agricultural efforts (Raza et. al, 2023). Due to a number of factors that together make up the significant rural lending gap, rural farmers face numerous obstacles when trying to acquire finance. First off, conventional lending practises require tangible collateral as security for loans, placing major collateral restrictions on rural farmers who frequently lack valuable assets or struggle owing to land tenure issues and inadequate property documentation (Chakraborty and Gupta, 2023). Additionally, the lack of credit histories and financial records among rural farmers promotes information asymmetry, making it challenging for conventional financial institutions to fairly evaluate their trustworthiness. Due to the increased risk perception caused by this information gap, lenders are forced to raise interest rates or outright deny credit, which feeds the cycle of restricted credit access. Additionally, because rural areas are geographically isolated from formal financial institutions, borrowing and lending are more expensive, which discourages financial institutions from opening offices there (Kiros and Meshesha, 2022).The expansion and viability of agricultural activities across the globe are significantly influenced by access to credit. Whether in bustling urban centres or tranquil rural landscapes, farmers rely on financial resources to fuel their operations, invest in technology and equipment, purchase inputs, and manage day-to-day expenses. .Rural farmers face major obstacles in achieving their success in business as a result of a persistent and alarming difference in lending practises between urban and rural farmers. Rural agricultural businesses are perceived as risky attempts due to the inherent hazards of agriculture, which are characterised by unpredictable weather and market volatility, which results in conservative lending practises and high interest rates. Rural agricultural businesses are perceived as riskier endeavours due to the inherent hazards of agriculture, which are characterised by unpredictable weather and market volatility, which results in conservative lending practises and high interest rates (Yadav and Rao, 2022). Rural farmers' limited financial literacy contributes to these issues by limiting their capacity to understand complicated financial services and conditions, which ultimately affects their creditworthiness. The delivery of credit and repayment processes are further complicated by poor rural infrastructure, which includes inadequate transport and communication networks. This creates operational challenges for both lenders and borrowers. These interconnected challenges highlight the necessity of closing the rural lending gap and implementing forward encompassing policies to guarantee rural farmers' equitable access to finance.

A multifaceted strategy is needed to close the gap in lending practises and provide fair access to credit for all farmers, regardless of their location. First, lending companies should provide cutting-edge solutions that are specifically suited to the requirements of rural farmers. Products like this might be available, along with flexible repayment plans that fit the agricultural cycle and risk-sharing systems that reduce the load on individual farmers(Rajagopalan,2023).It is imperative to make an effort to improve the financial literacy of rural farmers. Programmes for education and training may equip farmers with the information and abilities they need to efficiently manage their finances, comprehend loan terms, and make wise borrowing decisions. Additionally, encouraging the use of mobile banking and digital financial services can help rural farmers get access to financial resources by bridging distance constraints (Mashi et.al,2022). Promoting the usage of mobile banking and digital financial services can aid rural farmers by bridging distance obstacles and bringing financial resources closer to them.

Governments, NGOs, and representatives of the commercial sector should work together to find effective solutions. Governments can develop regulatory frameworks that encourage financial institutions to offer rural farmers credit at favourable rates (Gautam et.al, 2022). NGOs can be crucial in providing technical support, developing capacity, and aiding with credit access. Partnerships between the private and public sectors can result in the development of supply chain financing models that allow rural farmers to obtain credit based on their connections to consumers or processors.

RESEARCH GAP

- The existing literature on rural lending and agricultural finance has primarily focused on the challenges faced by smallholder farmers in accessing credit and the impact of credit availability on agricultural productivity.
- While some studies have explored the disparities between urban and rural credit access, there is a research gap concerning a comprehensive comparative analysis of credit accessibility for urban and rural farmers.
- The current literature lacks a thorough examination of the specific factors contributing to the rural lending gap compared to urban farmers.
- Limited research has been conducted on the potential impact of the rural lending gap on the economic development of rural areas. The studies available tend to be geographically specific and may not capture broader trends and variations across regions or countries.
- This research aims to address this gap by conducting a comparative analysis of credit access for both urban and rural farmers, identifying the challenges faced by rural farmers, and exploring potential policy solutions.
- By bridging this research gap, the study will provide insights into the underlying factors contributing to the rural lending gap and offer valuable recommendations to promote financial inclusivity and sustainable economic development in rural areas.

RESEARCH OBJECTIVES

1. To investigate the disparities in credit access between urban and rural farmers.
2. To identify the challenges faced by rural farmers in accessing credit.
3. To propose policy recommendations and strategies that financial institutions and policymakers can implement to enhance rural farmers' access to credit.

RESEARCH HYPOTHESIS

H1= There is a no significant disparity in credit access between urban and rural farmers.
H2= There are no significant challenges faced among rural farmers in accessing credit as compared to urban farmers.

RESEARCH METHODOLOGY

The research adopted a comprehensive approach that combined both quantitative and qualitative data collection techniques, creating a well-rounded perspective on credit lending among both urban and rural farmers. To achieve this, a survey methodology was employed, utilizing semi-structured questionnaires distributed among a sample of 130 farmers hailing from the state of Odisha, India. These questionnaires were administered through one-on-one interactions as well as in focus group discussions, allowing for a diverse range of responses. The data collected from these questionnaires and interviews was analysed.

The survey approach covered a spectrum of farmers, encompassing both urban and rural demographics. This inclusive approach facilitated the collection of invaluable insights into their credit-related experiences, financial requisites, and the impediments they confront when attempting to secure credit. Secondary data was collected from authoritative reports, publications, and databases, enhancing the research's depth and breadth. A total of 130 responses were received. To ensure the reliability of the questionnaire, statistical software SPSS was used.

DATA ANALYSIS

TABLE-1, DEMOGRAPHIC PROFILE OF THE RESPONDENTS

		PERCENTAGE(%)	FREQUENCY(N)
Location			
	Urban	46	60
	Rural	54	70
Gender			
	Male	70	91
	Female	30	39
Age			
	20-30	20	26
	30-40	60	78
	>40	20	26
Education			
	School	40	52
	College	48	62
	Under Graduate	12	16
Years of experience			
	<5 years	50	65
	5– 10 years	30	39
	>10 years	20	26

Table 1 displays the demographic information of the participants, who were farmers from urban and rural areas involved in this study. A total of 130 respondents (60 urban and 70 rural farmers) took part in the experiment and successfully completed the experimental survey. The data collected encompassed variables such as gender, age, highest academic qualification. As anticipated, most of the participants were among the age group of 30-40. In particular, 40% of the population completed their schooling, 48% had finished their college degrees, and 12% had pursued undergraduate study.

TABLE-2, CRONBACH ALPHA RELIABILITY TEST

Cronbach's alpha	N of items
.885	25

A statistical analysis known as a reliability test is employed to assess the consistency and stability of measurement devices or constructs. It evaluates the degree to which items or questions on a measurement scale or instrument produce reliable and consistent findings.Using SPSS software, the reliability of the constructs were evaluated. The Cronbach's alpha value in the reliability test is .885 which indicates satisfactory reliability. This confirms the accuracy of the measurements and provides evidence for the reliability of the data that was gathered.

TABLE-3, DISPARITIES IN CREDIT ACCESS BETWEEN URBAN AND RURAL FARMERS.

	PERCENTAGE(%)	FREQUENCY
Urban farmers have better access to credit compared to rural farmers.	85	111
Rural farmers face more challenges in obtaining credit than urban farmers	76	99
Urban farmers have more financial support services available to them than rural farmers.	80	104
Rural farmers struggle to access financial advisory services compared to urban farmers.	66	86
There is a lack of awareness among rural farmers about available credit opportunities.	79	103

The above table shows the percentage of respondents who expressed different levels of agreement with specific statements, as well as the frequency (number of respondents) corresponding to those percentages. 85% of the respondents agree or strongly agree that urban farmers have better credit access compared to rural farmers and enjoy greater availability of financial support services compared to their rural counterparts. 76% of the respondents agree or strongly agree that rural farmers encounter more difficulties in accessing credit than urban farmers and find it challenging to access financial advisory services in comparison to urban farmers. This proves that the Disparities in credit access between urban and rural farmers is significant. Thus, rejecting the null hypothesis(H1).

TABLE-4, CHALLENGES FACED BY RURAL FARMERS IN ACCESSING CREDIT

	PERCENTAGE(%)	FREQUENCY
Collateral Constraints:		
Collateral requirements are a major hurdle for rural farmers to access credit.	70	91
Urban farmers have an advantage in meeting collateral requirements compared to rural farmers.	68	88
Information Asymmetry:		
Information gaps between lenders and rural farmers hinder credit access.	77	100
Urban farmers have better access to information about credit opportunities than rural farmers.	73	95
Geographical Isolation:		
Geographic distance from financial institutions affects rural farmers' ability to secure credit.	81	105
Urban farmers have an advantage due to their proximity to financial institutions.	85	110
Risk Perception:		
Lenders perceive rural farmers as higher-risk borrowers, affecting their credit access.	60	78
Urban farmers are seen as less risky borrowers by lenders.	65	85
Lack of Financial Literacy:		
Limited financial knowledge among rural farmers contributes to the credit gap.	71	92
Urban farmers are more financially literate and better equipped to navigate credit processes.	70	91
Inadequate Infrastructure:		
Poor infrastructure in rural areas affects the ease of credit application and approval.	81	105
Urban farmers benefit from better infrastructure that facilitates credit transactions.	80	104

The table presented above illustrates that a significant majority of the participants concur that rural farmers encounter numerous challenges when trying to access credit. A substantial portion of the respondents believe that significant barriers contributing to the disparity in lending between rural and urban farmers include geographical location and insufficient infrastructure. In addition to these factors, there are other elements that impact their ability to secure financing, such as limitations in collateral, information imbalances, perceptions of risk, and a deficiency in financial literacy.

This proves that there are significant challenges faced by the rural farmers in accessing credit as compared to urban farmers. Thus, rejecting the null hypothesis(H2) .

RECOMMENDATION

1. Flexible Collateral Alternatives: Financial institutions should look into non-traditional tangible assets as collateral. Credit can be more easily accessed by rural farmers with little tangible assets by working with local governments to create frameworks that take community-based collateral, such as group guarantees or crop lien systems, into consideration.
2. Credit Information Infrastructure: In order to create credit information bureaus that aggregate credit records, even for those without official paperwork, governments and financial institutions should work together. By assisting lenders in making more accurate creditworthiness assessments, this infrastructure can lessen information asymmetry.
3. Digital Financial Inclusion: Credit access may be revolutionised by utilising digital technology. Governments and organisations ought to encourage the growth of digital financial services into outlying rural areas so that farmers can use mobile devices to acquire credit, conduct transactions, and even build credit histories.

4. Inclusive Policy Frameworks: Governments should design a supportive environment for financial firms to open branches or banking locations in rural areas. Geographic isolation problems can be reduced, and transaction costs can be reduced, by providing incentives and regulatory assistance for banks to increase their reach.
5. Risk Mitigation Mechanisms: In order to encourage lenders to extend credit to rural farmers despite the perceived risks involved with agriculture, governments can work with financial institutions to develop creative risk-sharing mechanisms, such as subsidised loan insurance or guarantee schemes.
6. Value Chain finance: By putting value chain finance concepts into practise, farmers may be given end-to-end credit solutions that encompass inputs, production, and marketing. Working together with cooperatives and agribusinesses can help improve farmers' creditworthiness and guarantee a steady market for their products.
7. Inclusive Policy Frameworks: Governments should design a supportive environment for financial firms to open branches or banking locations in rural areas. Geographic isolation problems can be reduced, and transaction costs can be reduced, by providing incentives and regulatory assistance for banks to increase their reach.
8. Risk Mitigation Mechanisms: In order to encourage lenders to extend credit to rural farmers despite the perceived risks involved with agriculture, governments can work with financial institutions to develop creative risk-sharing mechanisms, such as subsidised loan insurance or guarantee schemes.
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CONCLUSION

The study reveals that collateral constraints, information asymmetry, geographical isolation, risk perception, lack of financial literacy, and inadequate infrastructure collectively contribute to the disparity in credit access. Credit plays a critical role in supporting rural development, guaranteeing food security, and boosting agricultural expansion. Policymakers, financial institutions, and development organisations need to implement an integrated approach in order to close this gap. Flexible lending standards, cutting-edge credit assessment systems, specialised financial literacy programmes, and digital solutions have all showed promise in improving rural farmers' access to credit. Additionally, more inclusive credit systems can be promoted by combining government actions, microfinance organisations, and value chain financing approaches. It is possible to develop an equitable lending environment that empowers both urban and rural farmers, paving the road for sustainable agricultural development and balanced economic growth, by addressing these issues and encouraging cooperation among stakeholders. By identifying the challenges faced by rural farmers, the research will provide valuable recommendations to financial institutions and policymakers on how to design more inclusive and effective lending policies. Bridging the rural lending gap has the potential to enhance agricultural productivity, improve income levels, and foster overall economic development in rural areas.

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