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Agricultural Finance

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Abstract

Agriculture constitute the base of India's developing economy. The importance of the agriculture sector in the economy may be seen from the fact that, it contributes nearly one-half to the national income and offers employment to about 70 percent of the working population. It provides raw materials for most of our industries and accounts for nearly 48 percent of the country's foreign exchange earnings. The development of agriculture, therefore is essential for the growth of the Indian economy. Recognizing the significance of agriculture credit in promoting agriculture growth and development. The focus on the institutional framework for agricultural credit has been emphasized since the commencement of planned development in India. This paper focus on necessity of agricultural finance in India, as well as the sources and scale of agricultural finance and also evaluating its progress.

Keywords: Agriculture finance, institutional and non-institutional sources.

Introduction

Agricultural finance is the study of how to manage financial resources and services for agriculture. It also includes the analysis of the financial structure of agriculture and the wealth of farmers, agriculture finance include loans saving, payment and money transfer services, risk arrangement, crop and livestock insurance, leasing of land and equipment. Agriculture finance means analyzing, researching and examining the financial elements of the farm business, 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.

Objects

1. To focus on history of Agriculture finance.
2. To Focus on sources of agriculture finance.

Research Methodology:

This study is based on secondary data of various sources. The data were compiled from Annual Reports of Reserve Bank of India, Co-operative banks, National bank for Agriculture and Rural Development.

History of Financing agriculture in India:

Money lenders were only source of finance in agriculture till 1934. They charged high rates of interest and follow serious practices while giving loans and recovering them, farmers have burdened with debts with the passing of Reserve Bank of India, 1934, District Central Co-operative Bank act and land development bank act, agricultural credit received impetus, and there were improvements in agricultural credit. Therefore, bank credit to agriculture made fast progress by opening branches in rural areas and attracting deposits. After nationalization, it was made mandatory for these banks to provide finance to agriculture as a priority sector. Thus agriculture credit acquired multi-agency dimension. A large number of formal institutional agencies like Co-operative, Regional Rural Banks (RRBs), Scheduled Commercial Banks, non-banking financial institutions and self-help group (SHGs) etc. are involved in meeting the short- and long-term needs of the farmers.

Agricultural credit Structure in India:-

1. Intuitional credit Structure

Agriculture credit structure in India consists of two parts, one dealing with short term and medium-term credit and the other with long term credit. At present, the short term and medium term credit is providing by the Co-operatives, Commercial banks, Regional Rural Banks and Government sources. Long term credit is given by Co-operatives, Land Development Bank and Commercial Banks.

(a) Short term and medium-term credit structure

The short term and medium term credit structure consists of the Co-operatives, Commercial bank, Regional rural bank and government sources. Under the Co-operative credit system, the short term and medium term credit is made available to the farmers in a 3 tier structure which consists of the State-Co-operative bank at the Apex or State level, the Central Co-operative banks and the intermediate or district level and the primary agricultural credit societies at the base or village level. In another side, there are commercial banks and regional rural banks, which provide short term and medium term credit to the farmers. Commercial banks with their branches lend through the primary agricultural credit societies or directly to the farmers.

(b) Long term credit structure

The long term credit structure consists of the Co-operatives, the land development bank and the commercial banks. In the long term credit structure, the Co-operatives are organized in a 2-tier system consisting of the state central co-operative land development bank at the apex or state level and the primary land development bank at the village level.

2. Non-Institutional credit structure.

The non-institutional sector consists mainly of professional and agricultural moneylenders, landlords, traders and commission agents, relatives and friends.

(a). Moneylenders.

There are two types of moneylenders in rural areas (a) professional moneylenders and (b)non-professional moneylenders. A professional moneylenders is one whose main occupation is money lending, but a non-professional or agricultural moneylender is one whose main occupation is farming, but they combine money lending alongwith it. They do moneylending as side business. They full-fill all need of farmers but they charge high interest rate.

(b) Land Lords.

Land Lords from another source of credit. Farmers particularly small farmers and tenants depend upon this source to meet their financial requirements. It was an important source earlier but they cheated the farmers after it was declined with implementation of land reform measures.

(c) Traders and Commission agents

Traders and commission agents generally supply credit to the farmers, just before the crop season starts. They force farmer to sell their production at a lower price and charge heavy commission.

(d) Relatives and friends.

There loans are generally contacted in an informal manner, that carry low or no interest, and are returned soon after the harvest.

Table 1 illustrates a significant decrease in the proportion of agricultural credit funded by non-institutional sources such as money-lenders over the years.

Table 1 Source of Agricultural credit (in %)

Source	1961-62	1970-71	1981-82	1991-92	2002-2003	2010-11	2020-21
Government	3.3	2.6	3.6	4.0	6.1	3.0	4.6
Cooperative Societies	3.1	15.5	22.7	28.6	21.6	26.0	24.9
Commercial Banks	0.9	0.6	4.0	28.0	33.7	27.0	43.1
Moneylenders	90.9	67.4	68.4	38.8	32.71	41.0	21.09
Others	1.8	13.9	1.3	0.6	5.9	3.0	6.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Report of the all India rural credit review committee 1969, RBI bulletin and NSSO, May 2011, Economic Survey 2010-11, 2020-21.

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Table 01 clearly depicts that over the years there has been a sharp decline in the percentage of agricultural credit financed by non-institutionalized source like money lenders.

Assessment of progress in agricultural credit:-

Agricultural credit clearly started to grow after bank nationalization and it has been growing continuously since then, will all the concern and scepticisim expressed, the difficult and continuous changes in institutional credit have indeed borne fruit. Over the years there has been a significant increase in the access of rural cultivators to institutional credit and simultaneously, the role of informal agencies, including money lenders, as source of credit has declined.

Conclusion:

The study present that the institutional credit flow to the agriculture has been increasing for the past four decades. The structure of the sources of credit has witnessed a clear shift and commercial banks have emerged as the major source of institutional credit to agriculture in the recent years. Imparting training to borrowers regarding procedural formalities of financial institutions could be helpful in increasing their access to intuitional credit.

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