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A STUDY OF AGRICULTURAL FINANCE IN INDIA

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Abstract:

India is a country of villages, and agriculture has been a major source of employment and livelihood for nearly 70% of its population since independence. Subsequent five-year plans have placed a strong emphasis on agriculture and the growth of the sector. For rural poverty to be reduced, agricultural expansion is essential. Due to the high quantity of money required at every level and the need for careful planning to earn that money as well, the financial sector is regarded as one of the riskiest businesses. Agricultural financing, which enables farmers to carry out activities smoothly and without any obstacles, requires long-term planning, which is actively encouraged by the Indian banking sector. At both the local and macro levels, agricultural finance was investigated. For agriculture to reach its full potential as a lucrative endeavor, access to institutional finance for farmers as well as the proper quantity and quality of agricultural credit are essential. Together, co-operatives and commercial banks are unable to get rid of money lenders and local bankers who are providing loans at exorbitant rates. Yet, the commercial banks' loans to the agricultural sector have helped farmers cut back on borrowing from non-institutional sources. Macro finance deals with various methods of financing the agriculture industry. It is also involved in the lending process, laws, rules, oversight, and control over numerous agricultural credit institutions. As a result, agriculture is supported at the group level by macro-finance. The study of how credit provides funding and liquidity to farm debtors is known as agricultural financing. It is also referred to as the study of financial intermediaries that lend money to farmers and the financial markets where these intermediaries buy the money they lend out. The research article examines the financial and liquidity services that credit offers agricultural borrowers. It is also regarded as a study of the financial intermediaries that lend money to the agricultural industry as well as the financial markets where these intermediaries receive the loanable capital they need. The NABARD annual report is where the study's necessary data, which is primarily secondary in nature, is gathered.

Key words: Agricultural Finance, Agricultural Credit, NABARD, Capital Formation, Farmers

Introduction

Since India's planned development era began, there has been a strong focus on the institutional framework for agricultural credit because of the critical role that agricultural finance plays in promoting agricultural growth and development. The history, importance, and scope of agricultural finance in India are all covered in this essay, along with an evaluation of its development. The article is based on secondary information that was collected from various sources and examined with the aid of descriptive statistical tools. Farmers require money for both productive and unproductive (consumption) uses. Institutional sources and non-institutional sources are the two main sources of funding for agriculture. The proportion of agricultural loan funded by no institutionalized sources, such as money lenders, has dramatically decreased over time, falling from 90.90% to 21.90%. When it comes to short-term lending, co-ops had the lowest CGR of 13.34% and Scheduled Commercial Banks had the biggest rise in loans given, both with CGRs of 18.82%.

Agriculture finance is just as crucial to agricultural production as other inputs. Credit is crucial for boosting farm production because it is a major component of our economy. For small and marginal farmers in particular, the availability and access to adequate, timely, and affordable loans from institutional sources is crucial. Credit is crucial for developing a sustainable and successful farming system, along with other inputs. Particularly for small and marginal farmers, the majority of farmers are small producers involved in agricultural operations in regions of greatly different sources. Additionally, prospective Experience has demonstrated that having affordable access to financial services has a favorable impact on productivity. The development of assets, income, and food security for rural impoverished people. So, the government's top priority is to encourage full financial inclusion by bringing all farmer households into the banking system.

Although it typically feeds a country's whole population, agriculture typically plays a significant part in the economy of every country because it correlates and interacts with all of the country's connected businesses. Farmers require financial support in order to reduce poverty and adapt to the effects of natural disasters. In times of crisis, agricultural finance assists farmers in addressing their requirements. The financial sector has both formal and informal sources. Commercial banks, cooperative banks, microfinance organizations, and others are the official sources. Lenders of money, friends, families, and many more are examples of informal sources. 60% of India's population, many of whom are rural, impoverished country dwellers, are solely dependent on the agriculture sector for their livelihoods. Access to rural finance is a crucial component in reducing poverty and enhancing rural lifestyles. Hence, enhancing access to credit and banking services in rural areas should be a priority of increased financial inclusion.

In India, rural indebtedness has long been a problem. Rural areas had no commercial banking in the nineteenth century. Also, farmers were entirely at the mercy of predatory lenders. The central government has been working to increase institutional financing to the rural agriculture sector since the time of Brish administration. The establishment of cooperative credit societies is now being financed by a large network of institutions as a result of increased efforts in this area over the past few decades.

While neither commercial banks nor cooperative institutions were able to meet the needs for agricultural lending, the Narasimham Committee on Rural Credit (1975) suggested the establishment of Regional Rural Banks. The formation of NABARD in 1982 through a special act of Parliament on the proposal of the Committee to Review Arrangement for Institutional Credit for Agriculture and Rural Development was another significant step in the growth of rural lending. Its goal is to foster equitable and sustainable agricultural growth and rural economic development through efficient lending assistance, ancillary services, institution development, and other cutting-edge programs (NABARD).

Sources of Agriculture Finance

Co-operative Societies: According to Indian policymakers, cooperation is a method for the economic and social advancement of rural peasant populations. The trinity of institutions panchayats in villages, cooperatives, and communal schools—are viewed as the foundation upon which to develop morality and later social and economic order. In order to release farmers from the grip of loan sharks, cooperatives in India offered farmer loans at cheap interest rates.

Primary Agricultural Credit Society: These are the fundamental components of the relatively new cooperative lending system, the Primary Agricultural Credit Society. It only lends to peasant borrowers and offers short- and medium-term loans as well as lending and distribution services. The utility has gradually grown and has stepped up its outreach to the underprivileged, particularly the rural community. Despite the enormous progress, it is still insufficient given the manufacturers' need for funding.

Central Co-operative Banks: There are currently 370 District Central Co-operative Banks operating, according to central cooperative banks. Credits of $1200 crore have already been given to agricultural owners. Their primary responsibility is to manage the Primary Agricultural Credit Societies in the hamlet. Through Central Co-operative Banks, there is a connection between the State Co-operative Bank and the Primary Agricultural Credit Society.

State Co-operative Banks: There are currently 30 state cooperative banks operating across the nation. These banks are the apex banks of the cooperative credit framework. It gathers and distributes loans from the village of the fundamental society, serving as a conduit between NABARD and the cooperative central bank.

Review of Literature

Harikesh Maurya (2015) identified the recipients of cooperative banks' agricultural credit scores, and an effort is also made to research farmers' perspectives. He discovered that the medium-sized farmers receive the most benefits across all size categories. The study has made other recommendations as well for improving farmers' access to institutional loans.

According to Mansuri (2007), the informal market is frequently made up of heterogeneous non-specialists who use money lending as a way to boost the returns on other types of economic activity. Unfortunately, not all informal lenders place loans to rural households evenly. The cost and accuracy of the information that each under can obtain, as well as the lender's ability to enforce its rights with regard to individual borrowers, are specifically affected by vocational variations among under.

According to Park et al 2013, theory, impoverished households in emerging nations face a credit crunch that prevents them from increasing their investments or income. Credit availability promotes the adoption of innovative and riskier technologies that will increase farmer income levels and so reduce their poverty. Access to credit and additional capital raise household expenditure and increase the level of productive assets, which improves rural poor households' consumption (both food and non-food).

Subramanian &Shivananjappa(2017)The primary challenges that farmers encountered while trying to access institutional credit were the inability to get loans on time, the pricey application process, the inadequate quantity of loans approved compared to actual needs, and the associated transportation and paperwork costs. Crop failure, monsoon failure, anticipation of debt forgiveness by the government, poorer yield, rise in cultivation costs, and decline in market value of the harvested produce were among the issues the farmers mentioned as obstacles to repaying the credit.

Objective of the study

- To investigate the difficulties farmers have getting financing.
- To learn about the financing options accessible to farmers.
- To research the aspects that affect the farmers' decision between formal and unofficial sources of funding.

Research Methodology

It refers to the particular steps or methods utilized to locate, choose out, process, and analyze data regarding a subject. It has to do with how an investigator systematically plans a study to guarantee accurate outcomes that meet the goals and objectives of the investigation. The study's research methodology is listed below. The data used in this study is secondary in nature.

Data Analysis

Table No- 1

Flow of Agricultural Credit

(Rs. In Crores)

Year	Target	Achievement
2014-2015	700000	875000
2015-2016	725000	906250
2016-2017	746000	932500

Source: Annual Report NABARD 2016-17

Interpretation

With reference to base year 2012–2013, the government decides in 2013 to treble the flow of agricultural loans in three years. Since 2012, the flow of agricultural finance has continuously exceeded the goal. The aim was achieved to an 85 percent degree in 2013–2014. The achievement as of March 2016 is Rs. 932500 crore, or 95% of objective, against the agriculture credit flow target of Rs. 764000 crore for 2017–18. The target for credit flow in 2018–19 is Rs. 779000 crore, however actual credit flow was only 10% of it. The percentage share of achievement was more or less consistent from 2014–15 to 2018–19.

Table No- 2

Breakup of Institutional and Non-Institutional Agricultural Credit.

Sources of Credit	1961	1971	1981	1991	2002	2010
Institutional	10.2	20.9	32	56.2	66.3	61.1
Government	-	6.2	-	4	5.7	1.7
Co-Operative Banks	6.2	12.5	-	27.6	23.6	30.2
Commercial Banks	4	2.2	-	23.8	35.2	26.3
Insurance, Provident Fund				0.8	0.7	0.5
Other Agencies					1.1	2.4
Non-Institutional	89.8	79.1	68	43.8	33.7	38.9
Moneylenders	39.8	25.3		17.2	17.5	26.8

Relatives, Friends Etc.				11.5	4.6	6.2
Traders & Commission Agents				5.8	2.2	2.6
Landlords	21.4	15		3.6	3.7	0.9
Others	28.6	38.8		5.7	5.7	2.4
Total	100	100	100	100	100	100

Source: Report on Trend and Progress of Banking in India 2016–17, Reserve Bank of India.

Interpretation

In 1961, non-institutional sources dominated. 90% of farmer households' outstanding debt is comprised of this. However, their proportion quickly fell to 79% in 1971, 68% in 1981, and 43.8% in 1991. After 1981, the rate of decline slowed, and in 1991, 33.7% of all sources were from outside of institutions.

Yet after that, the trend was reversed, and the proportion of non-institutional debt actually increased, reaching 39% in 2002 and falling to 36% in 2013. From 17.5% in 1991 to 26.8% in 2002, moneylenders' proportion of the credit market increased over this time.

Table No- 3

Institutional Credit to Agriculture and Allied Sector

Rs. In Crores

Agency	2014-15	2015-16	2016-17
Commercial Banks	604376	642954	799781
RRBs	102483	119260	123216
Co-operatives	138469	153295	142758
Total	845328	915509	1065755

Source: Annual report of NABARD 2016-17

Interpretation

The graph above demonstrates that banks exceeded their yearly target of rs. 11 lakh core by disbursing rs. 12.55 core as ground level credit to agriculture (agricultural and allied activities, agri infrastructure, and ancillary activities) during the 2016–17 fiscal year. Term loans made up less of the total farm credit disbursed than they did in 2018–2019 (30.3%).

Table No- 4

Capital Formation in Agriculture Sector.

Sector	2012-13	2013-14	2014-15	2015-2016	2016-17
Agriculture	8.31	8.13	7.93	19.25	7.63
All sectors	3.19	2.99	4.25	5.14	5.95

Source: Annual report NABARD 2017-18

Interpretation

According to the graph above, the percentage of capital formation in the economy's overall GVA decreased from 8.31% in 2012–13 to 10.4% in 2017–18. This may be linked to the decline in bank-financed and credit-dependent private investment during this time, as a result of the banking sector's NPA problem and the ensuing slowdown in lending, particularly to long-term infrastructure.

Table No- 5

Different Purposes of the Loan.

PURPOSE	No. of Farmers	Percentage
Irrigation	53	5%
Development	9	9%
Equipment	13	13%
Farming Purpose	5	5%
Other	20	20%
Total	100	100%

Source: Annual Report of NABARD 2016-17

Interpretation

The graph above demonstrates how farmers are borrowing money for a variety of things, including farming, equipment, development, irrigation, and other uses. The largest percentage of farmers borrowing money for irrigation is 53%.

Conclusion

In India's economic development, agriculture is crucial. More over 65% of Indians depend on agriculture for their livelihood, although it only makes about 20% of the country's GDP with a significant export component. The Indian economy's agriculture sector is labor-intensive, land-poor, and capital-scarce. So, it would be quite challenging to reap the benefits of agriculture without providing sufficient financing to farmers at fair interest rates. As a result of the socio-economic and political circumstances in rural areas, farmers' access to commercial bank financing (both public and private banks) has also been a mirage for them.

One of the main economic drivers and a source of growth-enhancing factors for the nation's overall economic development is the agricultural sector. In contrast to banks and agricultural finance companies, the involvement of financing institutions in the agricultural sector has increased dramatically over time. It increases the share capital and debt obligations of cooperatives. Instead of taking a direct involvement in granting form credit, the government may be essential in setting up the necessary infrastructure to support the promotion of institutional credit.

Even tiny, marginal, Dalit, and tribal farmers in Indian agriculture, whether they are owners or not are risk-takers who contribute to economic progress. Farmers are a significant player in the labor, input, financial, and commodity markets who, due to the volume of transactions, are sometimes overlooked. Diversifying one's livelihood can aid in the farming community's bottom end absorbing more credit. In addition, more government funding is needed for agricultural research, extension services, and infrastructure. The need for post-harvest technologies and marketing infrastructure that might lessen the regular risk and losses experienced by farmers is also acknowledged.

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