AGRICULTURAL FINANCE

Finance is required to mobilize the inputs required to carry out production of goods and services. Agriculture is no exception to this. Poverty prevents majority of the farmers from adopting modern methods of cultivation. Easy aailability of finance and at favorable terms, therefore, is essential.

Need for Agricultural Finance

1. For purchasing quality agricultural inputs.
2. For coming out of the vicious circle of poverty that a large number of farmers suffer from.

Classification of Agricultural Finance

1. **On the basis of time:**

» **Short Term -:** These loans are taken to meet needs like payment of labor wages, buying of fertilizers, pesticides, seeds, fodder (for livestock), etc. These loans are for a period of **up to 15 months**. Farmers usually turn to Cooperative societies and money lenders to meet their short-term Agricultural Finance needs.

» Medium-Term -: Purchase of agricultural equipment, cattle,building/repairing of wells on farmland, etc comes under medium-term needs. The loans taken to meet these demands are usually for a period ranging from **15 months to 5 years**. Agencies like commercial banks, cooperative societies, money lenders, etc provide loans to meet the medium-term needs of agricultural finance.

» Long Term -: When Farmers want to purchase new land, agri equipment like tractors, etc. long-term loans are required. These are for a period of more than 5 years. These loans are provided by Commercial Banks, Primary Cooperative Agricultural and Rural Development Banks (PCARDBS), etc.

2. **On the basis of purpose:**

»Productive -: Needs that have a direct impact on productivity and the loans/credit taken to meet them come under this category. It would include buying fertilizers, seeds, small agricultural equipment, land improvement, wages, etc. These needs are met by loans from institutional credit agencies.

» Consumptive -: Small farmers sometimes require credit to meet their consumption needs because of the lack of capital wealth with them. These types of needs are met by taking loans from money lenders.

» Unproductive -: Under this type, the financial assistance required for non-productive expenses like marriages and family functions or emergencies, etc are included. These types of needs are also met by taking credit/loans from moneylenders.

Sources of Agricultural Finance

A. Non-Institutional credit

Moneylenders, family and friends, traders, landlords or commission agents are non-institutional sources of agricultural finance.
During the initial years after India became an independent nation, non-institutional sources played a major role in supplying rural credit.

After the nationalisation of major commercial banks, subsequently with the lead bank scheme and the establishment of National Bank of Agriculture and Rural Development (NABARD), with more new and innovative schemes, the non-institutional credit has decreased significantly.

a) Merit of Non-Institutional Credit

i) It is **easy to obtain a loan** as the lenders and borrowers are known to each other.

(ii) **Simple procedures** are followed while giving loans. Very often it is only on oral guarantee. However when the amount is comparatively large, a written guarantee is obtained.

(iii) **Easy access** and no formal timings to approach the money lenders, traders or landlords. During an emergency, even at midnight a borrower could obtain a loan.

(iv) **No restriction** is imposed on the use of the loan. It is granted for productive as well as s non-productive purposes.

((v) **Consumption loans** are also available from money lenders and others. Money required for marriages and other celebrations and even for death ceremonies is available with much delay. For these purposes it is not possible to obtain loans from the institutional sources.

(b) Demerits

(i) **Exorbitant rate of interest** is charged by money lenders and others making it impossible for the farmers to redeem the loans,

(ii) **Indebtedness** is the main problem arising out of rural credit. The burden goes on accumulating and in certain cases it leads to perpetual burden.

(iii) **Loss of land and property**. Failure to pay the loan and interest results in loss of land and property to the lenders of credit. Small and marginal farmers are deprived of the ownership of their land when they cannot repay the credit.

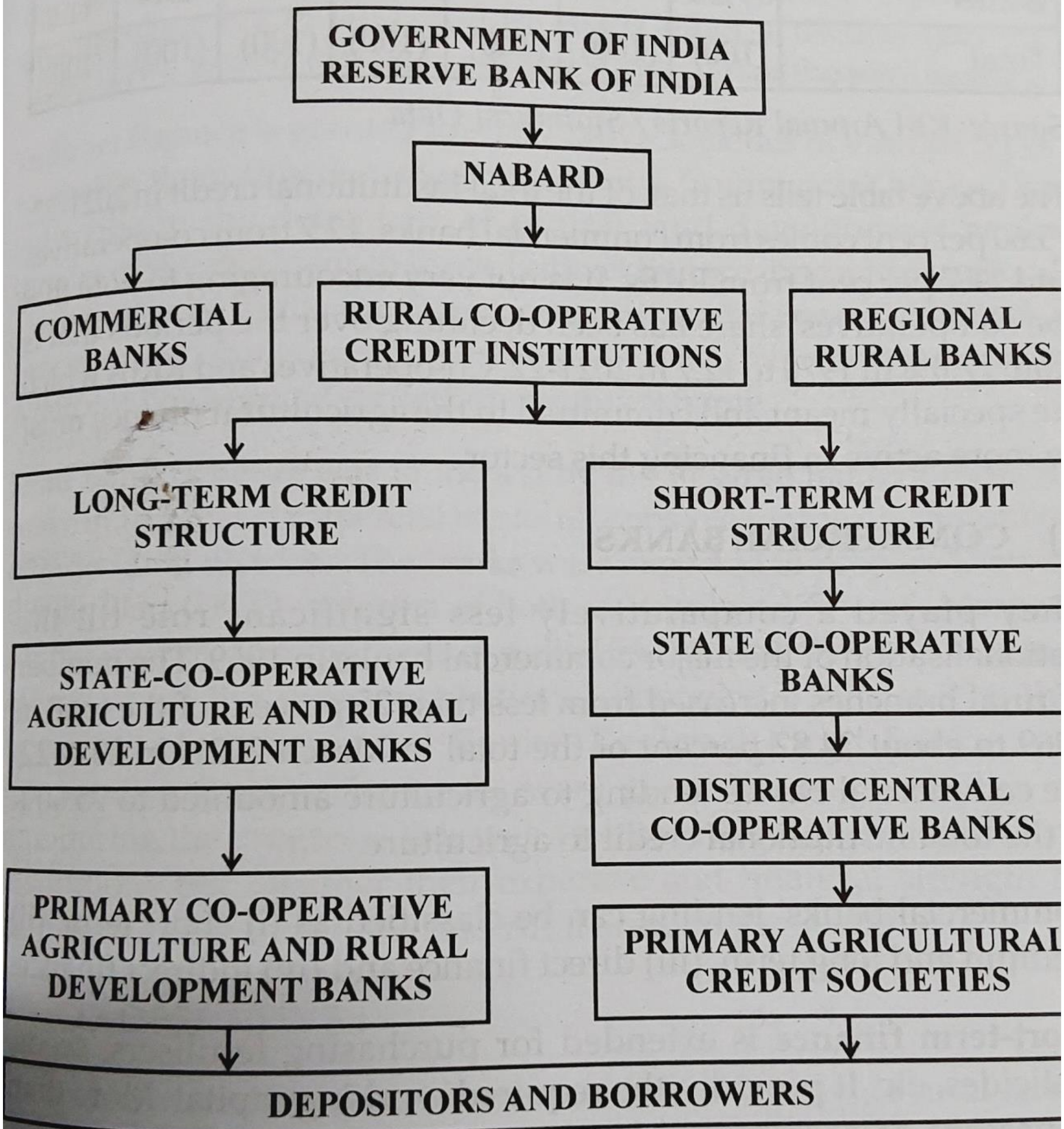
(iv) **Malpractices** are indulged in the form of obtaining thumb impression or signature on blank bond/stamp papers, misusing them and thus depriving the farmers of their property and assets.

(v) **Exploitation** of farmers becomes easier by making them obligated to render free services to money lenders and landlords. Traders compel them to sell the products at a lower price immediately after the harvest.

(vi) **Bonded labour** is the result of indebtedness of small and marginal farmers.
In certain cases it may even continue from generation to generation as they cannot redeem the debt due to high interest and other malpractices resorted by the lenders.

B.Institutional Credit

Chart 7.1 : Structure of Agricultural Credit System In India



The amount of credit supplied by three institutional sources is show in Table No. 7.1.

Institutional sources can be divided into three types: commercial banks, cooperative banks, regional rural banks.

I) Commercial Banks
Commercial banks initially played a minor part in promoting rural credit. However, after nationalization in 1969, they extended their rural branches and began directly financing farmers.
The member of rural branches increased from less than 25% of the total in 1969 to about 34.82% of the total in March 2022.

Commercial banks' lending can be classified into:

(i) Short-term finance: needed for working capital expenses like purchasing fertilizers, seeds, pesticides, etc.

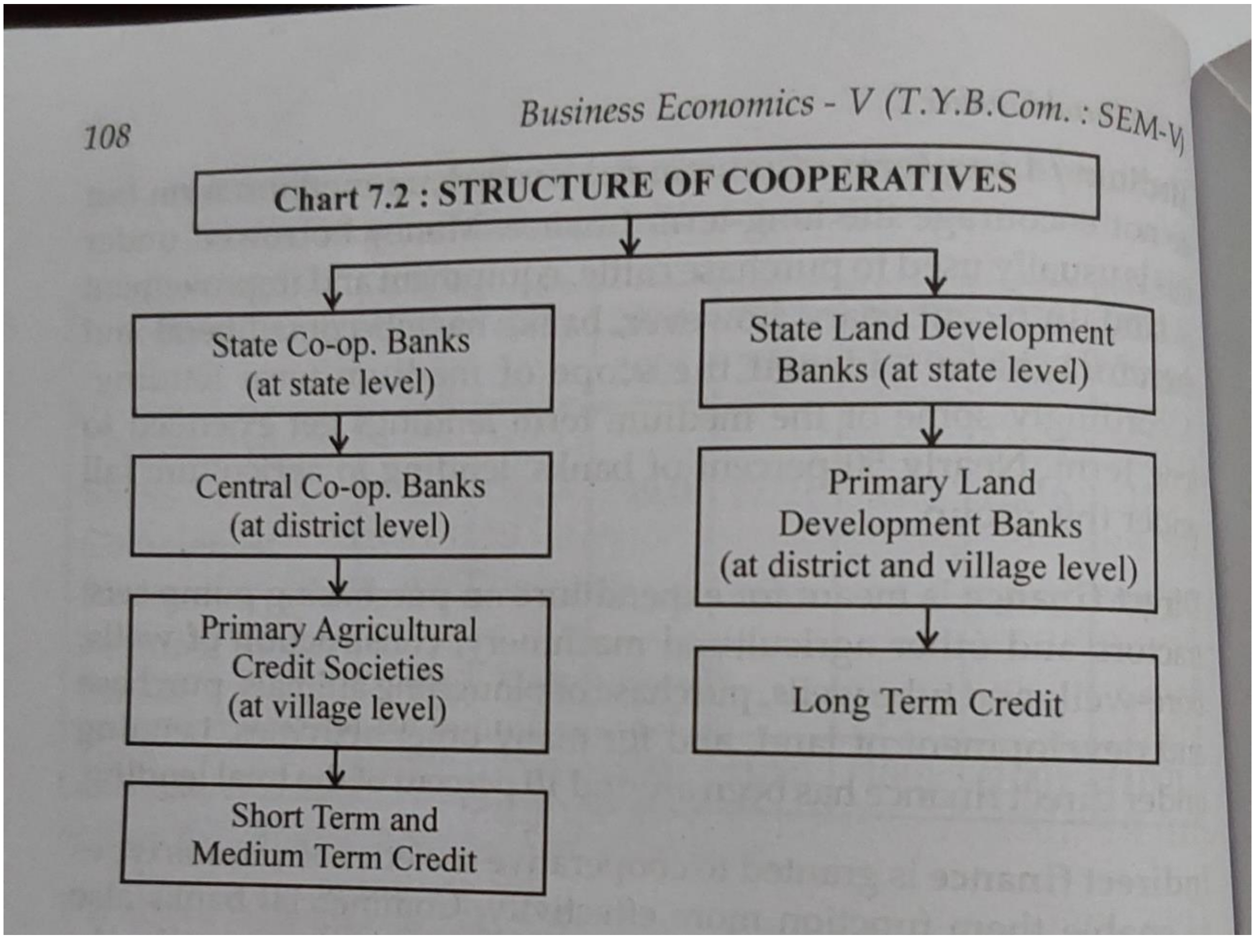
(ii) Medium /Long term finance: Commercial banks lend medium term but do not encourage the long-term finance. Money borrowed under this is usually used to purchase cattle, equipment and improvement of land. In recent years, however, banks have become liberal and therefore, have widened the scope of medium term lending.

(iii) Direct finance is meant for expenditure on purchasing pump sets, tractors and other agricultural machinery, construction of wells, bore-wells and tube wells, purchase of ploughing animals, purchase and development of land, and for many other activities.

(iv)Indirect finance refers to provision of finance to those organizations which are directly or indirectly involved with the agricultural sector. Ex: cooperative societies are provided with funds to enable them function more effectively. Commercial banks also subscribe to the debenture of central land development banks besides extending loans to them. Indirect finance is provided to Food Corporation of India, the State Government and other agencies for procurement, storage and distribution of foodgrains which would then benefit farmers who are engaged in producing foodgrains.

(v) Lead Bank Scheme: The Lead Bank Scheme aimed to establish a lead bank in every district of India. The lead bank would coordinate with other banks and financial institutions in the area. Under this scheme launched by RBI, an individual commercial bank is made responsible (lead role) for coordinating the efforts of all credit institutions in the allotted districts to increase the flow of credit to agriculture, MSE and other economic activities with the district being the basic unit in terms of geographical area. The banks were expected to prepare District Credit Plan (DCP) in terms of both physical and financial targets for the overall development of a district through the coordinating efforts of all the three institutional financing agencies viz, the branches of Commercial Banks, Regional Rural Banks and Cooperative Banks.

II) Co-operatives:
The main purpose of cooperative societies is to provide rural credit at a lower cost.
The structure of cooperatives has been given below



<u>Short and Medium Term Credit</u>

1. State Co-operative Banks are the apex of the co-operative credit structure. They act as a link between the central co-operative banks and the National Bank for Agriculture and Rural Development (NABARD).

2. Central Co-operative Banks function at the district level and provide a link between primary societies and state co-operative banks. The primary societies borrow money from the state co-operatives through central cooperatives.

3. The primary credit societies are at the base level, that is, at the village level. They provide short and medium term credit to the farmers. Besides credit they also help farmers by supplying seeds, fertilizers, insecticides, agricultural equipment, marketing, farm produce etc. To combine other services along with credit, Farmers Service Societies (FSS) were established. On the recommendations of the study team appointed by the Government of India in 1971, Large Sized Adivasi Multi Purpose Co-operative Societies (LAMPS) were organised in the adivasi and tribal areas. LAMPS provided a variety of services from credit to marketing under one single roof.

Long Term Credit

For long term credit, land development banks are established. They work at two levels. At the district level, there are Primary Land Development Banks and at state level State Land Development Banks. Loans from the land development banks are for a period of 10 to 15 years and at times they are extended for upto 20 years.

III) Regional Rural Banks

The RRBs were established as per the recommendations of the Narasimham Committee to cater to the rural credit needs of the farming and other rural communities. Primary objective of these banks is to cater to the financing needs of agriculturalists, small rural entrepreneurs, village artisans & agricultural laborers. Also, it is responsible for supplying credit facilities to these areas where other financial institutions are not active.

Issues faced by RRBs include political interference and poor loan recovery rates.

To improve the functioning of the RRBs it is necessary to improve the capital base of these institutions, allow greater liberty in functioning, provide refinance at lower rate of interest and train the bank personnel in all aspects of agriculture and rural development.

Limitations of Institutional Finance

Though institutional finance for the agricultural sector has become increasingly popular over the years, it is yet not accessible by many poor small and landless farmers, agricultural laborers due to the following factors:

1. Formalities: Lengthy procedure for obtaining credit from an organized source of finance like banks keeps away a vast number of farmers from taking a loan. Also, going through official formalities for obtaining loans from institutional sources becomes difficult for poorly educated farmers.

2. Collateral: Providing collateral as a measure of security against the amount of loan sanctioned becomes difficult when a farmer neither owns the land nor possesses proper ownership records.

3. Productive loans only: Majority of the banks provide loans to farmers for productive purposes (farming, business activities) only. However, at times, farmers are also in need of funds for their personal consumption like marriage expenses, or sickness expenditures. They have no option but to resort to taking out loans from private moneylenders for such unproductive personal consumption expenditures.

4. Political interference: Loans are disbursed as directed by politica leaders even to credit worthless borrowers resulting in a large number of bad debts.

5. Corruption: Financial institutions lending agricultural finance do not function transparently. Bribe taken by banking professionals for sanctioning loans to borrowers is a problem plaguing the financial system.

NABARD

(NABARD) is an apex regulatory body for overall regulation of regional rural banks and apex cooperative banks in India. It is under the jurisdiction of Ministry of Finance, Government of India.The bank has been entrusted with "matters concerning policy, planning, and operations in the field of credit for agriculture and other economic activities in rural areas in India"

Role of NABARD:

1. To work as an apex body and provide indirect finance to farmers through cooperatives, commercial banks and Regional Rural Banks.
2. To promote rural development by providing credit to agriculture, small-scale industries, cottage & village industries, handicrafts and other allied economic activities in rural areas.
3. To inspect district & state cooperative banks & RRBs.
4. To reduce regional imbalance in the availability of finance.

As a refinance institution:

- It provides refinance to State Co-operative banks, RRBs and other rural financial institutions.
- Gives long-term loans to state governments to enable them subscribe to the share capital of co-operative credit societies.

- Provides long-term loans to any institution approved by the Central Government, for the purpose of agricultural finance.

Schemes introduced by NABARD:

1. Micro finance: This scheme was introduced in 1992 for providing finance to marginal farmers, landless labourers, artisans, craftsman. The scheme has been implemented through Self- Help Groups (SHG) and bank linkage programme. About 100 million poor farmers benefited from this scheme however, it was largely unsuccessful in terms of recovery of loans.
2. Tribal Development Project (the Wadi Project) in Gujarat: This particular project of NABARD is focused on achieving objectives like alleviation of poverty, restoration of forest lands, community hygiene in areas of Valsad district of Gujarat.
3. Farm Income insurance Scheme: introduced in 2003-04 with the objective of providing income protection to farmers by giving insurance against production and market risks.

Kisan Credit card

Scheme was introduced by NABARD in 1998-99 to facilitate access to credit from cooperative banks, commercial banks & RRBs.

The salient features of the scheme are:

1. Farmers eligible for production credit of 5000 or more are eligible for issue of Kisan Credit Card.
2. Eligible farmers are to be provided with a Kisan Card and Pass book or card-cum-pass book.
3. Provision of revolving cash credit facility involving any number of withdrawals and repayments within the limit.
4. Entire production credit needs for full year plus ancillary activities related to crop production considered while fixing limit. In due course, all activities and non-farm credit needs will also be covered.
5. Limit to be fixed on the basis of operational land holding cropping pattern and scale of finance.
6. Sub-limits may be fixed at the discretion of banks.
7. Card valid for 3 years subject to annual review.
8. Each withdrawal to be repaid within 12 months.
9. Conversion/reschedulement of loans also permissible in damage to crops due to natural calamities.

10. As incentive for good performance, credit limits could enhanced to take care of increase in costs, changes in crop pattern etc.
11. Security, margin, rate of interest as per RBI norms.
12. Operations may be through issuing branch or at the discretion of bank, through other designated branches.
13. Withdrawals through slips/cheques accompanied by card and passbook.

New additions by the government to this scheme include -

1. Provision of cover for accidental deaths or permanent disability for KCC holders for a maximum amount of ₹50,000& ₹25,000 respectively.
2. Scheme has been enlarged to include term loans for agriculture & allied activities along with a component to meet consumption needs.
3. Passbook system has been replaced by an ATM-cum-debit card to all eligible farmers.

Conclusion

Government has, over the years, undertaken appropriate measures to improve access to institutional finances for agricultural purposes by introducing variety of schemes. However, still a lot of progress in yet to be achieved in terms of financial inclusion in rural areas. more efforts are required in terms of providing low rate of interest loans, making crop insurance compulsory for all farmers, minimizing formalities involved in granting of loans, strengthening the financial health of credit cooperatives.

References:

1. www.olivebeard.in
2. www.geekssforgeeks.com
3. Business Economics by Manan Prakashan