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AGRICULTURAL FINANCE IN INDIA- AN OVERVIEW

Ajit Kumar Mishra[*1] and Upasana Mohapatra[2]
[*1]Associate Professor, Department of Agricultural Economics, OUAT, Bhubaneswar
[2]Doctoral Student, Department of Agricultural Economics, OUAT, Bhubaneswar

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ABSTRACT

Finance in agriculture is as important as other inputs being used in agricultural production. 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. The paper discusses the history and need of agricultural finance in India, sources and magnitude of agricultural finance and assesses its progress. The article is based on the secondary data compiled from diverse sources and analyzed using descriptive statistical tools. Finance is needed by farmers both for production and consumption (unproductive) purposes. The two major sources of finance in agriculture are institutional and non-institutional sources. Over the years, there has been a sharp decline in the percentage of agricultural credit financed by non-institutionalized sources like money-lenders from 90.9 per cent to 20.9 per cent. The highest increase in loans issued was in the case of Scheduled Commercial Banks with CGR of 32.05 while the lowest was in the case of Co operatives with CGR of 13.57 per cent in case of short term credit. In case of long term credit, The highest loans outstanding were in the case of Scheduled Commercial Banks with CGR of 22.74 while the lowest was here also in the case of Co-operatives with CGR of - 2.81 per cent. The share of agricultural credit as a proportion of agricultural GDP has been rising continuously since the 1950s, and even as a proportion of total GDP until the 1980s, after which it is stagnant. Imparting training to borrowers regarding procedural formalities of financial institutions could be helpful in increasing their access to institutional credit. The option of microfinance and Kisan Credit Card (KCC) should be adopted and streamlined to alleviate the plight of the marginal, small, tribal farmers. They should be linked effectively to the Self Help Groups (SHGs)

KEYWORDS: Agriculture,Finance, Institutional and Non-institutional sources, Kisan Credit Card.

I. INTRODUCTION

"Agricultural finance is the study of financing and liquidity services credit provides to farm borrowers. It is also considered as the study of those financial intermediaries who provide loan funds to agriculture and the financial markets in which these intermediaries obtain their loan able funds."

Finance in agriculture is as important as other inputs being used in agricultural production. Technical inputs can be purchased and used by farmer only if he has money (funds). But his own money is always inadequate and he needs outside finance or credit. Agricultural finance capitalizes farmers to undertake new investments and/or adopt new technologies. The importance of agricultural credit is further reinforced by the unique role of Indian agriculture in the macroeconomic framework along with its significant role in poverty alleviation. 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.

The paper aims to discuss the history and need of agricultural finance in India, sources and magnitude of agricultural finance and to assess its progress.

II. HISTORY OF FINANCING AGRICULTURE IN INDIA

Money lenders were the only source of credit to agriculture till 1935. They used to charge unduly high rates of interest and follow serious practices while giving loans and recovering them. As a result, farmers were heavily burdened with debts and many of them perpetuated debts. With the passing of Reserve Bank of India Act 1934,

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District Central Co-op. Banks Act and Land Development Banks Act, agricultural credit received impetus and there were improvements in agricultural credit. A powerful alternative agency came into being. Large-scale credit became available with reasonable rates of interest at easy terms, both in terms of granting loans and recovery of them. Although the co-operative banks started financing agriculture with their establishments in 1930's real impetus was received only after Independence when suitable legislation were passed and policies were formulated. Thereafter, bank credit to agriculture made phenomenal progress by opening branches in rural areas and attracting deposits.

Till 14 major commercial banks were nationalized in 1969, co-operative banks were the main institutional agencies providing finance to agriculture. After nationalization, it was made mandatory for these banks to provide finance to agriculture as a priority sector. These banks undertook special programs of branch expansion and created a network of banking services throughout the country and started financing agriculture on large scale. Thus agriculture credit acquired multi-agency dimension. Development and adoption of new technologies and availability of finance go hand in hand. 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. In bringing "Green Revolution", "White Revolution" and "Yellow Revolution" finance has played a crucial role. In the first half of 2000s, there has been a steep rise in the share of commercial banks in total agricultural credit. Starting 1990s, the share of short-term agricultural credit in total agricultural credit has been going up. Newer credit delivery systems in the form of Kisan Credit Card (KCC) were introduced to provide easy access to credit.

The procedures and amount of loans for various purposes have been standardized. Among the various purposes "Crop loans" (Short-term loan) has the major share. In addition, farmers get loans for purchase of electric motor with pump, tractor and other machinery, digging wells or boring wells, installation of pipe lines, drip irrigation, planting fruit orchards, purchase of dairy animals and feeds/fodder for them, poultry, sheep/goat keeping and for many other allied enterprises.

In the 12 year period from 2000-01 to 2011-12, the flow of ground level credit has increased impressively, especially after the '**doubling period**' (2004-07), showing almost a 10 fold increase. Around Rs 28 lakh crore have been disbursed during the 12 years and in the next 5 years of 12th FYP, another Rs35 to 42 lakh crore are expected to be invested (12th Five Year Plan Estimates). Clearly, agriculture credit has emerged as a major strategy for accelerating investments in agriculture.

III. METHODOLOGY

The article is based on the secondary data compiled from diverse sources. The data were compiled from the *Agricultural Statistics at a Glance* (2008), published by the Department of Agriculture and Co-operation, Ministry of Agriculture, Government of India (GoI), *Reports on Currency and Finance*, published by Reserve Bank of India (RBI) and various annual reports of National Bank for Agriculture and Rural Development (NABARD).

IV. NEED FOR AGRICULTURAL FINANCE

The financial need of the Indian farmer can be broadly classified into two categories

a) Productive Needs

Productive needs refer to need of finance for purchase of fertilizers and implements and also digging and deepening of wells.

b) Unproductive Needs

The farmer needs credit for purposes other than agriculture, too. They are for celebration of marriages, birth and death.

The adoption of modern technology, which is capital intensive, has commercialized agricultural production in India. Besides, the farmer's income is seasonal while his working expenses are spread over time. In addition, farmer's inadequate savings require the uses of more credit to meet the increasing capital requirements. Furthermore, credit is a unique resource, since it provides the opportunity to use additional inputs and capital items now and to pay for them from future earnings. In fact, credit has both "***static***" and ***"dynamic"*** characters.

Because of the high risk inherent in traditional farming activity, the prevalence of high interest rates was the norm rather than an exception, and the concomitant exploitation and misery that often resulted. Development of rural credit systems has therefore, been found to be intrinsically very difficult and, as we will see, an issue of continuing official concern for over a century.

V. SOURCES OF AGRICULTURAL FINANCE

The two major sources of finance in agriculture are institutional and non- institutional sources.

A. Institutional Source

Institutional sources consist of the government and co-operative societies, commercial bank including the Regional bank, Lead bank.

1) Co-operative Societies

Indian planners consider co-operation as an instrument for economical development of the deprived farmers, particularly in the rural areas. They see in a village panchayat, a village co-operatives and village school, as the trinity of institution on which a self-reliant and just economic and social order is to be built. The co-operative movement was started in India largely with a view to providing agriculturists funds for agricultural operations at low rates of interest and projects them from the clutches of money lenders.

a) Primary Agricultural Credit Society

Primary agricultural credit societies are grass root level arms of the short term co-operative credit structure. PACs deal directly with farmer borrowers, grant short term and medium term loans and also undertake distribution and making functions. The usefulness of PACs has been rising steadily. In 1950-51, it advanced loan worth Rs. 23 crores and Rs. 34,520 crore in 2000-01. The PACs have stepped up their advances to the weaker sections particularly the small and marginal farmers. The progress has been quite spectacular but not sufficient considering the demand of finance by farmers.

b) Central Co-operative Banks

There are now 369 (2001-2002) District Central Co-operative Banks. The loan amount of 56,650crore is distributed to the farmers so far. Their main task is to lead Primary Agricultural Credit Societies in village. Central Co-operative Banks functions as intermediaries between the State Co-operative Bank and Primary Agricultural credit society.

c) State Co-operative Banks

There are now 30 State Co-operative banks in the country. These Banks are the apex banks of the Co-operative credit structure. It serves as a link between NABARD from which it borrows and lends to the co-operative central bank and primary societies village.

B. Non – Institutional Source

1) Money Lenders

There are two types of money lenders in rural areas. There are rich farmers or landlords who combine farming with money-lending. There are also professional money lenders whose only occupation or profession is to lend money. The cultivators depend upon the money-lenders for their requirements of cash. However, there are many reasons for the preponderance of the village money-lenders in rural area even now.

I. The money lender freely supplies credit for productive and non-productive propose, and also for short-term and long-term requirements the farmers.

II. He is easily accessible and maintains a close and personal contact with the borrowers often having relations with family extending over generations.

III. Their methods of business are simple and elastic.

2) Landlord and others

Traders and commission agent supply funds to farmers for productive purpose much before the crops mature. They force the framers to sell their produce at low price and they charge a heavy commission for themselves. Thus source of finance is particularly important in the case of cash crop like cotton, groundnut, tobacco, and in the case of fruit of chard like mangoes. Traders and commission agent may be bracketed with money lenders, as their lending to farmers is also at exorbitant rates and has other undesirable effects too.

Table 1 clearly depicts that over the years, there has been a sharp decline in the percentage of agricultural credit financed by non-institutionalized sources like money-lenders.

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Table 1. Sources of agricultural credit (In %)

Source	1952-52	1961-62	1970-71	1981-82	1991-92	2002-03	2010-11
Government	3.3	2.6	3.6	4.0	6.1	3.0	4.0
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	32.7	41.0	21.9
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

Direct institutional credit for agriculture and allied activities short term

Table 2 shows that the depict issue of agricultural loans of the study banks viz, cooperative banks, scheduled commercial banks and regional rural banks. To study the amount of loans issued over the year, annual compound growth rate of all the study banks reveals a fluctuation over the periods that is in the base year 2001. Table also displays the data on direct short term institutional credit for agriculture and allied activities during 2000-01 to 2011-12. A look at the table reveals that the direct loans issued increased gradually from 32,355 crores in 2000-01 to 2,17,126 crores in 2009-10, with CGR of 24.29. The highest increase in loans issued was in the case of Scheduled Commercial Banks with CGR of 32.05 while the lowest was in the case of Co operatives with CGR of 13.57 which was less than half of the Scheduled Commercial Banks. As for as the loans outstanding was concerned, the loans outstanding increased from 37,302 crores in 2000-01 to 2,56,256 crores 2011-12 with CGR of 23.86. The highest loans outstanding was in the case of Scheduled Commercial Banks with CGR of 30.32 while the lowest was in the case of co-operative with CGR of 12.05.

Table 2. Direct institutional credit for agriculture and allied activities short term

(Rs. Crore)

Year	Loans Issued				Loans Outstanding			
	Co-operatives	**SCBs**	**RRBs**	**Total**	**Co-operatives**	**SCBs**	**RRBs**	**Total**
2000-01	18556	10704	3095	32355	18168	15422	3692	37302
2001-02	21670	12661	3810	38141	21540	18882	4812	45234
2002-03	23629	16825	4834	45288	24518	23211	6495	54224
2003-04	29326	24143	6133	59593	30808	31982	7664	70454
2004-05	31887	29978	9883	71748	32481	71748	10980	86259
2005-06	35624	45644	12816	94084	34140	59971	13877	107988
2006-07	40796	65245	17031	123072	37764	76006	18707	132477
2007-08	47390	68243	20377	136010	43696	96152	22748	162596
2008-09	48022	107766	22851	178639	45686	126285	26652	198623
2009-10	61951	124646	30529	217126	54970	167623	33663	256256
2010-11	NA	146063	38560	NA	NA	193262	40663	NA
2011-12	NA	217897	47011	NA	NA	269030	46580	NA
CGR	**13.57**	**32.04**	**28.94**	**24.3**	**12.05**	**30.33**	**26.54**	**23.86**

Direct Institutional credit for the agriculture and Allied Activities Long term

Table 3 pertains the data on direct long term institutional credit for agriculture and allied activates during 2000-1to 2011-12. The direct loans issued increased from 15,364 crores in 2000-01 to 1,08,528 crores in 2011-12 with CGR of 20.95.The highest loans issued increased was in the case of Scheduled Commercial Banks with CGR of 31.55, while the lowest was in the case of Co-operatives with CGR of -0.92. As for as the loans outstanding were concerned, the loans outstanding grown from 54,352 crores in 2000-01 to 2,25,958 crores in 2011- 12 with CGR of 14.23. The highest loans outstanding were in the case of Scheduled Commercial Banks with CGR of 22.74 while the lowest was here also in the case of Co-operatives with CGR of - 2.81.

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Table 3. Direct institutional credit for agriculture and allied activities long term

(Rs. Crore)

Year	Loans Issued				Loans Outstanding			
	Co-operatives	SCBs	RRBs	Total	Co-operatives	SCBs	RRBs	Total
2000-01	8739	5736	871	15346	27967	22828	3557	54352
2001-02	8899	5977	736	15612	30570	26224	3474	60268
2002-03	10411	8431	1045	19887	34546	30593	3766	68905
2003-04	10723	12069	1042	22834	40595	36121	4058	80774
2004-05	13122	18389	2043	33555	46341	52721	5730	104791
2005-06	12499	34955	2484	49938	48187	75632	7632	131451
2006-07	13223	50021	3198	66442	51679	93012	8745	153436
2007-08	10253	45229	3461	58943	21970	106644	10468	139082
2008-09	10765	52924	3648	67337	18359	129834	10715	158908
2009-10	12987	63607	4111	80705	21510	147813	12619	181942
2010-11	7235	76729	5405	89369	30558	164322	14404	209284
2011-12	7500	94980	6048	108528	31446	174268	17244	225958
CGR	**-0.93**	**31.56**	**22.03**	**20.95**	**-2.82**	**22.75**	**17.21**	**14.23**

Source: Reserve Bank of India

VI. ASSESSMENT OF PROGRESS IN AGRICULTURAL CREDIT

Agricultural credit clearly started to grow after bank nationalization and it has been growing continuously since then. With all the concerns and skepticism 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.

According to the All India Debt and Investment Survey 1991-92, the relative shares of institutional agencies in the total cash debt of rural cultivators increased from 31.7 per cent in 1971 to 63.2 per cent in 1981 and further to 66.3 per cent in 1991. Nonetheless, recent years have again been characterized by a concern over the falling share of agricultural credit as a proportion of total credit. This is indeed true, but is this the correct metric to look at the progress of agricultural credit? What would be more relevant is to evaluate agricultural credit as a proportion of agricultural GDP; or short-term credit as a proportion of the value of inputs; or long term credit as a proportion of private investment.

As might be expected, the share of agricultural value added has been falling as a share of total GDP. Hence credit to agriculture may also be expected to fall as a proportion of total credit, assuming relative stability in the share of purchased inputs as a proportion of value added. The share of agricultural credit as a proportion of agricultural GDP has been rising continuously since the 1950s, and even as a proportion of total GDP until the 1980s. There was indeed a fall in the mid 1990s, but has again risen now (Table 4). It is true, however, that agricultural credit has indeed fallen as a proportion of total credit.

Table 4. Ratio of Direct Agricultural Credit (Disbursements) to Agricultural Gross Domestic Product (GDP), Total GDP and Total Credit

(Per cent)

	Agricultural Credit/ Agricultural GDP	Agricultural Credit/ Total GDP	Agricultural Credit / CS
1950-51	0.5	0.3	NA
1960-61	3.3	1.3	NA
1970-71	5.4	2.1	10.8
1980-81	8.3	2.6	8.5
1990-91	7.4	2.0	6.4
2001-02	8.7	2.0	5.5

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Source: Report on Currency and Finance: Various Issues and Handbook of Statistics on Indian Economy: 2002-2003
N.A.: not available.

Note :

1. Agricultural Credit: Direct credit for agricultural and allied activities extended by Co-operatives, Commercial Banks and Regional Rural Banks.
2. Total GDP and Agricultural GDP are at factor cost and at current prices.
3. CS – Other banks' credit to commercial sector (outstanding) proxy for total credit.

VII. KCC SCHEME

Kisan Credit Card (KCC) scheme was introduced in August 1998 for short-term loans for seasonal agricultural operations (SAO). The KCC is the most effective mode of credit delivery to agriculture in terms of the timeliness, hassle-free operations as also adequacy of credit with minimum of transaction costs and documentation.

Top six states with KCCs issued by institution are:
Cooperative Banks: Uttar Pradesh (16.7%), Maharashtra (14.3%), Andhra Pradesh (9.85%), Orissa (9.13%), Madhya Pradesh (8.85%) and Rajasthan (7.82%)
RRBs: Uttar Pradesh (28.93%), Andhra Pradesh (16.03%), Karnataka (9.49%), Bihar (7.18%), Orissa (5.23%) and Madhya Pradesh(4.27%)
Commercial Banks: Andhra Pradesh (24.5%), Uttar Pradesh (16.32%), Tamil Nadu (10.12%), Maharashtra (6.62%), Karnataka (6.29%) and Madhya Pradesh (4.21%)

VIII. MICRO-FINANCE AND AGRICULTURE

The micro finance sector has developed rapidly over the last two decades, making credit available for many poor micro-entrepreneurs, although in most cases it has practically skipped the rural poor and most particularly their agricultural activities as smallholders. Three-fourth of the people lives in rural areas and for livelihood, directly or indirectly, largely depends up on agriculture and allied activities. Between 60-99 percent of rural households earn a living from farming and for most, it is rarely the only source of income. Most of these individuals also earn wages either in the agricultural sector or other sectors, are self-employed, or receive money from family members who migrate to cities. Family farming is characterized by low productivity due in particular to low levels of investment in inputs or in equipment. But such investments require access to financial sources in the form of short, medium or long- term loans.

Agricultural prices are notoriously volatile and few farmers can offer guarantees that are legally or financial acceptable. The returns are also low. These peculiarities demand financing mechanisms adapted to the diverse needs and services of rural households. These needs include (i) Short-term: input financing at the beginning of the crop year (seeds, fertilizers, pesticides), additional labour, feed, storage facilitates, processing, etc.; (ii) Medium and long- term: equipment for intensification, commercialization (transportation), storage (buildings), perennial crops (investment, renewal, maintenance), (re) constitution of herds, land purchase; (iii) Family needs: personal, durable goods, housing; (iv) Nonfinancial services: monitoring demand, technical assistance and extension; and (v) Savings.

There is no doubt that micro-finance can play an important role in agricultural finance in India and is capable of mitigating the challenges associated with the sector.

IX. CONCLUSION

The study has shown 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 institutional credit. The option of microfinance should be adopted and streamlined to alleviate the plight of the marginal, small, tribal farmers. They should be linked effectively to the Self Help Groups (SHGs).

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