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# *CKPIM BUSINESS REVIEW*



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## AGRICULTURE FINANCE

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### ABSTRACT

*Agriculture is the major source of income for 80 percent of the rural population in India and it supports 72 percent of her workforce. And as we know that Indian agriculture is undergoing a heavy stress as average land holdings is decreasing day by day. Our acreage has remained at 140 million hectares since 40 years but the number of farmers has increased from 7 crore to 14 crore which implies we are adding one crore farmers every five years. So there is a problem in investing in the land holdings. Credit is an ability to get loans from some individual agency. In the financial sense, credit, is the confidence reposed in a person which enables him to obtain from another, the temporary use of thing of value. In this paper we will discuss the different types of institutions or societies which provide proper finance/credit to the agriculture in spite of their land holdings.*

**Keywords:** *Agriculture, Credit, Institutions.*

### INTRODUCTION

**Agriculture** sector is the main source of livelihood for about 65 to 70 percent of Indian population. It is the backbone of Indian economy and prosperity, if agriculture can largely stand for the prosperity of the Indian economy. Agriculture refers to all those activities which are related to cultivation of land for the production of food crops. As agriculture occupies the key position in Indian economy, then also it faces lots of problems such as:

- **Low productivity:** Low productivity in agriculture is as compared to advanced countries.
- **Deficiency of finance in agriculture** i.e. lack of finance which creates modernizing the Indian agriculture
- **Disguised unemployment:** Disguised unemployment exists frequently in developing countries whose large populations create a surplus in the labour force. It exists where part of the labour force is either left without work or is working in a redundant manner where worker productivity is essentially zero. Disguised unemployment is characterized by low productivity and frequently accompanies informal labour markets and agricultural labour markets, which can absorb substantial quantities of labour.

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- **Dependence on rainfall:** Agriculture in India is mainly depends on monsoon because irrigation facilities are not properly developed. If monsoon fails or it rains heavily or untimely rain, destroys the agricultural production.
- **Small holdings** i.e. small cultivation land for farmers: Farmers in India holds very small land holding means there lands are fragmented due to family disputes or due to land ceiling act. So due to this farmers are getting very small land for cultivation which results in low productivity of labour.

There are institutes or societies or agencies which give finance or credit to agriculture such as:

- Institutional societies,
- Non-Institutional societies,

#### ***Institutional Agencies:***

***Institutional societies*** are those societies which give credit/finance to farmers. They are government, co-operatives societies, commercial banks including RRBs, insurance, provident fund and other institutional agencies.

India's credit policy aims at providing affordable financial services to the people who have either been left sidelined or have been ignored by the mainstream formal financial institutions. The Reserve Bank of India (RBI) and Government of India (GOI) have emphasized the significance of rural finance and attempted to create an enabling environment for rural banking towards hassle-free credit inflows to the farm and non-farm sectors in rural areas. In spite of the abundance of plans and policies relating to the flow of credit to the agricultural and rural sector, the flow and distribution of agricultural credit in the country remains a topic of great research and debate.

The public capital formation in the agricultural sector is on the decline and the traditional concern about accessibility of agricultural credit to the needy rural inhabitants is still alive even after increasing bank branch network, channelling credit through rural credit co-operatives, evolving specialised rural banking institutions (i.e., Regional Rural Banks) and the setting up of apex rural financial agencies like the National Bank for Agriculture and Rural Development (NABARD).



In pre-independent India, the Cooperative Credit Societies Act was enacted in 1904 to combat rural indebtedness and to provide a formal and legalised institutional status to credit societies. The early years of the twentieth century experienced continuous official attention regarding the provision of rural credit where efforts were taken to (a) giving legal recognition to credit societies in 1912; (b) taking action on a report submitted by Maclagan Committee (1915) on cooperation in India and establishing three tier provincial cooperative banks; (c) founding RBI in 1935 and ensuring the setting up of an agricultural credit department within the Central Bank; and (d) provision of agricultural credit through State Cooperative Banks or any suitable agency engaged in the business of agricultural credit.

Post-independent India pursued a Five-Year Planning strategy where 'cooperatives' came to be accepted as an essential instrument of social policy. The Third Five-Year Plan (1961-1966), upholding the values of socialism, freedom of association and democracy, explained that, "Cooperative should become progressively the principal basis of organisation in many branches of economic life." India promoted an institutional structure for agricultural and rural credit where the Cooperative sector ensured directed credit to the farmers and the State Bank of India and its associates were engaged in financing cooperative agencies.

The cooperative system was unable to provide adequate support to the needy farmers and rural entrepreneurs as the demand for credit for agricultural inputs, seeds and fertiliser, farm equipment and other allied activities grew manifold with the passage of time. The All-India Rural Credit Survey Committee, constituted in July 1966, recommended the adoption of a multi-agency approach for financing the rural and agricultural sector. This prompted the GOI to nationalize leading banks in 1969 (and in 1980). Following the recommendations of the Working Group on rural banks [constituted by RBI under the chairmanship of M. Narasimham], Regional Rural Banks (RRBs) were set up in 1975. The NABARD was created in 1982 to enable a sustainable rural specific banking infrastructure and to coordinate and direct the rural financial institutions in a professional and specialised manner. The NABARD played a central and significant role in extending financial assistance and facilitating institutional development in the area of rural credit.

The Government of India's policy initiatives for strengthening the rural credit delivery mechanism, after bank nationalization, has laid emphasis on enhancing the flow of credit at the grass-root level through an appropriate credit planning, adoption of region-specific strategies, rationalization of lending policies and procedures and reduction of cost of rural

borrowings. The credit policy emphasized on the disbursement of rural credit through a multi-agency network consisting of Commercial Banks, RRBs and credit cooperatives.

**Table 1:**

**Institutional Credit to Agriculture and Allied Activities (Short and Long Term; 1971-72 to 2011-12)**

| Year    | Share in Total Credit (Percent) |              |       |       | Total<br>(Rs. Crore) |
|---------|---------------------------------|--------------|-------|-------|----------------------|
|         | Cooperatives                    | State Govts. | SCBs  | RRBs  |                      |
| 1971-72 | 87.1                            | 11.2         | 1.7   | -     | 883                  |
| 1981-82 | 57.7                            | 3.6          | 34.8  | 3.9   | 4296                 |
| 1991-92 | 50.2                            | 2.9          | 41.7  | 5.2   | 11538                |
| 2001-02 | 56.4                            | 0.8          | 34.4  | 8.4   | 54195                |
| 2002-03 | 52.2                            | -            | 38.8  | 9.0   | 65175                |
| 2003-04 | 48.0                            | -            | 43.4  | 8.6   | 83427                |
| 2004-05 | 42.7                            | -            | 45.9  | 11.3  | 105303               |
| 2005-06 | 33.4                            | -            | 56.0  | 10.6  | 144021               |
| 2006-07 | 28.5                            | -            | 60.8  | 10.7  | 189513               |
| 2007-08 | 29.6                            | -            | 58.2  | 12.2  | 194953               |
| 2008-09 | 23.89                           | -            | 65.32 | 10.77 | 245976               |
| 2009-10 | 16.51                           | -            | 74.33 | 9.16  | 384514               |
| 2010-11 | 16.68                           | -            | 73.86 | 9.46  | 468291               |
| 2011-12 | 17.21                           | -            | 72.13 | 10.65 | 511029               |

**Source: Handbook of Statistics on Indian Economy, Reserve Bank of India (2012) and Economic Survey, Government of India (2012-13)**

The flow of agricultural and rural credit witnessed a rapid increase after the first round of bank nationalization. It can be seen from Table 1 that between 1971-72 and 2011- 12, the agricultural credit witnessed around 578 times jump from merely Rs. 883 crore in 1971-72 to Rs. 5,11,029 crore in 2011-12. The rapid credit growth in rural sector has led to the decline in the role of informal credit agencies, including money lenders as a source of credit.



*Rural Credit and Co-Operatives:***Table 2:****Select Indicators of Primary Agricultural Co-operative Societies in India (As on March 31, 2012)**

|   |                               |        |
|---|-------------------------------|--------|
| 1 | No. of PACs                   | 93413  |
| 2 | No. of Villages               | 727911 |
| 3 | Village/PAC ratio             | 7.8:1  |
| 4 | No. of Profit making PACs     | 44554  |
| 5 | No. of loss making PACs       | 38065  |
| 6 | % Profit making PACs to Total | 47.69  |
| 7 | % Loss making PACs to Total   | 40.74  |

Source: Trend and Progress of Banking in India, Reserve Bank of India (RBI), 2012

Primary Agricultural Cooperative Societies (PACs), the grass-root level arms of the three-tier cooperative credit delivery system in India, have been engaged in delivering credit to the poor and weaker sections of the society. It is seen from Table 2 that as on March 31, 2012, as many as 7.27 lakh villages in India are covered with 93,413 co-operative credit societies. There were 1 PAC in every 7.8 villages. Out of 93,413 PACs, as many as 40.74% were loss making as in March 2012.

***Kisan Credit Card Scheme (KCC scheme)***

KCC scheme was introduced in the budget session of 1998-99 by the then India's finance minister 'Yashwant Sinha'. These Kisan credit cards were given to the farmers according to the land holding they possess which helps them in adequate and timely support from the banking system for their short term credit needs during their cultivation needs including purchase of inputs in a flexible and cost effective manner. This scheme assures many benefits to the farmers such as: assured availability of credit at any time enabling reduced interest; farmers need not to apply for loan for every crop; it has minimal paper work for withdrawals of funds from the banks; any no. of withdrawals subject to credit limit; repayment only after harvest; full year credit requirement of the borrower taken care of and many more.

### *Non-Institutional Credit Agencies*

**Non- institutional agencies are:** landlord, agricultural moneylender, professional moneylender, traders & commission agents, relatives & friends and others.

Non-Institutional Credit Agencies may be classified as follow:

- a) **Money Lenders:** There are two types of money lenders in rural areas such as: (i) professional money lenders and (ii) non-professional or agricultural money lenders. A professional money lender is one, whose main occupation is money lending, but a non-professional or agricultural money lender is one, whose main occupation is farming, but they combine money lending along with it. They do money lending as a side business. Money lenders are by far the most important source of rural credit in India. It is the only agency in most villages, which provide finance to the farmers.
- b) **Land Lords:** Landlords from another source of farm credit-farmers particularly small farmers and tenants depend upon his source to meet their financial requirements. This source of finance has all the defects associated with village money lenders. Often the small farmers are cheated and lose their lands. The landless labourers are often forced to become bonded labourers. Although, it was an important source earlier, there is however, a steady decline in landlord's role in financing agriculture with implementation of land reform measures.
- c) **Traders and Commission Agents:** There is no clear cut distinction between professional money lenders and traders and commission agents. In fact, money operates supply credit to the farmers, just before the crop season starts. They often force the farmers to sell their produce at a lower price and they generally charge a heavy commission for themselves. This source of finance is particularly important in the case of cash crops like cotton, jute, sugarcane etc.
- d) **Relatives and friends:** Relatives and friends are an important source of agricultural credit. Usually these loans are contacted in an informal manner that carry low or no interest, and are returned soon after the harvest. However, this source of finance is very much uncertain and the farmers cannot, depend upon this source to meet needs of the modern agriculture.

## ***CONCLUSION***

Like any other business enterprise, agriculture is exposed to high risks due to the volatile nature of the factors involved. For example, weather condition in many cases has been a problem, like we have droughts in one year and heavy rains in the next. In both cases, farmers are losing; thus they have to look for a normal period to make money. But in spite of all these, timely and adequate finance is very necessary for productivity in agriculture. So, Government has to play a major role in providing support to farmers for sound agricultural development.

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