



AGRICULTURE FINANCE: ITS NEED AND IMPORTANCE

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ABSTRACT

Rural development means the transformation of the subsistence agricultural production to a market oriented agricultural economy. Availability and access to financial resources is one of the key elements to this transition. Financial resource is a very important, if not the most important, factor in economic development. Shortage of finance is one of the major problems facing small as well as big farmers. Farmers need financial resource to buy improved agricultural inputs and farm implements so that they can increase their output and income level and break the cycle of poverty. Farmer's investment in these technologies cannot be real without having in place organizations and systems that are capable of adequately providing rural financial services to farmers. Therefore, the effort to develop agriculture could suffer in the absence of a strong financial base that aims at expanding access to credit for small farmers. Banks certainly follow a conservative approach in sanctioning loans for various purposes and do not show much interest in advancing loans to agriculture Therefore farmers have to depend on moneylenders, mahajans etc. who exploits them due to strong grip on socio-economic position in rural areas. In spite of rapid banking expansion since independence, unorganised financial sector is relevant and plays key role to cater to needs of rural economy, particularly, farmers.

KEYWORDS: Agriculture, Finance, Loan, unorganised sector.

INTRODUCTION

Finance in agriculture is as important as development of technologies. Technical inputs can be purchased and used by farmer only if he has money (funds). However, his own money is always inadequate and he needs outside finance or credit. Professional money lenders were the only source of credit to agriculture till 1935. They use 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. There were



widespread discontents among farmers against these practices and there were instances of riots.

With the establishment of Reserve Bank of India, District Central Co-op. banks and Land Development Banks, 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. In bringing "Green Revolution", "White Revolution" and now "Yellow Revolution" finance has played a crucial role. Now the agriculture credit, through multi agency approach has come to stay.

OBJECTIVES OF STUDY

- To assess the role of agriculture in employment, GDP, Industries.
- To examine the progress of Cooperative Banks in agriculture sector.

LIMITATIONS OF STUDY

Only Secondary data is taken into consideration from 2006 to 2016. Moreover secondary data collected from various sources is used for assessing the performance of cooperative banks in financing the agricultural activities.



RESEARCH METHODOLOGY

This paper was mainly focused on importance of agriculture in our economy and various sources of finance available to agriculture sector. The article is based on secondary data collected from various sources i.e. Economic Survey of India 2017, Agriculture Statistics at Glance 2017 and various annual reports published by NABARD and Regional Rural Banks.

REVIEW OF LITERATURE

Venkitesan (1984)ⁱ measured the extent of achievement of Primary Agricultural Credit Societies (PACS) in credit disbursement and other related aspects. He also studied short-term agricultural loans and its impact on agricultural production in Kerala. His study revealed that PACS working on profit had a strong resource base of high rate of deposit mobilization, low borrowings, high distribution of agricultural advances and high rate of loan recovery compared to those incurring losses. The study also identified the major factors contributing to the resources of the PACS, such as live cropping pattern and occupational structure of the members, saving habits of the people, satisfaction to the beneficiaries arising from simplified loaning procedures and active participation of members in the affairs of the society.

Narayanaswamy and Ramachandran (1987)ⁱⁱ studied the impact of income and expenditure on profitability. The study revealed that the profits of the bank has increased due to the rise in the volume of business over a decade inspite of decline in spread ratio, a consequence of a fall in interest received. According to them, there is vast scope of increase in profit and profitability, if proper attention is paid on areas like recovery, deposit mobilization, branch expansion, reduction in manpower and operating expenses, building up of more owned funds and scientific management of funds.

Dhanarajanⁱⁱⁱ (1989) made an attempt to study the trend in the profitability of Palakkad DCB (1977-78 to 1986-87) and to evaluate the impact of primary and secondary factors on spread and burden of Palakkad DCB. He found that the profitability of the bank showed a decreasing trend throughout the period as burden increased continuously.



Moorti et al. (1988)^{iv} made an attempt to study the growth of co-operative credit societies in Himachal Pradesh in respect of their membership, share capital, deposits, loans and advances, pattern of utilization and problems of over dues. They observed that the main reasons for the large amount of over dues in credit societies were slackness on the part of management of societies, the untimely release of funds and inadequate amount of loan that w Kulwant Singh (1998)^v evaluated the performance of the Himachal Pradesh co- operative banks. On the basis of certain indicators such as branch expansion, share capital, working capital, deposits mobilization, loan advancement and recovery, they concluded that the performance of the bank in terms of membership drive, share capital, deposit mobilization and working capital had improved over a period five years. However, recovery performance was unsatisfactory and over dues had increased steadily. This was due to the after effects of loan waiver scheme. The per member and per branch performance of bank revealed that there was significant growth in share capital, deposits, borrowings advances and profits.

IMPORTANCE OF AGRICULTURE

- *Agriculture and Economic Development*

Indian Agriculture is one of the most important sectors in the economy of the country. Agriculture in itself produces more than 18.5 percent of the Gross Domestic product (GDP) of the country and more than 60 percent people out of Indian population are involved in this sector^{vi}. Gross domestic product refers to the market value of all final goods and services produced within a country in a given period. GDP per capita is often considered an indicator of a country's standard of living. The Indian Agriculture also provides more than 8.5 percent of the total exportation of the Indian Economy^{vii}. The agriculture sector of India has occupied almost 43 percent of India's geographical area. Agriculture is still large contributor to India's GDP even after a decline in the same in the agriculture share of India. Agriculture also plays a significant role in the growth of socio-economic sector in India.

In the earlier times, India was largely dependent upon food imports but the successive stories of the agriculture sector of Indian economy have made it self-sufficient in grain production. India depends heavily on the agriculture sector, especially on the food production after the 1960 crisis in food sector. Since then, India has put a lot of effort to be self-sufficient



in the food production and this endeavour of India has led to the Green Revolution^{viii}. A National Pulse Development Programme that covered almost 13 states was set up in 1986 with the aim to introduce the improved technologies to the farmers. In addition, a Technology Mission was introduced in 1986 to boost the oilseeds sector in Indian economy. Pulses too came under this programme. A new seed policy was planned to provide entree to superior quality seeds and plant material for fruits, vegetables, oilseeds, pulses, and flowers. As a result thereof, our agriculture sector, not only, provides for the requirements of more than 120 crore population but give exportable surplus. Indian Economy is becoming more and more dependent upon service sector and industrial sector, the Indian Agriculture still plays a vital role in the development of the Indian Economy^{ix}. The Monsoon also has a very important part in the Indian Agriculture. Because of the shortage of irrigation system in Indian Agriculture, most of the farmers depend highly on rainfalls. The amount of raining determines the nature of the crops and the production. Indian Agriculture in the majority of state is looked after by the State Governments rather than Central Government. India is known to be the largest producer of milk and milk products, coconuts, cashew nuts, tea and second in producing crops like rice, wheat, rice and some other crops as well. In producing fruits like Banana and Sapota, Indian Agriculture is ranked one in the world^x.

In the early 1950s, half of India's GDP came from the agricultural sector. By 1995, that contribution was halved again to about 25 per cent. As would be expected of virtually all countries in the process of development, India's agricultural sector's share has declined consistently over time as seen in the table 1 below. It is clear that ever since 1950-51, the contribution has been decreasing significantly and from a level of 52.20 per cent; it reduced to 18.3 in 2022.

Table 1
Share of agricultural output in India's GDP

Year	1950-51	1965	1976	1985	1991	1999	2010	2018	2022
% Share	52.20	43.60	37.40	32.80	28.30	24.40	15.75	15.87	18.3

Source: Government of India, Ministry of Finance: Economic Survey of India 2021-22.



• **AGRICULTURE AND EMPLOYMENT**

Agriculture accounts for almost 60 per cent of aggregate employment in India. Employment in agriculture is rural-based (97 per cent); but it is depressing to note that in the rural sector the rate of growth of agricultural employment is abysmally low (0.01 per cent) and was insignificant during the '90s^{xi}.

Table 2

Employment of Main workers in Agriculture (in crore)

	1951	2001
Total Population	36.1	102.7
Rural Population	29.9(83)	74.2(72)
Cultivators	7.0(50)	12.8(32)
Agricultural Labourers	2.7(20)	10.7(27)
Other Workers	4.3(30)	16.7(41)
Total Working Population	14.0(100)	40.2(100)

Source- Agriculture Statistics at a glance (2002)

Note- 1) Figures in bracket are percentage to total

2) Data of census 2011 is not available; therefore data of census 2001 has been taken for reference.

Table 2 depicts that people working on land came down from 70 per cent to 59 per cent during five decades between 1951 and 2001. It is however, really disturbing that the proportion of agricultural labourers has increased from 20 per cent to 27 per cent during the period from 1951 to 2001 but that of cultivators has indicated a decline from 50 per cent to 32 per cent. It is observed that small cultivators are being converted to agricultural labour year after year.

In United Kingdom and United States, only 2 to 3 per cent of working population is engaged in agriculture, in France the proportion is about 7 per cent and in Australia, this is about 6 per cent. It is only in the developing countries that the working population engaged in agriculture is very high. For instance, it is 35 per cent in Egypt, 59 per cent in Bangladesh, 50 per cent in Indonesia and 68 per cent in China in 1997.^{xii}



- *Agriculture and International Trade*

Agriculture trade contributes 15 per cent of total foreign exchange earnings. Broadly, agricultural and agro-based products can be divided into three categories, they are raw products, semi-raw products and processed and ready to yield products. The major agro-exports of India are cereals, rice, basmati rice and non-basmati rice, spices, oilcake, tobacco un-manufactured, tea, coffee and marine products. Lack of market access in the developed market economy countries due to high tariffs and pronounced Non-tariff barriers has been acting as a deterrent for the exports. As against agricultural exports, agro-imports constitute only 5 per cent of the country's total imports^{xiii}.

Table 3 shows the trend of agricultural imports and exports of India in the last ten years. Few observations can be made straight away from this table. Firstly, both the agricultural exports and imports have grown rapidly over the period under review. However, proportion of agricultural imports in total imports has increased from 2.95 per cent in 2007-08 to 6.39 per cent in 2016-17. It is observed that there is significant increase in imports from 2007-08 to 2016-17.

Secondly, as regarding exports, it is clear from the table that there is a continuously rising trend. However, the proportion of agricultural exports of late has been declining. Proportional contribution after 2008-09 has been stagnating at around 9 per cent. Thus, it is clear that balance of trade from agriculture has been positive on foreign trade front. But the growth of agricultural imports was 18.60 per cent as against that 11.73 per cent of exports during the period under review. This trend is to be checked to maintain the balance of trade positive in the long run.



Table 3
India's Imports and Exports of Agricultural Commodities vis-à-vis Total National Imports/ Exports

(Rupees in Crore)

Year	Agriculture Imports	%age Agriculture Imports to Total National Imports	Agriculture Exports	%age Agriculture Exports to Total National Exports
1	2	3	4	5
2007-08	29906.24	2.95	79039.72	12.05
2008-09	37183.03	2.71	81064.52	9.64
2009-10	54365.29	3.99	84443.91	9.99
2010-11	51073.97	3.03	113046.58	9.94
2011-12	70164.51	2.99	182801.00	12.47
2012-13	95718.89	3.59	227192.61	13.90
2013-14	85727.30	3.16	262778.54	13.79
2014-15	121319.02	4.43	239681.04	12.64
2015-16	140289.69	5.63	215395.68	12.55
2016-17	164726.83	6.39	226651.94	12.26
CAGR	18.60		11.73	

Source:-. Government of India, Ministry of Commerce, Agriculture at Glance 2018.

- *Agriculture and Industrial Development*

Many industries are dependent on agriculture. Raw material from agriculture is supplied to many industries e.g. sugar industries, Cotton Industries, Paper Industries, tobacco industries, Chilies, turmeric etc. Many industries supply the inputs to the agricultural industry e.g. fertilizers, insecticides, pesticides, implements and machineries like tractors etc.

One can see the agro-industry mainly consisting of the post-harvest activities including processing and preserving of agricultural products for the purpose of midway or final consumption. Around the world, it is well understood especially in the segment of industrial expansion that the whole essence of agro-industries is connected to agriculture



production as economies are seen developing. It needs to be stressed that food is not only that grows in the fields; it also refers to a variety of products that are processed from the harvest. Over and above, in developing countries like India, agriculture industry is a very important arm of the manufacturing industry to build on the industrial capabilities.

Agriculture Industry can be widely grouped under the following kinds. Village industries comprise those that are run with minimal industries with very little machinery and a maximum of manual labor manufacturing products like papad, pickle etc. Small-scale industries refer to those that are managed with a medium level of investment and machinery like oil mills and rice mills for instance. Large-scale industries involve huge investments and extreme levels of automation producing commodities like jute, sugar and cotton products. Table 4, 5 and 6 deal with production and yield statistics of sugarcane, cotton and jute.

Table 4 shows that area under cultivation of sugarcane has decreased from 5.06 million hectares in 2007-08 to 4.39 in 2016-17. The production has also decreased marginally. Beginning from 348.19 million tons in 2007-08, it has decreased to almost 306.72 million tons in 2016-17. It is pertinent to mention here that even yield per hectare came down from 68877 Kg in 2007-08 to 69886 Kg in 2016-17. It appears that existing cultivation methods failed to increase the sugarcane production and scientific research is required in this area to get the desired goal.



Table 4
All-India Area, Production and Yield of Sugarcane along with coverage under Irrigation (Sugar)

Area - Million Hectares
Production - Million Tonnes
Yield - Kg. /Hectare

Year	Area	Production	Yield	Area Under Irrigation (%)
1	2	3	4	5
2007-08	5.06	348.19	68877	93.8
2008-09	4.42	285.03	64553	93.5
2009-10	4.17	292.30	70020	93.8
2010-11	4.88	342.38	70091	92.7
2011-12	5.04	361.04	71668	94.8
2012-13	5.00	341.20	68254	95.2
2013-14	4.99	352.14	70522	95.3
2014-15	5.07	362.33	71512	90.2
2015-16	4.93	348.15	70720	NA
2016-17	4.39	306.72	69886	NA

Source: Government of India, Ministry of Agriculture: Agricultural Statistics at Glance 2010.

Cotton is the second product that has been the output of agro industry. Table 5 shows that area under cultivation of cotton has increased since during the period under review. In the year 2016-17, the area under cultivation of cotton has been recorded maximum at 10.85 million hectares as compared to that 9.41 in 2007-08. This shows that more and more of productive land has been used for cultivation of cotton, which is indeed a good sign. The production on the other side has increased also. Beginning from 25.88 million bales in 2007-08, it has increased to almost 33.09 million bales in 2016-17. This clearly is the impact of improved techniques of cultivation and increased productivity of land. This shows that output



per hectare of cultivated area has increased manifold. The reasons may be more access to agricultural equipment, cultivation by scientific methods, and more access to irrigation and finally use of urea/fertilizers and improved seeds etc.

Table 5
All-India Area, Production and Yield of Cotton along with coverage under Irrigation (Cotton)

Area - Million Hectares
Production - Million Bales of 170 Kgs. of each
Yield - Kg./Hectare

Year	Area	Production	Yield	Area Under Irrigation (%)
1	2	3	4	5
2007-08	9.41	25.88	467	37.6
2008-09	9.41	22.28	403	35.8
2009-10	10.13	24.02	403	36
2010-11	11.24	33.00	499	33.8
2011-12	12.18	35.20	491	35.9
2012-13	11.98	34.22	486	33.8
2013-14	11.96	35.90	510	35.9
2014-15	12.82	34.80	462	33.7
2015-16	12.29	30.01	415	NA
2016-17	10.85	33.09	519	NA

Source: Government of India, Ministry of Agriculture: Agricultural Statistics at Glance 2010

Note: The yield rates given above have been worked out on the basis of production & area figures taken in '000 units.

Third industry largely based on agriculture is jute industry. Table 6 shows that area under cultivation of jute has decreased during the period under study. If a comparison is made between area from 2007-2008 and 2016-17, the area has decreased to 0.96million hectares from 0.77 million hectares.



The production has also decreased slightly. Beginning from 11.21 million bales in 2007-08, it has decreased to almost 10.60 million bales in 2016-17. On the other hand the yield of Jute and Mesta increased from 2101 kg/hectare yield in 2007-08 to 2490kg/hectare in 2016-17. This clearly is the impact of improved techniques of cultivation and increased productivity of land.

Table 6

All-India Area, Production and Yield of Jute and Mesta

Area - Million Hectares

Production - Million Bales of 180 Kgs. of each

Yield - Kg./Hectare

Year	Area	Production	Yield
1	2	3	4
2007-08	0.96	11.21	2101
2008-09	0.90	10.37	2071
2009-10	0.91	11.82	2349
2010-11	0.87	10.62	2197
2011-12	0.90	11.40	2280
2012-13	0.86	10.93	2281
2013-14	0.84	11.68	2512
2014-15	0.81	11.13	2473
2015-16	0.78	10.52	2421
2016-17	0.77	10.60	2490

Source: Government of India, Ministry of Agriculture: Agricultural Statistics at Glance 2010

Thus, it can be safely concluded that during the period under review crop productivity has improved remarkably and appreciably by extensive as well as intensive cultivation. In the intra crop comparison, cotton has recorded maximum growth followed by jute/mesta and sugarcane.



Agricultural Loans

Agricultural loans are available for a multitude of farming purposes. Farmers may apply for loans to buy inputs for the cultivation of food grain crops as well as for horticulture, aquaculture, animal husbandry, and floriculture and sericulture businesses. There are also special loans to finance the purchase of agricultural machinery such as tractors, harvesters and trucks. Construction of biogas plants and irrigation systems as well as the purchase of agricultural land may also be financed through special types of agricultural finance.

The evolution of institutional credit to agriculture could be broadly classified into four distinct phases^{xiv} - 1904-1969 (predominance of co-operatives and setting up of RBI), 1969-1975 [nationalization of commercial banks and setting up of Regional Rural Banks (RRBs)], 1975-1990 (setting up of NABARD) and from 1991 onwards (financial sector reforms). The genesis of institutional involvement in the sphere of agricultural credit could be traced back to the enactment of the Cooperative Societies Act in 1904. The establishment of the RBI in 1935 reinforced the process of institutional development for agricultural credit. The RBI is perhaps the first central bank in the world to have taken interest in the matters related to agriculture and agricultural credit, and it continues to do so.

Over time the public sector banks have made commendable progress in terms of putting in place a wide banking network, particularly in the aftermath of nationalization of banks. The number of offices of public sector banks increased rapidly from 8,262 in June 1969 to 84,604 by June 2010 and 147419 in June 2017. One of the major achievements in the post-independent India has been widening the spread of institutional machinery for credit and decline in the role of non-institutional sources. Total number of scheduled commercial banks in rural areas are 28171 in December 2017.^{xv}

All India Rural Credit Survey, 1954 estimated that Non – Institutional sources accounted for 93% of total credit requirements in 1951-52, but according to All India Debt and Investment Survey 1981, the share has slumped to about 37%. NSS 59th Round Survey of Rural Indebtedness pointed out that share of non – institutional sources was 43% in 2002 and it was reduced to 31.8% in as per the report in 2016.^{xvi}



Data from table 2.13 to 2.16 give an account of credit employment to agriculture and allied activities by cooperative as well as other banks during the period under review. Table 2.13 reveals that share of cooperative banks was 50% in 2000-01, which came down to 17% in 2008-09, meaning thereby that cooperative banks are losing their dominant position to commercial banks in case of direct credit deployment to agriculture and allied activities. Likewise cooperative banks contributed 49% and 50% of total short-term and long-term institutional credit respectively in 2000-01 as against that of 23% and 12% respectively in 2008-09. It shows that fall is steeper in case of long-term credit deployment as compare to that of short-term. Similar trend has been observed for indirect credit deployment and accordingly share of cooperative banks came down from 70% in 2000-01 to 52% in 2007-08.

The above analysis shows that total institutional credit to agriculture has been steadily rising, but there has been steady decrease in percentage terms in the contribution of cooperative banks to credit to agriculture and allied activities whereas share of commercial banks has been steadily rising. Under these circumstances it would be better if cooperative banks are made subsidiaries of commercial banks.



Table 2.14
DIRECT INSTITUTIONAL CREDIT FOR AGRICULTURE AND ALLIED
ACTIVITIES – SHORT TERM
(Rupees in billion)

Year	Loans issued			
	Co-op	SCBs	RRBs	Total
2006-07	407.96	652.45	170.31	1230.72
2007-08	473.90	682.43	203.77	1360.10
2008-09	480.22	1077.66	228.51	1786.39
2009-10	569.46	1246.46	305.29	2121.21
2010-11	690.38	1460.63	385.60	2536.61
2011-12	818.29	2178.97	470.11	3467.37
2012-13	1025.92	-	577.57	
2013-14	1135.74	-	706.46	
2014-15	1998.72	-	846.86	
2015-16	2275.71	-	981.50	

Source: Database on Indian Economy, Reserve Bank of India & National Bank for Agriculture and Rural development, accessed from <http://dbie.rbi.org.in>.

Note: "SCBs: Scheduled Commercial Banks. RRBs: Regional Rural Banks. Co-op: Cooperative Banks



Table 2.14

**DIRECT INSTITUTIONAL CREDIT FOR AGRICULTURE AND ALLIED
ACTIVITIES – SHORT TERM**

(Rupees in
crore)

Year	Loans Outstanding			
	Co-op	SCBs	RRBs	Total
2006-07	377.64	760.06	187.67	
2007-08	436.96	961.52	227.48	
2008-09	456.86	1262.85	266.52	
2009-10	357.17	1676.23	336.63	
2010-11	496.45	1932.62	406.63	
2011-12	445.17	2690.30	465.80	
2012-13	766.22	3534.25	552.55	
2013-14	1807.64	3335.72	682.67	
2014-15	1893.99	4649.20	826.28	
2015-16	2013.90	5203.95	967.02	

Source: Database on Indian Economy, Reserve Bank of India & National Bank for Agriculture and Rural development, accessed from <http://dbie.rbi.org.in>.

Note: "SCBs: Scheduled Commercial Banks. RRBs: Regional Rural Banks. Co-op: Cooperative Banks



Table 2.15

**DIRECT INSTITUTIONAL CREDIT FOR AGRICULTURE AND ALLIED
ACTIVITIES – LONG TERM**

Year	Loans Issued			
	Co-op	SCBs	RRBs	Total
2006-07	132.23	500.21	31.98	
2007-08	102.53	452.29	34.61	
2008-09	107.65	529.24	36.48	
2009-10	65.51	636.07	41.11	
2010-11	90.83	767.29	54.05	
2011-12	61.34	949.80	60.48	
2012-13	86.11	-	68.92	
2013-14	63.90	-	77.78	
2014-15	81.90	-	131.51	
2015-16	94.92	-	203.84	

Source: Database on Indian Economy, Reserve Bank of India & National Bank for Agriculture and Rural development, accessed from <http://dbie.rbi.org.in>.

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Table 2.15

**DIRECT INSTITUTIONAL CREDIT FOR AGRICULTURE AND ALLIED
ACTIVITIES – LONG TERM**

Year	Loans Outstanding			
	Co-op	SCBs	RRBs	Total
2006-07	516.79	930.12	87.45	
2007-08	219.70	1066.44	104.68	
2008-09	183.59	1298.34	107.15	
2009-10	240.74	1478.13	126.19	
2010-11	270.29	1643.22	144.04	
2011-12	280.28	1742.68	172.44	
2012-13	275.79	1690.53	194.06	
2013-14	339.70	1699.60	220.27	
2014-15	327.63	2190.49	277.42	
2015-16	265.87	2944.46	361.10	

Source: Database on Indian Economy, Reserve Bank of India & National Bank for Agriculture and Rural development, accessed from <http://dbie.rbi.org.in>.

Note: "SCBs : Scheduled Commercial Banks. RRBs: Regional Rural Banks. Co-op: Cooperative Banks

Needs and Significance of Agricultural Finance

Credit needs of the farmers can be examined from two different angles - TIME and PURPOSE^{xvii}.



I. On basis of TIME

Agricultural credit needs can be classified into three categories:

- a. **Short time (for periods up to 15 months):** Short term loans are required for the purchase of seeds fertilizers, pesticides, feeds, marketing of agriculture produce, payment of wages of hired labour, litigation and variety of consumption and unproductive purposes. The period of such loans is less than 15 months. Main agencies granting loans are moneylenders & cooperative societies. These are expected to be repaid after the harvest.
- b. **Medium term (from 15 months up to 5 years):** Medium term loans are required for purchase of cattle, small agri implements, repair & construction of wells etc. The periods of such loan extends from 15 months to 5 years. The loan is provided by moneylenders, relative of farmers, co-operative societies and commercial banks etc.
- c. **Long term (above 5 Years):** Long term loans are required for effecting permanent improvements of land, digging of tube wells , purchase of larger implements, machinery like tractor and repayments of old debts. The period of such loan extends beyond 5 years.

II. On basis of purpose

- a. **Productive:** Farmers need loans for the purchase of seeds fertilizers, pesticides, feeds, marketing of agriculture produce, livestock, repair of wells, payments of wages etc.
- b. **Consumption:** Farmers require loans for consumption as well. Between the moment of marketing of agricultural produce and harvesting of next crop there is long interval of time and most of farmers do not have much income to sustain in this period. Also times of flood drought, damages to crop etc.
- c. **Unproductive:** Purposes such as litigation, performance of marriages, birth or death, religious functions, festivals. Institutional agencies do not grant credit for unproductive and consumption purposes and farmers have to seek assistance from money-lenders and mahajans.



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The evolution of institutional credit to agriculture could be broadly classified into four distinct phases^{xviii} - 1904-1969 (predominance of co-operatives and setting up of RBI), 1969-1975 [nationalization of commercial banks and setting up of Regional Rural Banks (RRBs)], 1975-1990 (setting up of NABARD) and from 1991 onwards (financial sector reforms). The genesis of institutional involvement in the sphere of agricultural credit could be traced back to the enactment of the Cooperative Societies Act in 1904. The establishment of the RBI in 1935 reinforced the process of institutional development for agricultural credit. The RBI is perhaps the first central bank in the world to have taken interest in the matters related to agriculture and agricultural credit, and it continues to do so.

Over time the public sector banks have made commendable progress in terms of putting in place a wide banking network, particularly in the aftermath of nationalization of banks. The number of offices of public sector banks increased rapidly from 8,262 in June 1969 to 84,604 by June 2010. One of the major achievements in the post-independent India has been widening the spread of institutional machinery for credit and decline in the role of non-institutional sources. With the progress of branch expansion programmes, the national average of population per bank office has progressively declined from 64000 to 15000 during the corresponding period. At present, upto 30 June 2010, only about 30,600 villages out of five lakh villages are covered by the commercial banks.^{xix}

All India Rural Credit Survey, 1954 estimated that Non – Institutional sources accounted for 93% of total credit requirements in 1951-52, but according to All India Debt



and Investment Survey 1981, the share has slumped to about 37%. NSS 59th Round Survey of Rural Indebtedness pointed out that share of non – institutional sources was 43% in 2002.^{xx}

Data from table 2.13 to 2.16 give an account of credit employment to agriculture and allied activities by cooperative as well as other banks during the period under review. Table 2.13 reveals that share of cooperative banks was 50% in 2000-01, which came down to 17% in 2008-09, meaning thereby that cooperative banks are losing their dominant position to commercial banks in case of direct credit deployment to agriculture and allied activities. Likewise cooperative banks contributed 49% and 50% of total short-term and long-term institutional credit respectively in 2000-01 as against that of 23% and 12% respectively in 2008-09. It shows that fall is steeper in case of long-term credit deployment as compare to that of short-term. Similar trend has been observed for indirect credit deployment and accordingly share of cooperative banks came down from 70% in 2000-01 to 52% in 2007-08.

The above analysis shows that total institutional credit to agriculture has been steadily rising, but there has been steady decrease in percentage terms in the contribution of cooperative banks to credit to agriculture and allied activities whereas share of commercial banks has been steadily rising. Under these circumstances it would be better if cooperative banks are made subsidiaries of commercial banks.

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