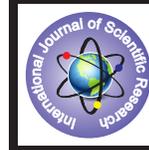


Agricultural Finance and Economic Growth



Management

KEYWORDS :

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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 loanable funds. During the last 56 years planning, India's agricultural development more commonly called the Green Revolution has been applauded the world over and many developing countries have started considering India their role model. Initially, India remained a food deficit country for almost two decades since Independence. But with the Green Revolution, India became not only self sufficient in food grains but accumulated huge food surplus about 58 millions tones in January 2002. The agricultural situation started improving after the middle of 1960's with the introduction of high - yielding varieties (HYVs) of crops and the development of agriculture infrastructure for irrigation, credit, other input supply, storage and marketing. The contribution of agricultural sector to national income, foreign exchange, industry and employment is a measure of the sector's importance in the overall economy of the country. Agriculture plays a dominant role in the Indian economy. By tradition, India is an agricultural country, which is endowed with abundant natural resources. The development of agriculture to its fullest potential is therefore, the kingpin of Indian economy and the prosperity of India is solely dependent on agriculture. If agriculture blooms, the country prospers. Agriculture plays a significant role in the economic development of India. Agriculture is the source of livelihood for over seventy percent of population in our country. To meet the requirements of the growing population and rapidly developing economy, agriculture has to grow fast and get modernized. Agricultural growth is crucial for alleviating rural poverty. Access to institutional credit to more farmers and appropriate quantity and quality of agricultural credit are crucial for realizing the full potential of agriculture as a profitable activity. In the present globalization era, agriculture can play a very important and pivotal role for long term economic development of India, if, the needed adequate timely credit is made available for adopting scientific system of farming throughout the country on the pattern of developed countries. And with the growing demand for credit for agriculture and allied activities on account of increasing emphasis laid on higher agricultural production as also the technological breakthrough achieved by Indian farmers, the resources of the cooperative sector turned out to be inadequate. Agricultural credit should reach the agriculturists at the right time, at the right quantity and at favorable terms.

Meaning

"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 loanable funds."

Objective of the Study

The following are the objectives of Agricultural finance. They are as under;

- 1) To study the meaning of agriculture and the need of finance.
- 2) To study the productive needs of agricultural finance.
- 3) To study between the institutional and non-institutional source of finance
- 4) To study the role of NABARD in agricultural development.
- 5) To study the sources of industrial finance in India
- 6) To study the Agricultural Finance and Economic growth in India.

Scope of the present study:

India is a land of villages and agriculture still continues to be the important industry providing employment and livelihood to about 70 percent of its population. After India's independence, the successive five year plans have given great accent to agriculture and agricultural development. India is an important country in Asia where there is continuous population explosion creating greater demand for food crops. Besides, the planned industrial expansion also warrants the production and supply of large quantities of raw materials from agricultural sector. With these objectives, measures have been taken at the governmental level for increasing agricultural production through the use of farm yard manures, pesticides, chemical fertilizers and high yielding variety of 35 seeds. Intensive cultivation is undertaken and along with this, rotation of crops and mechanization of farm operations to a limited extent are undertaken. Traditionally, Indian farmers have been borrowing for many centuries, and even now from moneylenders, indigenous bankers, friends and relatives. The study of the causes of default will provide lessons to the farmers on how to use credit in a better way for productive purposes so that they can repay the loan within the specified period.

Research Methodology

The present research article is based on the secondary sources. The secondary sources used for different internet websites are various research Journals, various reference book etc.

Importance of Agricultural Finance

We can classify the financial need of the Indian farmer as under:

Types of Agricultural Finance

With regard to agricultural production, four major categories of agricultural scheme dominate:

Smallholdings practicing subsistence agriculture

These smallholdings constitute the majority of the agricultural enterprises in various developing countries. These family units produce primarily for their own consumption and occasionally sell their excess production on the market. For them, the modernization of their farming practices should concentrate on increasing productivity and diversi-

fyng their activities in order to better cover the basic needs of their families and increase the surplus set aside for the marketplace.

Diversified merchant agricultural businesses

With regard to this category of farmers, some plots of land are set aside for producing basic foodstuffs for household consumption, while other plots are used to produce cash crops for the market. Crops or livestock production may be mixed so that the farmers can benefit from cash inflows at different periods throughout the year. In this case, income stabilization and staggering mechanisms that combine savings and credit are susceptible of better meeting the needs of this type of businesses. In addition, loan insurance becomes an important lever that makes it possible to secure the borrower in the face of the risk of taking out a loan and thus accompanying him in the development of his enterprise.

Specialized merchant agricultural businesses

This refers to enterprises that primarily produce a single crop or raise livestock essentially for the market. These businesses may be modestly sized as well as very large-scale. They generally sell their commodities to market intermediaries who in turn sell them to wholesalers or exporters. The specialization of these enterprises involve a higher operating risk for the farmer as well as for the financial institution that accompanies him, since they cannot rely on income from other sources than those produced by their main line of production. For this type of farmer, loan insurance becomes indispensable and the other types of insurance, such as crop insurance, would benefit from being developed to support the advancement of this type of enterprise. From the point of view of the financial institution, the prevalence of enterprises specializing in agricultural speculation is often the result of the formation of highly concentrated loan portfolios that are vulnerable when faced with sectoral crisis. The institution should then contemplate strategies to diversify and share the risk.

Agri-Food enterprises

Agri-food enterprises are characteristic of the secondary sector and, through activities at one level or another in the value chain, process primary foodstuffs into a multitude of products essential to the food trade. Primarily installed in rural areas for the sake of optimizing their supply activities, agrifood enterprises make a big contribution to a sub regional dynamic underlying a strong rural economy. The analysis of the repayment capacity should be based on the knowledge of the enterprise's activities.

Sources of Agricultural Finance:

The source of Agricultural finance is divided to the Indian farmer into two categories.

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.. The co-operative movement was started in India largely with a view to providing agriculturalists 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 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 369 (2001-2002) District Central Co-operative Banks. The Central Co-operative Banks 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 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.

2) The Commercial Banks

The commercial banks are providing finance to the agriculture after the nationalization of banks in 1969 for both directly and indirectly to the agricultural finance. Direct finance is for agricultural operation for short and medium periods. Indirect finance refers to advance for distribution of fertilization and other inputs. The commercial banks have implemented "Village Adoption Scheme" by 1987-88 the commercial banks had given Rs. 3930 crore in advances. Commercial bank lent 4,806 crore to agricultural finance in 1991-92 and in Rs, 68,557 crore in 2005-06.

3) Land Development Banks

Land Development Banks were set up in order provide for long term finance. Previously they were called Land Mortgage Banks; the objective of the bank is to provide long term credit to cultivators against the mortgage of their lands.

These banks provide loans for

- 1) Repayment of old loans to cultivators.
- 2) Purchasing new land.
- 3) Digging and construction of the well.
- 4) Repairing the well

The co-operative has the direct encouragement from the government and support of the NABARD as it had made spectacular progress. By 1981 the co-operatives were financing nearly 30 percent of the advantages.

4) Regional Rural Banks

The Regional Rural Banks were set up in 1975. The main objective of the RRBS is to provide credit and other facilities particularly to the small and marginal farmers, agricultural laborers, artisans and small entrepreneurs so as to develop agriculture, trade commerce, industry and other productive activities in the rural areas.

5) The Government

The Government is providing both the short term as well as long-term loans. These loans are popularly known as "Taccavi loans" which are generally advanced in times of natural calamities. The rate of interest is low. The government provides finance indirectly as well as direct. Indirect financing indirect credit is provided through the co-operative societies. Direct financing the govt. has been financing farmers directly. Agricultural credit from the govt. is calls "Taccavi" and has a long history in India, it is provided

under Land Improvement Loan Act of 1883 and the agricultural Loans Act of 1884. The government gives "Taccavi loans" to the farmers which are disbursed at the time of distress famines, flood etc. At a low interest rate of 6 per cent and the repayment schedule is very convenient.

6) NABARD

The Reserve Bank of India since its formation had wanted to appoint a separate department for handling agricultural credit. The RBI had set up ARDC (Agricultural Refinance Development Corporation) for providing refinance support to the banks to promote programmers of agricultural development particularly those requiring term credit. The government needed an Apex institution to extend support and to give guidance to credit institutions in matters relating to the formulation and implementation of rural development programmers. Therefore NABARD was set up. It was set up in July 1982 and it took over the functions to the ARDC and also it took over the functions of the RBI in relation to co-operative banks and RRBs. The main objective of the NABARD is to look after agricultural credit; it also has to provide refinance facilities to all banks and financial institution landing to agricultural and rural development.

Non – Institution 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 is also professional money lender 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.

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

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

These 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.

Agricultural marketing

Agricultural marketing is the improvement of marketing linkages for both farm produce and inputs necessitates a strong private sector backed up by appropriate policy and legislative frameworks and effective government support services. Such services can include provision of market infrastructure, supply of market information, and agricultural extension services able to advise farmers on marketing. Training in marketing at all levels is also needed; from farmer groups to post-graduate students at universities. New marketing links between agri businesses, large retailers and farmers require to be developed, e.g. through contract farming or group marketing, with those working in

marketing and agribusiness being assisted to join together in associations to promote their common goals. We can assist governments with the formulation and implementation of projects to improve marketing policy, support services, farm-market linkages, training and infrastructure.

Agricultural insurance

Agricultural insurance is one method by which farmers can stabilize farm income and investment and guard against disastrous effect of losses due to natural hazards or low market prices. At present four crop Insurance schemes namely National Agricultural Insurance Scheme (NAIS), Pilot Modified National Agricultural Insurance Scheme (MNAIS), Pilot Weather Based Crop Insurance Scheme (WBCIS) and Pilot Coconut Palm Insurance Scheme (CPIS) is being implemented in the country.

Agricultural Insurance gives cushions the shock of crop losses by providing farmers with a minimum amount of protection. Agricultural insurance, including livestock, fisheries and forestry, is especially geared to covering losses from adverse weather and similar events beyond the control of farmers. It is one of the most quoted tools for managing risks associated with farming. It spreads the crop losses over space and time and helps farmers make more investments in agriculture. Many pilot programmes have been developed over the years, targeting especially small-scale farmers in developing countries, but agricultural insurance remains primarily a business which involves developed country farmers. Only a minor percentage of global premiums are paid in the developing world where insurance is mainly available only to larger and wealthier farmers. However, one need to keep in mind that crop insurance should be part of overall risk management strategy. Insurance comes towards the end of risk management process. Insurance is redistribution of cost of losses of few among many, and cannot prevent economic loss. In India, multi-peril crop insurance programme is being implemented, considering the overwhelming impact of nature on agricultural output and its disastrous consequences on the society, in general, and farmers, in particular.

Agricultural Labour

Agricultural Labour is provided mostly by economically and socially backward sections: poor sections from the tribes also swell there rank. The first group of agricultural workers has been more or less in the position of serfs or slaves; they are also known as bonded labour they do not normally receive wages in cash. But are generally paid in kind. They have to work for their masters and cannot shift from one to another they have to provide beggar or forced labour. After the minimum Wages Act,1948 was passed, pressure was brought upon the government to extended the act to cover agricultural labour. The Act was subsequently extended but there are still some states which have not brought large sections of agricultural labour within the ambit of the Act. Even where the act is implemented, the machinery for the fixation and enforcement of minimum wages is not uniform .In some states, it is the Revenue Department which implements the Act and in some others this is done by the labour Department.

Risks in Agriculture

The agricultural sector is exposed to a variety of risks which occur with high frequency. These include climate and weather risks, natural catastrophes pest and diseases, which cause highly variable production outcomes. Production risks are exacerbated by price risks, credit risks, technological risks and institutional risks. Risk management in agriculture ranges from informal mechanism like avoid-

ance of highly risky crops, diversification across crops and across income sources to formal mechanisms like agricultural insurance, minimum support price system and futures markets.

In a world of rising population, diminishing arable land, mounting agricultural debts and increasing uncertainties in farm incomes, there is a great need for management of risks in the agriculture sector. The enterprise of agriculture is subject to great many uncertainties. Yet more people in India earn their livelihood from this sector than from all other sectors put together. In rural India, households that depend on income from agriculture (either self-employed or as agricultural labour) accounted for nearly 70% of population. This includes large number of the poor who have little means of coping with adversities. Poor households that were self-employed in agriculture account for 28% of all rural poverty while poor households that are primarily dependent on agricultural labour account for 47% of all rural poverty. Thus, 75% of all rural poor are in households that are dependent on agriculture, in one way or the other. The same survey shows that 77% of all poverty is rural. Thus 58% of all poor are in households that are dependent on agricultural income in rural areas. Risk and uncertainty are in escapable factors in agriculture. The uncertainties of weather, yields, prices, government policies, global markets, and other factors can cause wide swings in agricultural income. All these risks must be properly managed to achieve satisfactory management in Estimates based on the Planning Commission poverty lines for urban and rural sectors of different states. It involves choosing among alternatives that reduce the financial effects of such uncertainties.

Agricultural Development essential for Economic growth

The marketable agricultural surplus will have to be increased considerably to feed the growing urban population and to provide raw materials to industries. New uses have been discovered for food grains and other agricultural crops with fossil oil becoming increasingly expensive, ethanol is being used as an alternative fuel. Corn, Sugarcanes, beetroot and other crops are increasingly converted into ethanol and alcohol. The agricultural sector acts as a bulwark in maintaining food securities and in the process, national security as well. Recognizing the crucial role played by the agricultural sector in enabling the widest dispersal of economic benefits, the tenth plan emphasized that agricultural development is central to rapid economic development of the country. Financial services to help the poor to manage their money may produce considerable benefits. The demand for operating credit is likely to be much greater for larger more commercially oriented farms that use large amounts of purchased inputs than it is for small subsistence farmers using fewer inputs and little hired labour. Therefore, large farms' access to credit may be most important for aggregate food production. Larger farms are normally considered more creditworthy and have more ready access to credit from commercial and development banks. Subsistence farmers, on the other hand, are more likely to face difficulty in obtaining formal credit and, therefore, may realize relatively large benefits from small loans, provided they can get access to land, inputs, and markets.

Suggestions and Conclusion

In India many types of agricultural finance the organizations or financial credit institutions are used for agricultural developments but still have to develop the agricultures or financial assistance should provide by the government and from the different financial institutions to the farmers at the right and prescribed time. The most important consideration affecting cropping patterns in the economic consid-

erations of farmers have to give adequate employment in the agricultural finance. Agricultural marketing is to protect and promote the interests of farmers, the Government of India, as well as state government. Promoted organized marketing of agricultural commodities through a network of regulated markets. All the agriculturists have to make a insurance on the crops which are cultivated and to avoid the losses from the natural calamities, Drought, Floods, Famines, Fire etc. and to claim such damages from the Insurance company and it helps to make repayment of credit to money lenders by the Indian farmers. The wages of the Agricultural Labour have to increase and to provide incentives on overtime period or working hours more than the previous system/theory and latest new schemes have to provide. Agriculture is still perceived as a risky business and, therefore credit flow to this sector remains low compared to the actual requirements. Identifications of the risk and prudent approach to manage those with proper risk management tools/frameworks will certainly help the financial institutions reduce the risk on their exposure to a great extent. This will definitely create an opportunity to widen access and accelerate agricultural finance in India.

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