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Agricultural Finance in India

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Introduction

Agricultural credit is one of the major factor that helps in the growth of the agricultural output. Agriculture sector provide employment to 50 percent of the workforce and contribute around 16%of GDP. The agricultural credit policies are designed in such a way that it helps in the development of farm sector and facilitates innovation by introduction of new technologies.

According to **William G. Murray** (1953) agricultural finance is "an economic study of borrowing funds by farmers, the organization and operation of farm lending agencies and of society interest in credit for agriculture."

Warren F. Lee et al defined Agricultural Finance as "the economic study of the acquisition and use of capital in agriculture." It deals with the supply of and demand for funds in the agricultural sector of an economy.

Agricultural Credit involves the study of flow of funds from the lending institutions to the agriculture sector. Indian Agriculture and allied sector comprises of crop, livestock, forestry and fisheries. According to the Labour Bureau Report 2015-16 –46.1 percent of the working population was employed in agriculture and allied sector. As per an ILO estimate in the year 2018 agriculture sector give employment to 44 percent of the total employment. Its contribution to GDP in 2018-19 was 16%. Allied activities contribute around 40% to agricultural output. Only 6 to 7% of agricultural credit flow towards allied activities.

According to the Agriculture Census 2015-16 the total number of operational holdings in the country was 146 million hectares and total operated area was 157.14 million hectares. The average size of small and marginal holdings is around 1.08 hectare. The small and marginal farmers accounts for 86.21 percent of total holdings and their share in the operated area is at 47.34 percent in 2015-16. In India agricultural production depends upon millions of small farmers. These farmershave inadequate money with them. So the role of agricultural credit becomes important.

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The Green Revolution (late 1960s-early1980s), White Revolution in milk production (1970s), the Gene Revolution in cotton production (early 2000) and Blue Revolution (fisheries –1973-2002) happened only because of the right agricultural credit related policy initiatives by Government of India.

Classification of Finance

In India the loans taken by the farmers are for short-term, medium-term and long-term.

- **The Short-term**

Short-term loans are generally taken for period upto 15months.Theseloans are generally taken for purchasing seeds, NPK(fertilizers), hired labour expenses, pesticides, hired machinery charges etc.

- **Medium-Term**

Medium-term loans are taken for period from 15 months to 5 years. These loans are taken for comparatively longer lined assets such as machinery, diesel engine, irrigation structure, threshers, crushers, dairy/poultry sheds etc.

- **Long-Term**

Loans repayable over a longer period i.e. above 5 years are called long-term loans. Loans for heavy machinery, making improvements on land, erection of farm building, buying new land, etc. comes under it where large investment are needed. The repayment period for such loans ranges from five to fifteen years or even more.

Source of Agricultural Finance

The main sources of agricultural finance in India is divided into Institutional and Non-institutional Credit Source.

Non-institutional Credit Comprises

- Traders and Commission Agents
- Landlords
- Money Lenders
- Family Members

Non-institutional Credit Agencies

- **Traders & Commission Agents**

They advance loans to farmers for productive purposes against their crop with no legal formalities. They charge huge amount of interest rate on the loan and a commission on all the sales and purchases. They are very exploitative towards farmers.

- **Landlords**

They give loans to small farmers and tenants for crop production and day-to-day financial needs.

- **Money Lenders**

They are easily approachable by the farmers. They give loans for both productive and unproductive purposes. They charge huge rate of interest.

In the 1950s, the agricultural credit was traditionally met from the non-institutional sources mainly by the local money lenders. As the development of institutional sources has taken with special emphasis on the commercial bank development and other government measures the share of non-institutional sources began to decrease.

Institutional Credit Comprises

- Co-operative Banks
- Commercial Banks
- Regional Rural Banks
- Micro Finance Institutions
- NABARD

The development of agricultural credit policies and breakthrough can be broadly categorized into three distinctive phases.

Phase I (1951-1969)

During the first five years plan in 1951, the government's major focus was on the development of the primary sector. During the phase I period major provider of institutional credit to agriculture was the co-operatives.

Co-operative Credit Societies: The first Co-operative Credit Societies Act was passed in 1904. The Co-operative Credit Institutions in India can be classified either as three-tier or two-tier structure. The three-tier structure constitutes State Co-operative Bank (StCB at apex level), District Central Co-operative Bank (DCCB) and Primary Agriculture Credit Society (PACS). At the lower level tiers PACS & DCCB gives loans facility to individual borrowers. DCCBs functions as a link between the PACS and StCB. In the two-tier structure only StCB and PACS are present. Some states has only two-tier structure.

- The National Credit Council in its meeting held in July 1968, highlighted that commercial banks would increase their participation in the financing of priority sectors, viz, agriculture and small-scale industries. In 1969 the first phase of nationalization of banks took place.

Phase II (1970-1990)

With the nationalization of Commercial Banks in 1969 and the concept of mass banking or social banking Government and RBI come up with lead Bank Scheme and regulatory prescription of the Priority Sector lending.

The National Bank for Agriculture and Rural Development (NABARD) was established on 12th July 1982 with the enactment of NABARD Act 1981 to promote agriculture and rural development. NABARD was established by transferring the agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC).

- It's main aim is to provide credit for agriculture and rural development .It helps in the financial inclusion of rural India by catering the needs of rural economy through its various departments like financial, supervision and developmental.
- It extends refinance to lending institutions for loans in relation torural sector development.
- NABARD is authorized for evaluating, monitoring and inspecting the client institutions and by this it help them to develop sound banking practices. It also onboard these banks to the CBS (Core Banking Solutions) platform.
- NABARD extends advice and guidance to the government, Reserve Bank of India and other organizations in matters relating to rural development.
- It offers training and research facilities for banks, cooperatives and other institutions in the field of rural development.
- The Regional Rural Bank Act, 1976 was enacted to provide loans to small & marginal farmers, landless labourers and village artisans.

Regional Rural Banks (RRBs): The RRBs was established on 2 Oct, 1975 under the provisions of the ordinance promulgated on 26 Sep., 1975, which was later replaced by the Regional Rural Bank Act 1976.RRBs is an important segment in rural finance. The capital share in the RRBs by the Union Government, concerned State and a Sponsor Bank is in the ratio 50:15:35.As per the RRBs' Amendment Act 2015,the Authorized capital is increased to Rs2000cr.the share of Private Investment can be 49% and that of Central government ,State government and Sponsor Bank would be 51 percent.

Its mission is to enhance savings habits among people in rural areas and provide credit to small and marginal farmers, farm workers, artisans and micro enterprises for agriculture and allied activities. In March 1990, the number of RRBs in India was 196, which decreased to 43 RRBs. RRBs have a credit guarantee target of 75 percent. The Service Area Approach (SAA) and Annual Credit Plan (ACP) was introduced by RBI in 1989 as measure for reaching out in the rural areas.

Phase III (1991 Onwards)

Financial Sector reforms in 1991 was initiated by the Narasimham Committee of 1991. In the year 1995 GOI established the Rural Infrastructure Development Fund (RIDF) with NABARD for meeting the funds requirement of rural infrastructure projects. This deepens the credit absorption capacity in a state by giving loans to state governments and state-owned corporations.

In 1992-93 NABARD started the pilot project on SHG-Bank Linkage programme. To provide easy credit to farmers a financial product known as the Kisan Credit Card (KCC) was introduced in August 1998. It aims to provide need based and timely credit to the farmers for their farm and non-farm activities in a cost effective way.

The Indian government launched the Interest Subsidy Scheme (ISS) for short-term crop loans in 2006-07 to allow farmers to obtain use of agricultural credit at lowered interest rates. The government introduced the Agriculture Debt Waiver and Debt Relief Scheme (ADWDRS) in 2008 to waive small farmers' institutional debt.It also gives an opportunity for one-time settlement with a 25% rebate to the farmers.

In 2009-10 under the ISS a prompt repayment incentive (PRI) of 3% is given to those farmers who repaid their loans on or before the due date, so that their effective rate of interest comes to 4 percent.

In April 2015 new guidelines was issued for the Priority Sector Lending (PSL) by the RBI under it the distinction between direct and indirect agricultural credit was dispensed with a sub target of 8 percent of ANBC (Adjusted Net Bank Credit) or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher was prescribed for small and marginal farmers. Here the focus was changed from 'credit in agriculture' to 'credit for agriculture'.

One positive change in rural financial organization growth has been the emergence of NBFC-MFIs (Non-Banking Finance Company-Micro Finance institutions) and Small Finance Banks.

Micro Finance Institutions (MFIs)

- MFIs has developed as an important segment for the rural credit market showing a variety of business models in recent years. MFIs lending operations are guided by the Malegam Committee recommendation. NFSC-MFIs with some conditions extend loan comes under the priority sector lending. Since 2015 a minimum of a 15% of the MFI loan extended will be for income generating activities.

Small Finance Banks

For financial inclusion in the economy RBI (Reserve Bank of India) in September, 2015 granted approval for setting Small Finance Banks (SFBs). SFBs has to achieve 75% of the lending towards PSL with the sub-target lending at par with SCBs (Scheduled Commercial Banks). As on 31 March, 2019 the overall PSL by SFBs was Rs. 327 billion which is about 82 percent above the PSL target lending towards agriculture and allied activities and small and marginal farmers was Rs. 101 billion (25%) and Rs. 78 billion (20%) respectively.

Role of Institutional Credit in Agriculture

The Scheduled Commercial Banks are the foremost institutions in providing agricultural credit in all the Indian States. As per the data given by the RBI as on March 31, 2017. Top four leading states were RRBs has presence are Bihar (35%), Telangana (15%), Himachal Pradesh (10%) and Uttar Pradesh (10%). States where co-operatives have played important role are Odisha (46%), Goa (34%), Maharashtra (31%), Chhattisgarh (27%), M.P. (27%) in providing agricultural. According to NAFIS (NABARD All India Rural Financial Survey) the share of institutional source in the total credit available to agricultural households is around 61 percent. However, the share of non-institutional source was around 30% in 2016-17.

According to RBI as on 31 March, 2017 the share of Scheduled Commercial banks was the highest at 79%, if the total agricultural credit co-operative institutions contributed 15% of the agricultural credit. The RRBs (Regional Rural banks) contributed 5% of the agricultural credit and MFIs1%. To review agricultural credit RBI had set up an Internal Working Group (IWG)in Feb 2019, to understand the issues and recommended workable solutions to address the problems. IWG submitted its report in September 2019.Some recommendations of the Internal Working Group are:

- Building up of an enabling ecosystem through digitization of land records.
- Government of India should set up a federal institution, on lines of the GST Council, having participation from both the Centre as well as the states to suggest and implement reforms in the field of agriculture.
- Aggressive efforts are needed to improve institutional credit delivery through technology driven solutions to reduce the extent of financial exclusion of agricultural households, Banks could pursue partnerships with agri-tech firms / start-ups to allow farmers accessibility to finance in an automated, prompt and productive manner.
- IBA could perhaps develop a technology-driven platform for banks to enhance farmers' ease of credit for agriculture and allied activities on PSBLoanIn59 minutes to MSMEs.
- PSL guidelines should be revisited in order to explore the feasibility of introducing suitable measures for improving the credit off-take in central, eastern and north eastern states.
- NABARD should gradually increase the allocation of RIDF in central, eastern and north eastern states over a period of time for removing regional disparity in agricultural credit.
- GoI should set separate targets for working capital and term loan towards allied activities under Ground Level Credit.

Conclusion

The accrued advances to agriculture and allied activities have grown significantly to Rs13694.56 billion in 2017-18(which is 16% of total bank credit) from Rs31.71 billion in 1981.Agricultural credit as a percentage to agriculture GDP has increase from 10% in 1970s to 52%by 2018,which shows that banks have made significant progress in lending to agriculture.

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