

AGRICULTURAL FINANCING: AN OVERVIEW

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ABSTRACT

Indian economy is usually described as an agricultural economy .The agricultural contribution to India's national income has always been very large. At present nearly 15.4 % is the share of agriculture and allied activities in our GDP and Bihar contributes about 20% to the Gross State Domestic Product (GSDP). Agriculture thus has a very big share in India's national income. At present agricultural sector in India are facing many problems. Provision of adequate, timely and cheap finance is an important aspect for the development of agriculture and related to agricultural activities. Agriculture is a productive occupation and one of its essential inputs is finance. This may be provided by the cultivator himself or like other enterprises; he may borrow it from someone else and repay it from the output of the field in which it has been invested. Agriculture finance is an important area of rural finance dedicated to financing in agricultural related activities such as, production, processing, distributing and marketing. These paper discusses the conceptual background of agricultural finance, need of agricultural finance in India, sources of agricultural finance and analysis of agricultural credit inflows in Bihar.

KEYWORDS: *Agriculture, Finance, KCC, Institutional and Non – Institutional Sources.*

Introduction

Agriculture and allied sector contributes about 15.4% of the Indian GDP which is more than world's average (6.4%) and the majority of our population in the country lives in rural area. The agricultural sector of Bihar contributes about 20% to Gross State Domestic Product (GSDP). Thus, Majority of the economic problems lie in agriculture and rural areas. For solving these problems various efforts have been made for several decades in the past and they have to be continued for several decades in future. Provision of adequate, timely and cheap finance is an important aspect for the development of agriculture and related to agricultural activities. Agriculture is a productive occupation and one of its essential inputs is finance. This may be provided by the cultivator himself or like other enterprises; he may borrow it from someone else and repay it from the output of the field in which it has been invested. Agriculture finance is an important area of rural finance concerned with providing finance for agricultural related activities such as production, processing, distribution and marketing of agricultural product. Financial service providers face distinct challenges when dealing with this sector. For example, the seasonal nature of production and the dependence on biological process and natural resources leaves producers subject to events beyond their control such as droughts, floods or diseases. . Moveable assets such as livestock and equipment are also necessary for farming the agricultural product. India is a developing country have large rural populations .policy- maker of our country have tried to increase the agricultural finance with subsidy through a various channels. For development of technology in agriculture finance is also necessary. For purchase and use of Technical inputs by farmer's sufficient money (funds) is necessary with farmers. In present situation farmers suffer the problem of inadequate finance. Due to financial crisis farmer wants to borrow money from easy and comfortable source.

Objectives of the Study

The specific objectives of the present study are:

- To understand the concept of Agriculture finance.
- To understand the various sources of Agricultural Finance in India.

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- To highlight the Co-operative Credit Institutions in India.
- To analyze the agricultural credit inflows in Bihar.

Research Mythology

This paper is basically descriptive and analytical in nature. In this paper researcher has been taken to overview the agricultural financing in India. The secondary sources of data have been used according to the need of this study. Data have been collected from different publications, reports and website.

Need for Agricultural Finance

Agriculture is an important industry like other industries. Due to the peculiarities of agriculture, especially its uncertainties, scattered operation, low returns, small unit production, high rates of rent and limited scope for employment, a large portion of cultivators are not able to manage from one harvest to another without sufficient resource or borrowings. Some of the factors demanding agricultural credit are discussed here.

- **Uncertainties in Agriculture**

Agriculture is not a unanimous industry but a complex system with various types of production and marketing. Production takes a lot of time since the inputs take time to transform it into output. Time involved in production is varied according to the commodities. The longer the time period of production, the more the element of uncertainties are prevalent which demand agriculture finance. They are (a) Yield uncertainty and (b) price uncertainty.

- **The Long Economic Lag in Agriculture**

There is a long interval in agriculture between the application of inputs and the marketing of agricultural outputs. Sometimes it takes months to receive the return of its labour. During this interval producer needs finance to manage his farm as with household.

- **Diversion of Farm Capital**

Some fixed capital (including land) can often be turned from one use to another. Sometimes the economic condition may warrant a temporary or even a permanent diversion from one crop to another which might cause surplus of one crop and shortage of another for a particular period.

- **For Further Development in Agriculture**

For improving the agricultural production the farmers have to borrow still more. Further extension or purchase of land, improved varieties, fertilizers, irrigation facilities and other agricultural inputs can be achieved by the finance from the reliable sources.

- **Seasonal Cycle of Agricultural Production**

The demand for credit arises largely from the seasonal cycle of agricultural production which is superimposed on a largely perpetual and steady pattern of continuous consumption. Because of the marked contrast in seasonality of production and consumption patterns, demand of the credit increases.

Classification of Finance

- **Short-Term:** The "short-term loans" are generally advanced for meeting annual recurring expenses such as, purchase of seed, feed, and fertilizers, hired labour expenses, pesticides and rental charges of machinery which are termed as seasonal loans/crop loans/production loans. These are expected to be repaid after the harvest. It is expected that the loan plus interest would be repaid from the income received through the enterprise in which it was invested. The time limit to repay such loans is a year.
- **Medium-Term (from 15 months up to 5 years):** "Medium-term loans" are advanced for comparatively longer lived assets such as purchase of machinery, tractor, digging wells, threshers, shelters, crushers, draught and milch animals, dairy sheds, etc., The normal repayment period for such type of loan is from fifteen months to five years.
- **Long-Term (above 5 Years):** Loans repayable over a longer period (i.e. above 5 years) are classified as long-term loans. "Long-term loans" are related to the purchase of long life assets such as heavy machinery, land and farm buildings, construction of permanent-drainage or irrigation system, etc. which require larger amount of money for initial investment. The benefits generated through such assets are spread over the entire life of the asset. The normal repayment period for such types of loans are from 5 years to 15 or 20 years.

Sources of Agricultural Finance

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

- **Institutional Sources**

The Institutional sources of agricultural finance compare co- operative credit societies, regional rural banks, commercial banks, and other financial intuitions. After the nationalization of bank in 1969, commercial banks have devoted considerable attention to provide credit to agricultural sector. The branches of these banks have rapidly been expanding in the rural sector. Despite the significant achievements of commercial banks in rural credit, they suffer from some deficiencies also.

- **National Bank for Agriculture & Rural Development**

The National Bank for Agriculture and Rural Development (NABARD) is the apex organization was established in the year 1982 by an Act of Parliament and was entrusted with respect to all matter relating to policy, planning and operational aspects in the field of credit for the promotion of agriculture, small scale industries and other allied economic activities in rural areas. The Bill for setting up the Bank was passed by the Parliament in December, 1981 and NABARD came into existence on 12th July, 1982. Before that, this job was being done by Reserve Bank of India. The bank provides; refinance to various banks for agriculture and rural development. NABARD works for progressive institutionalization of the rural credit and ensures that the demands for credit from agriculture including the new and upcoming areas like floriculture, tissue culture, bio-fertilizers, sprinkler irrigation, drip irrigation etc. It is also vested with the responsibility of promoting and integrating rural development activities through refinance.

- **State Cooperative Bank (SCB)**

The structure of the co-operative credit societies in India is three- tiered and federal in character consisting of Primary Agricultural Credit Societies (PACS) at the base level, the District Central Co-operative Banks (DCCB) at the District level and the State Co-operative Banks (SCB) at the state level. SCB are the apex of the co-operative credit organization present at the state capitals. They are authorized to receive surplus funds from the co-operative intuitions such as Central Banks And Urban Credit Societies. It finances and controls the working of the District central Co-Operative Bank (DCCB) in the state. It also serves as a network between the Reserve Bank of India (RBI) and DCCBs.

- **District Central Co-operative Bank (DCCB)**

The DCCB occupies an important position in the credit co-operative structure in India. They form an important link between the apex co-operative bank and the primary agricultural credit societies (PACS). The success of the co-operative credit movement largely depends on their financial strength. The DCCBs, were established to finance the primary societies and to act as their balancing centre. They stand at the intermediate stage in structure of the co-operative movement in the country. The mobilization of funds at the international level is carried out by these banks and they extend the financial facilities to the primary units.

- **Primary Agricultural Credit Society (PACS)**

Primary Agricultural Credit Co-operative societies (PACS) exist at operation level to extend credit to the farmer. PACS may be started with ten or more persons belonging to a village. At present it is formed in every Gram panchayat and members of PACS elected President. The PACS is in- tended to promote the economic co-operative interest of its members in accordance with the co-operative principles. Their aim is achieved through the activities performed in different directions such as promoting savings among members, providing loans to them, supplying them with agricultural requirements and domestic requirements and arranging for the marketing of their agricultural produce. It operates at the village level and maintains direct contact with the farmers. The main function of the credit societies are to provide short term and medium term credit to the farmer. In addition, these co-operatives help in formulating and implementing plan for agricultural production for the village and provide important advice to members.

Total 8463 PACS are functioning in Bihar as on March 2017, which is 8.9% of all PACS in India. Bihar is much behind the other states in term of both deposits and borrowings. Also, out of the total 8463 PACS in Bihar, as many as 3962 societies are making losses with their total loss amounting to Rs 94 lakh while 1180 societies have earned a total profit of Rs 6.04 crore. The total deposits of all PACS were Rs 175 crore, and their total borrowing amounted to Rs 501 crore.

- **Regional Rural Banks (RRBs)**

The RRBs established as a strong institution for providing rural credit. Regional Rural Banks (RRBs) in India were initiated in 1975. The main aim of these RRBS is to provide credit to small and marginal farmers and rural workers to save them from the clutches of the moneylenders. At present 196 RRBs with about 14,500 branches are operating in the country. The most important development in the field of rural credit has been the setting up of the National Bank for Agriculture and Rural Development (NBARD) in 1982. It was set up for building better coordination among the various agencies of rural credit. It is now the apex bank for rural credit. Recently two more set ups have emerged in the field of rural credit. They are Kisan Credit Card Scheme and Self-Help Groups.

The Kisan Credit Card (KCC) scheme was introduced in 1998-99. It has made rapid progress with the banking system. The scheme has helped in augmenting the flow of short-term crop loans, and term loans to the farmers'. The KCC aims at adequate and timely support from banking system to farmer for crop production and ancillary activities. The credit limit (loan) is sanctioned in proportion to the size of the owned land but some flexibility is provided for leased-in land in addition to owned land. The number of KCCs issued by banks in Bihar during the period 2012-13 to 2017-18 is shown in Table 2.1. The achievement percentage against total target for all banks increased to 71.6 percent in 2013-14, after which there has been a steady declining trend. In 2017-18, the achievement was only 35.5 percent. While SCBs achieved only 45.6 percent of their target in 2017-18 compared to 46.9 percent a year before, RRBs registered a steep fall in achievement rate from 51.0 percent in 2015-16 to 20.9 percent in 2017-18. The Central Cooperative Banks also lagged way behind their targets, their achievement in 2016-17 being only 14.1 percent, the same as the last year. The absence of updated records of the applicants could be a reason for the lower achievement against a reduced target in 2017-18.

Table 1: Number of Kisan Credit Cards (New) Issued by Banks

	Targets	Achievement	Percentage	Target	Achievement	Percentage
	Commercial Banks			RRBs		
2012-13	811207	600343	74.0	467081	246987	52.9
2013-14	909186	675107	74.3	535348	387658	72.4
2014-15	903944	628370	69.5	537590	353841	65.8
2015-16	918912	484543	52.7	527226	269047	51.0
2016-17	873362	409441	46.9	576187	163919	28.4
2017-18	896357	406366	45.6	571902	119395	20.9
	CCB			Total		
2012-13	221712	16492	7.4	1500000	863822	57.6
2013-14	55466	11325	20.4	1500000	1074090	71.6
2014-15	58466	13057	22.3	1500000	995268	66.4
2015-16	53860	10093	18.7	1500000	763683	51.0
2016-17	50451	7087	14.1	1500000	580447	38.7
2017-18	31742	4489	14.1	1500000	529210	35.5

Source: Economic Serve of Bihar 2018-19

The Self-Help Groups (SHG) Bank Linkages Programme has emerged as the major micro credit programme is largely on those rural poor who have no sustained access to the formal banking system. A self help group is a small and informal association of poor have been preferably similar socio- economic background and who have come together to realize some common goals based on the principles of self help and collective responsibility. Now a days ,SHGs becoming more popular in rural areas for mutual financial help. There were 87.44 lakh Self Help Groups in India linked to the formal banking system and Bihar had 5.95 lakh banked linked Self Help Groups about 6.8 per cent of the country's total bank linked Self Help Groups

Non-institutional Sources of Agricultural Finance

- **Money Lenders**

There are two types of money lenders in rural areas: the professional money lender and the agriculturist money lender. Professional money lenders are one whose only occupation or profession is to lend money. The cultivators depend upon the money-lenders for their requirements of cash. The agricultural money lender generally combines his farming with money lending. Money lenders have played a significant role in financing agriculture, but their importance is declining, as the supply of institutional credit is increasing day by day.

- **Landlord and Others**

Landlord supplies funds to farmers for productive purpose before the crops mature. This source of finance is important in the case of cash crop like cotton, tobacco etc.

- **Traders and Commission Agents**

Traders and commission agents also supply funds to farmers against their crops. They force the farmers to sell their produce at low prices and they charge a heavy commission for themselves and charge a high interest.

- **Relatives**

Farmers also take loan from their own relatives in cash or kind. 'These loans are taken for the short period in order to tide over temporary difficulties. These loans are generally contracted in an informal way as they carry low or no interest and they are returned soon after the harvest. But this source of finance is uncertain.

Agricultural Credit Inflows in Bihar

The data on credit flow to agriculture in Bihar during the six year period 2012-13 to 2017-18 is presented in Table 2. The agricultural credit flow has been expanding continuously over the years; through its share in the total credit flow has declined substantially since 2015-16. In 2017-18, the overall achievement had been 86 percent in respect of all banks. It was, of course, the Commercial Banks that accounted for the major share in the total credit, which was almost 59 percent in 2017-18. The outstanding agricultural advances stood at Rs 45,706 crore at the end of 2017-18 (Table 2.3). This implied an annual growth of 9.3 percent in the outstanding credit to agricultural over the last year, compared to 17.3 percent in 2016-17.

Table 2: Agriculture Credit Flow

Year	Commercial Bank		RRBs	
	Target	Achievement	Target	Achievement
2012-13	14674	13203 (90.0)	8407	8035 (95.6)
2013-14	18709	17786 (95.1)	10777	10676 (99.1)
2014-15	22191	21260 (95.8)	12809	13058 (101.9)
2015-16	26554	24957 (94.0)	14946	15135 (101.3)
2016-17	28317	25004 (88.3)	18682	14247 (76.3)
2017-18	28281	24734 (84.5)	18682	14879 (79.6)
Year	CCBs		Total	
2012-13	2319	328 (14.2)	25401	21566 (84.9)
2013-14	800	307 (38.4)	30286	28770 (95.0)
2014-15	1000	362 (36.2)	36000	34680 (96.3)
2015-16	1000	1258 (125.8)	42500	41350 (97.3)
2016-17	1000	1825 (182.6)	48000	41076 (85.6)
2017-18	1036	2548 (246.0)	49000	42161 (86.0)

Source: Economic Serve of Bihar 2018-19

Table 3: Outstanding Agricultural Advance

Year	Outstanding Agricultural Advance				Annual Growth Rate
	Commercial Banks	RRBs	Cooperatives & LDBs	Total	
2012-13	15422	4219	2824	22538	23.2
2013-14	19231	5101	1047	25380	12.6
2014-15	23130	6311	1212	30652	20.8
2015-16	25281	8856	1536	35673	16.4
2016-17	27256	10938	3636	41830	17.3
2017-18	30932	12217	2557	45706	9.3

Source: Economic Serve of Bihar 2018-19

Conclusion

Agriculture is an important industry like other industries. Due to the peculiarities of agriculture, uncertainties, scattered operation, low returns, small unit production, high rates of rent and limited scope for employment, a large number of cultivators cannot manage from one harvest to another without resource or borrowings. Some of the factors demanding agricultural credit are Uncertainties in Agriculture, the long economic lag in agriculture, diversion of farm capital, for further development in

agriculture, seasonal cycle of agricultural production. Agricultural finance may be short-term, medium term and long term. There are two sources of agricultural finance- i) Institutional sources- NABARD, SCB, DCCB, PACS ,RRB etc ii) Non Institutional Sources – relatives ,money lenders, traders and commission agent etc .Recently two more set ups have emerged in the field of rural credit. They are Kisan Credit Card Scheme and Self-Help Groups. The Kisan Credit Card (KCC) scheme was introduced in 1998-99. It has made rapid progress with the banking system. The scheme has helped in augmenting the flow of short-term crop loans, and term loans to the farmers'. The KCC aims at adequate and timely support from banking system to farmer for crop production and ancillary activities. Till March 2018, total number of KCC has been issued in Bihar are 52921. There were 87.44 lakh Self Help Groups in India linked to the formal banking system and Bihar had 5.95 lakh banked linked Self Help Groups about 6.8 per cent of the country's total bank linked Self Help Groups The agricultural credit flow in Bihar has been expanding continuously over the years; through its share in the total credit flow has declined substantially since 2015-16. In 2017-18, the overall achievement had been 86 percent in respect of all banks

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