Inspira-Journal of Commerce, Economics & Computer Science (JCECS)
ISSN : 2395-7069 GIF: 2.7273, CIF: 4.964, Volume 05, No. 04, October-December, 2019, pp. 78-82

A STUDY ON AGRICULTURAL MARKETING AND RURAL FINANCING IN INDIA

(WITH SPECIAL REFERENCE TO NABARD AND ITS ROLE IN AGRICULTURE AND RURAL DEVELOPMENT)

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ABSTRACT

"As when there is fertility of agriculture, till then the entire business flourish, but when the soil is left barren, then consequently all the business virtually dies."

Sukrat

In countries like India, strengthening agriculture is critical to addressing the challenges of rural poverty, food insecurity, unemployment and sustainability of natural resources. But there is a need to redefine agriculture as a science and study of activities related to the production, processing, marketing, distribution, utilization and trade of agricultural products, which means that agricultural development policy should address not only the farmers but also the marketing and trade, Processing and Agribusiness. In this regard, efficient marketing and rural credit systems attach greater importance. Agricultural marketing is a process that starts with a decision to sell a marketable farm product and involves a market structure or system, both functional and organizational, based on technical and financial considerations. Although agricultural marketing is a state subject, the Government of India has a vital role to play in formulating general policies, formulating quality standards, conducting survey and research studies and providing guidance, technical and financial support to the state governments.

The agricultural sector, known as the primary sector is essential for the economic growth of any economy including India. After independence, agriculture is an important part of India's economy in the global economy. The sector contributes 15.87% to the gross domestic product (GDP), and employs just a little less than 54% of the country's work force. Agriculture contributes to 6.4% of the world's total economic output. India is the second largest producer of agricultural products accounting for 7.39% of total global agricultural production. China is the largest contributor accounting for 19.49% of the world's total agricultural production.

Agricultural finance (credit) is considered to be the most basic inputs of all agricultural development programs. There is a great need for proper agricultural credit in India because Indian farmers are very poor. From the very beginning, moneylenders were the major source of agricultural credit in India. After independence, the government adopted the credit of agency institutions through cooperatives, commercial banks, regional rural banks, etc., to provide adequate credit to the farmers at low interest rates. Moreover, with the increasing modernization of agriculture in the post-green revolution, the need for agricultural credit has increased further in recent years. The National Bank for Agriculture and Rural Development (NABARD) was established in July 1982. It became a top institution for providing strategic planning and refinancing facilities to rural financial institutions and to increase their resource base. This paper analyses the role and function of NABARD in agriculture and rural development.

KEYWORDS: *Agriculture, Agriculture Finance, NABARD, GDP, Development, Apex, Economic Growth.*

Introduction

The golden words of Mahatma Gandhi "India lives in villages" were said several decades ago. The paradox is that even today, the vast majority of Indians live in villages. Though there is significant movement from rural to urban areas in India, still almost 68% of India continues to survive in rural areas.

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There are about 650,000 villages on the outskirts of India. These villages are made up of about 850 million consumers making up for about 70% of the population and contribute about 50% of the country's gross domestic product (GDP).Most of India's agricultural products are sold by farmers in the private sector to moneylenders (to whom the farmer may be indebted) or to village traders of village. The products are sold in various ways. For example, it might be sold at a weekly village market in the farmer's village or in a adjoining village. If these outlets are not available, then production might be sold at sporadically held markets in a nearby village or town.

Agriculture is the primary sector of the economy. It makes direct use of natural resources. This is different from the secondary sector (production of manufactured and other processed goods) and tertiary sector (production services). This is the most important part of the Indian economy. Until the Industrial Revolution, the majority of the human population laboured in agriculture. Pre Industrial agriculture was typically subsistent in which farmers raised most of their crop for their own consumption instead of cash crop for trade. In response to new technology and global market development, agricultural practices have undergone significant changes in the past century. It also led to technological improvements in agricultural technology. Now, with its allied area, agriculture is undoubtedly India's largest subsidiary of livelihoods, more than in rural areas. This is a significant contribution to GDP. Most industries also depend on agriculture for their raw materials. Having a planned outlook on development has helped the country to reach a stage where the country is self-sufficient in food grains and has a comfortable buffer stock. This performance is made possible mainly because of the favourable policy framework. The policy of Indian Agriculture was to achieve food security by providing incentive for growth along with equitable access to food. As a result, terrible famines have become events of the past and the agricultural production does not show large variation even in the event of adverse climatic condition.

Meaning

Agricultural finance is the study of finance and liquidity services that provides credit to agricultural lenders. It is also regarded as a study of financial intermediaries providing loan funds to the agriculture and financial markets in which these intermediaries have received adequate funding for their loans.

Definition

Murray (1953) defined agricultural finance as "an economic study of borrowing funds by farmers, the organization and operation of farm lending agencies and of society's interest in credit for agriculture."

Tandon and Dhondyal (1962) defined agricultural finance "as a branch of agricultural economics, which deals with and financial resources related to individual farm units.

History of Agriculture Finance in India

Till 1935 Money lenders were the only source of credit for agriculture. They used to charge unjustifiably high rates of interest and used serious practices while lending and recovering them. As a result, farmers were heavily burdened with debts and many of them perpetuated debts. With the passing of RBI Act 1934, District Central Co-operative Banks Act and Land Development Banks Act, agricultural credit received motivation and there were improvements in agricultural credit. A powerful alternative agency came into being. Large amounts of debt became available with reasonable rates of interest at easy terms, both in terms of lending and recovery of loan. Although co-operative banks started to finance agriculture with their establishments in 1930's the real motivation was received only after Independence when suitable legislation were passed and policies were formulated. After that, bank credit to agriculture made effective 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, these banks were obliged to provide agriculture finance as a priority area. These banks undertook a special program of branch extension and created a network of banking services across the country and started large-scale agricultural financing. Thus the agricultural credit achieves a multi-agency dimension. The development and adoption and financing of new technologies are all together. A lot of initiatives have been taken to strengthen the institutional system of rural credit system. Finance has played a vital role in bringing "Green Revolution", "White Revolution" and "Yellow Revolution". In the first half of 2000s, there has been a sharp rise in the share of commercial banks in total agricultural credit. Starting 1990s, the share of short-term agricultural credit in total agricultural credit has been going up.A new credit distribution system has been introduced in the form of Kisan Credit Card

(KCC) to make credit financing easier. The procedures and amount of loans for various reasons have been standardized. In the 12 year period from 2000-01 to 2011-12, the flow of ground level credit has increased impressively, especially after the 'doubling period' (2004-07), showing almost a 10 fold increase. Around Rs 28 lakh crore have been disbursed during the 12 years and in the next 5 years of 12th FYP, another Rs. 35 to 42 lakh crore are expected to be invested (12th Five Year Plan Estimates).Obviously, agricultural credit has emerged as a key strategy to stimulate investment in agriculture.

Objective of the Study

- To study the agriculture finance.
- To study the productive needs of agriculture finance.
- To examine the role of NABARD in agricultural development.

Research Methodology

The study has used secondary data from different data sources like RBI, Hand Book of Statistics on Indian Economy, Economic Surveys, journals, Agricultural Statistics at a glance.

Review of Literature

Karthikeyan G. (2016) had discussed in his paper about the problems faced by the farmers in the marketing of agriculture goods and offered valid suggestions to overcome the problems faced by the Indian farmers at the time of marketing their produced goods. He emphasized to frame policies by Central and State govt. to protect the welfare of the farmers.

Kiruthiga et al.(2015) studied various concepts related with the marketing of agricultural produce. In this paper, they explained the function performed in the marketing of agro- products, the intermediaries involved, problems related with agricultural marketing in developing countries so that rectify actions could be taken to solve the problems.

Kusugal, S. Pallavi and S. Nagaraja (2013) emphasized for the farming community benefit from the new global market access opportunities. They suggested for strengthening and integrating the internal agricultural marketing system in the country. Therefore, the main concern of the government is to improve agricultural marketing and to create marketing infrastructure. He suggested expanding the services of agricultural marketing, improving marketing systems, strengthening marketing infrastructure, investing needs, potential sources of funds from the private sector, improving the marketing information system using ICT, human resource development as per his study. There is necessity for providing a suitable backward and forward integration to agriculturalists for ensuring primary value additions to the produce and enhance quality for promotion of goods.

Role of Agriculture Finance

Agriculture plays an important role in the development of the Indian economy. It accounts for about 16% of GDP and about two-thirds of the population depends on the sector. Agricultural finance is a subset of rural financing dedicated to financing agricultural related activities such as input supply, production, distribution, wholesale, processing and marketing. Financial services providers face different challenges when dealing with this sector. For example, the nature of the seasonal product and the dependence on biological processes and natural resources leave producers subject to events beyond their control like droughts, floods or diseases. In addition, if the income of the farmers is seasonal, the cost of their work is spread over time.

In addition, more credit must be used to meet growing capital requirements for farmers' inadequate savings. Moreover, credit is a unique resource, as it now offers the opportunity to use additional inputs and capital goods and to pay for future earnings. Due to high rural interest rates and poor access to credit, rural people in India are largely indebted and subject to exploitation in credit markets. Rural families need credit for investing in farms and smoothening out seasonal fluctuations in earnings. Rural households generally rely on credit because of the cash flow in rural areas and the savings of many households. Rural households need access to financial institutions that can be financed at a lower rate than traditional lenders and on reasonable terms, thus helping them avoid debt traps in rural India. Timely and adequate agricultural credit is crucial for the growth of fixed and working capital of the farmers. Several organizations are working to provide adequate credit to the farmers. Cooperatives, commercial, regional rural banks and various government institutions provide institutional credit to the needy farmers on a priority basis.

Types of Agricultural Credit

Considering the period and purpose of the credit requirement of the farmers of the country, agricultural credit in India can be classified into three major types:

- **Short Term Finance:** The farmers of India require credit to meet their short term needs viz., purchasing seeds, fertilisers, paying wages to hired workers etc. for a period of less than 15 months. Such loans are generally repaid after harvest.
- **Medium Term Finance:** This type of credit includes credit requirement of farmers for medium period ranging between 15 months and 5 years and it is required for purchasing cattle, pumping sets, other agricultural implements etc. Medium term credits are normally larger in size than short term credit.
- **Long Term Finance:** Farmers also require finance for a long period of more than 5 years just for the purpose of buying additional land or for making any permanent improvement on land like sinking of wells, reclamation of land, horticulture etc. Thus, the long term credit requires sufficient time for the repayment of such loan.

Sources of Agricultural Finance

The two major sources of finance in agriculture are institutional and non- institutional sources. Institutional sources consist of the government and co-operative societies, commercial bank including the Regional bank, Lead bank. Whereas, Non-Institutional Sources consist Money Lenders, Landlord and others.

NABARD: A Brief Profile

After the recommendation of the Shivaraman Committee (Committee for Review of Institutional Credit Provision for Agricultural and Rural Development) NABARD was established on July 12, 1982 to implement the National Bank for Agricultural and Rural Development Act 1981.It is set up as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. The head office of the Bank is situated in Mumbai (Maharashtra) and it has branches are all over the country. It has 33 336 district offices across the country, there is a special cell in Srinagar. It has six training institutes also. In rural areas, the bank has the right to support all other allied economic activities promote integrated and sustainable rural development and secure prosperity of rural areas. NABARD also administers the Rural Infrastructure Development Fund (RIDF), which was set up in 1995-96. NABARD has also been playing a catalytic role in micro financing through the channel of Self-Help Groups (SHGs). For the purposes of agriculture and rural development, the bank provides refinance to many banks for their term credit/ lending operations. The initial capital of NABARD was Rs. 100 crores. As a result, the revision in the composition of share capital between Govt. of India and RBI, the paid up capital as on 31st March 2013, stood at 4000 crore with Govt. of India holding 3,980 crore (99.50%) and Reserve Bank of India 20.00 crore (0.50%). As on 31st March 2014, paid up capital of NABARD stood at Rs. 4700 crore (Rs. 4680 Crore of GOI and Rs. 20 Crore of RBI).

Functions of NABARD

NABARD was set up essentially as a development bank for promoting agriculture and rural development.

The important functions of NABARD are as follows:

- Providing finance and also refinance for production and marketing in the rural areas.
- Coordinating and advising the operations of institutions engaged in rural credit.
- Promoting research in agriculture and rural development.
- Acts as a coordinator in the operations of rural credit institutions.
- Refinancing banks for extending loans for investment and production purpose in rural areas.
- Providing loans to State Govt. /Non-Govt. Organizations (NGOs)/Panchayati Raj Institutions (PRIs) for developing rural infrastructure.
- Supporting credit innovations of NGOs(Non-Government Organizations) and other non-formal agencies.
- Extending formal banking services to the unreached rural poor by evolving a supplementary credit delivery strategy in a cost effective manner by promoting Self Help Groups (SHGs)

Role of NABARD

- Serves as an apex financing agency for the institutions providing investment and production credit for promoting the various developmental activities in rural areas.
- Undertakes monitoring and evaluation of projects refinanced by it.
- The Bank refinances the financial institutions which finances the rural sector.
- It also keeps a check on its client institutes.
- It regulates the institution which provides financial help to the rural economy.
- It provides training facilities to the institutions working in the field of rural upliftment. NABARD's refinance is available to State Co-operative Agriculture and Rural Development Banks (SCARDBs), State Co-operative Banks (SCBs), Regional Rural Banks (RRBs), Credit Facilities Offered by NABARD

NABARD also offers various credit facilities like:

- Rural Infrastructure Development Fund
- Kisan Credit Cards
- Micro Credit Innovation scheme
- Refinance for Rural Housing Facilities scheme
- Swarojgar Credit Card Scheme
- Farmers' Club Programme

Conclusion

Agricultural credit plays an important role in supporting India's agricultural production. Although the amount of outreach and agricultural credit growth have increased over the years, several weaknesses have affected the viability and sustainability of these institutions. These have major implications for agricultural development as also the well being of the farming community. We need different initiatives in different departments of agriculture and agro-industry: horticulture, fisheries, dairy, silk rearing, poultry, vegetables, meat, food processing, other agricultural processes and so on.

The above discussion shows that NABARD is working for the development of 360 degrees in rural India. Every year, the financial support and distribution from NABARD is increasing. In a nutshell we can say that NABARD is providing all-round assistance to rural India and that "growth with social justice" proved to be an existing institution. In essence it is an institution for refinancing Supplementary work with instructions, inspection and supervision of credit financing for agricultural and rural development

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