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Agriculture Finance: Understanding Varied Credit Facility to Farmers

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Abstract

Agricultural finance is a club of ways to provide services with aim of supporting agricultural activities and agriculture based businesses which includes input credit, production, processing, distribution and marketing. The need to invest in agriculture finance is increasing day by day to feed the world.As most of the farmers don't have access to the credit, the productivity gets impacted. There have been consistent efforts put in from the government side but still access to the marginal farmers is not what the government would have wanted.The data were compiled from reports published by the Department of Agriculture and Co-operation, Ministry of Agriculture, Government of India (GoI), Reports on Currency and Finance, published by Reserve Bank of India (RBI) and various annual reports of National Bank for Agriculture and Rural Development (NABARD). the has discussed in detail the various types of agricultural fiance and thus similar observation for understanding is done.

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Introduction

Finance is a life;line of all the other sectors and not just limited to business. Need to take utmost importance in the finance of agricultural activities is of equal importance as to choose the type of fertilizer to be put into the crop. All other factors involved in agriculture can be purchased in sufficient portions only when farmers have sufficient funds. But in reality most of Indian farmers are marginal farmers and suffer from lack of funds and credit availability. Agricultural finance is a club of ways to provide services with aim of supporting agricultural activities and agriculture based businesses which includes input credit, production, processing, distribution and marketing. The need to invest in agriculture finance is increasing day by day to feed the world. The drastic rise in global population and ever changing preferences of the emerging middle class has increased the pressure towards higher value agricultural products. Along with these climate risks is putting additional pressure to invest more in agriculture. Estimates suggest that demand for food will increase by 70% by 2050 and at least $80 billion annual investments will be needed to meet this demand, most of which needs to come from the private sector. In developing countries, the share of GDP that is invested in agriculture is generally lower than what is least required.

Farmers in the country do not have access to the credit, the productivity gets impacted. There have been consistent efforts by the government-side, but still access to the marginal farmers is not what the government would have wanted. There is no access or very little access to credit. Marginal farmers are not considered profitable to be given loans or credit.

Due to the high degree of risk involved in lending for these farm loans, the available financial products and services in the formal sector are very limited. In comparison to the returns that these services generate the uncertainty is quite high to the service providers. Farmers, and especially women and young people, many who do not have formal ownership of their lands, have little to offer in the form of collateral. The only source left with farmers are local moneylenders. They charge high high interest rates and are quite risky for resource poor farmers.

Due to the low level of literacy rate in the country, the procedure for the disbursement of loan for a range of different purposes has been standardized. Crop loan makes up a chunk of market in agricultural financing in short term loans. Agriculture finance now is given at every step of process from planting till cultivating the crop, electricity, pumps, seeds, etc.. Also, agricultural finance is not just limited to pure agricultural activities rather for its allied services too.

Aim of The Study

1. To Understand the basics of of Agricultural Finance
2. To understand the source of finance that can be provided For agricultural purposes.

Definition

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. In other definition of the by Tandon and Dayal (1962) it was defined "as a branch of agricultural economics, which deals with and financial resources related to individual farm units" In broader meaning, it is studying, examining and analyzing the financial aspects pertaining to farm business, which is the core sector of India. The financial aspects include money matters relating to production of agricultural products and their disposal.

Characteristics

Agricultural financing has become the integral to the process of farming and thus it is required to understand the basic characters that it has.

They are following:

1. finance is credited to the farmers for agriculture or allied activities;
2. finance has a purpose to stimulate productive capacity of agricultural resources leading in better economic returns then what it was earlier;
3. finance should promote overall productivity and thus the economic health of agriculture households; and
4. finance should come from formal sector and with the aim to strengthen the backward and forward linkages with country's economic development.

Review of Literature

"Ram (1992) made an attempt to evaluate the contribution of Agricultural Refinance Development Corporation (ARDC) in the agricultural development of India with special reference to the state of Haryana. Government of India on July 12, 1982 merged the ARDC in NABARD and since then all the functions of ARDC are being performed by NABARD. Up to 30 June, 1982 the state of Haryana got 8.33% share of the total finance disbursed by ARDC but on 31 March, 1991 it decreased to 5.3%. He suggested that Haryana's share should be raised up to the old ratio because Haryana is one of the leading agricultural states in India. Verma (1992) analysed the effectiveness of agricultural credit by cooperative credit institutions in Nagari block of Chittoor district in Andhra Pradesh. It was found that there is large amount of overdues of loans and the major defaulters are medium level farmers. Lack of proper supervision of end use of loans, inadequate amount of credit sanctioned and the natural calamities like drought are some of the reasons for overdues. It was suggested that small and marginal farmers should be involved; the procedure of sanctioning loans should be simplified; and proper supervision on the end use of credit should be made. Supervision on the end use of credit should be made. Bhattacharjee (1998) observed that Primary Agricultural Cooperative Societies (PACSs) have failed to perform up to the expectations due to interference of the government in recovery of dues and other financial matters. The low viability of PACS is not due to their multipurpose operations but due to the imperfect and oligopolistic markets in which they operate. The revenue of PACS is generated through (i) input sales, (ii) credit disbursed, (iii) consumer goods distribution, (iv) produce marketing, (v) deposit mobilization, and (vi) industrial raw material distribution. A comparison of these portfolios provides that sale of consumer goods has the greatest highest impact followed by loan disbursement. Sale of inputs and share of loans have the highest profitability elasticity followed by sale of consumer goods and sale of inputs. It was suggested that cooperatives should concentrate on the credit portfolio among various outputs. It was also found that PACS have not exploited the potential for expansion and viability fully because of centralized and bureaucratic decision-making. Goyal et al. (2006) made an attempt to study the changes and regional variations in growth of Primary Agricultural Cooperative Societies (PACS) in Haryana. It was analysed that there is significant growth in share capital, owned funds, working capital and loan advance and membership. But the growth rate of overdues is very high. There are large scale variations in membership per society and loan advanced per society, proportion of profit making societies was more in the western region than the eastern region. The variables with regard to membership, overdues are increasing but with regard to loan advanced these are reducing. It was suggested that the societies should streamline the recovery drive to improve the viability of societies."

"History of Indian Agriculture Society: The establishment of the Society in December 1939 constituted a landmark in the progress in the study of agricultural economics in India . In its establishment a notable role was played by the late Lord L.K. Elmhirst, the founder-President of the International Conference (now Association) of Agricultural Economists and by Dr. T.G. Shirname. Among the distinguished persons who occupied the post of President of the Society in its formative years were the late Sir Malcolm Darling and Sir T. Vijayaraghavacharya. But it was left to Sir Manilal B. Nanavati to infuse it with a sense of purpose and direction. It was during his Presidentship covering a period of 17 years from 1943 to 1959 that the Society acquired its present status and stability. The Society is registered under the Societies Registration Act, 1860 and the Bombay Public Trusts Act, 1950."

Methodology

The article is based on the secondary data compiled from diverse sources. The data were compiled from reports published by the Department of Agriculture and Co-operation, Ministry of Agriculture, Government of India (GoI), Reports on Currency and

Finance, published by Reserve Bank of India (RBI) and various annual reports of National Bank for Agriculture and Rural Development (NABARD).

Role of Agriculture Finance

Agriculture plays a crucial role in the development of the Indian economy. It accounts for about 19 per cent of GDP and about two thirds of the population is dependent on this sector. Agricultural finance is a subset of rural finance dedicated to financing agricultural related activities such as input supply, production, distribution, wholesale, processing and marketing. Financial service providers face distinct challenges when dealing with this sector.

Status of Agriculture Finance

Credit in conjunction with modern agricultural technologies has ushered in the agricultural development across Indian regions. The liberal credit supply by the lending institutions enabled rapid infrastructural growth across and thereby improved the farm level credit absorption capacity. Although credit has played a vital role in agricultural development yet regional and farm-category wise disparity has also taken place. Infact, some of the states with better natural resource bases have progressed well while some others lagged far behind.

Likewise, some farmers with better resource endowments and access to financial and other institutions have marched faster while others could not do so. Furthermore, multiplicity of lending institutions together with the liberal deployment of credit through various ongoing schemes including micro-financing have saved rural dwellers from the clutches of money lenders. Yet, non-institutional credit agents still survive as they follow the canons of financing.

Classification of Finance

On the basis of time

Finance can be classified into three sub-categories:-

Short-Term

These loans are credited to for some recurring based expenses which are annual based. They are- seed, feed, fertilizers, hired labour expenses, pesticides, weedicides and hired machinery charges which are termed as seasonal loans/crop loans/production loans.

Generally payment is made after reaping of the cultivation.

Medium-Term (from 15 months up to 5 years)

These are credited for the creation of long run assets required in agriculture such as machinery, diesel engine, wells, irrigation structure, threshers, shelters, crushers, draught and milch animals, dairy/poultry sheds, etc., where the returns accruing from increase in farm assets is spread over more than one production period.

Long-Term (above 5 Years)

As the name suggests, it is credited for the longer period, say more than five years. These are credited for the long run assets which have produced productivity for years such as heavy machinery, land and its reclamation, erection of farm buildings, construction of permanent-drainage or irrigation systems, etc. which require large sums of money for initial investment. The benefits generated through such assets are spread over the entire life of the asset.

Classification based on Purpose

Loans can be taken for various purposes and thus can be classified on the basis of purpose of credit. Loans can have a relation time, rate of return or even profitability. They can be based on the purpose of production need or consumption need. Example of these banks giving home loans, Tractor financing etc.

Classification based on Security

Another way to distinguish between credit is from the lookout of security that is provided for obtaining loans. For loans that are of physical nature such as capital assets of some sort including house, land, livestocks etc.are called secured loans. Secured loans are considered more secure and easy for the banks. This reduces the chances of willful default on part of borrowers. In these loans the legal ownership of the mortgage shifts but only in case of default. In case of security that is not visible,legal rights of the asset financed remain with the lender and not with the borrower till the loan is repaid. The intangible loans are short term in nature and tangible loans are either medium or long term.

Classification on the basis of Lender

On basis lender credit could either be Institutional credit or Non-institutional credit.

Loans forwarded by government, Scheduled Commercial Banks (SCBs), or cooperative Banks (registered) fall under Institutional Credit. Whereas, loans provided by the local money lenders, agricultural trade union, trader, agents, friend and family fall under the category of non-institutional Credit.

Classification on the basis of Borrower

On the basis of the borrower, credit can be classified on the basis of either production, business or the size of the business. Examples of the classification are farmers, dairy, etc, or agricultural labour.

Source of Agricultural Finance

There are various sources for the financing of agriculture in the country. The varied range includes institutional credit, non institutional credit, cooperative societies, NGOs, and KCC.

First we would look for a brief explanation of the way and methods of the surrounding area.

Institutional Credit Agencies

Government

For the purpose of financing the agricultural activities, the government has been working towards providing farmers with credit facilities. These loans have no rigid timeframe like short of long term. The rate of interest is low and it is not a major source of agricultural finance.

Commercial Banks

Commercial means banks with the motive to earn interest on the credits given to farmers. Thus commercial banks are involved in lending to farmers in return to earn interest on the amount. These commercial banks include both the scheduled as well as non-scheduled banks. There are various major classification of commercial banks: SBI, Nationalised Banks, RRBs, Foreign Banks, NBFCs, other SCBs

Cooperative Societies

These societies are created for the very specific purpose of fulfilling the requirements of the group generally farmers or traders. They create these groups and sometimes get themselves registered. Thereafter can be eligible for loan from various sources.

Micro Financing

It is a form of lending in which microloans are given to the poor. Microfinance has seen a surge in the end of demand of such loans and thus gaining acceptance and helping if someone is there. The SHG-BLP program has been believed to be the largest gathering.

Regional Rural Banks (RRBs)

RRBs were started with recommendation of a Committee which said that there is a need of the specialized institution to provide loans for the agriculture to farmers. Thus RRB were created. The purpose of these RRbs is to provide credit and saving facilities in rural parts of the country.

Non-institutional Credit Agencies

Money Lenders

They are among the oldest sources of agricultural financing in the whole world. Money lenders are present in the rural area where those in need of urgent cash go to and put some mortgage and take credit usually on very high interest rates. Government for this very reason discourages people to take credit from money lenders but still due to lack of formal credit availability there exists a system of local money lenders.

Traders

Traders advance loans to agriculturists for productive purposes against their crop without completing legal formalities. Sometimes it becomes necessary for the others to feel that right. They also provide loans in the form of advances for the seeds bought till the harvest completes.

Landlord

Mostly small farmers and tenants depend on landlords for meeting their production and day to day financial requirements.

Commission Agents

They are agents who work in different settings as compared to traders but do rather similar work. Traders generally offer advances where as commission agents give out credit in return charge commission for the mediating or handling work on behalf of farmers in getting loan.

Cooperative Credit Organisation

Cooperatives as a concept go way back to the early 1900s where it started. After independence it was formalised. These organisation play vital role for the farmer as a source of credit. These cooperative organisations or societies work as credit providers for distribution channels along with allied farming activities for the farmer. These cooperative organisations also specialise its credit activity to one or few aspects as giving loans for purchase of fertilizers and pesticides only. Or sometimes keep it general which would provide for various needs that may arise including for the non-farming needs of the farmers. Distribution credit is also an aspect in which lending is done for the channel which deals in farming related goods. There are various levels at which these cooperatives work. Following are the level based on the working area of these cooperative organisations:-

a. Primary Agricultural Cooperative Societies (PACS)
b. District Central Cooperative Banks (DCCBs)
c. State Cooperative Bank (SCB)

Regional Rural Banks

RRBs (Regional Rural Banks) fall in agricultural financing's multi agency system of the country. It is an integral part to meet the end to end connection with farmers of rural areas of the country. RRBs are formed with the contribution of the State government's sponsor, Commercial banks working/based in rural areas. RRBs need arises due to the very fact that the government has failed to reach rural people who are still out of the formal financial system] of the country. RRBs came as a solution to many problems faced by the rural people in connecting to the traditional banking structure but over the course of time RRBs mounting NPAs and work culture in these RRBs made many of them to be merged to be made viable option to continue working and it was further suggested by the committee formed to look into RRBs to either further merge them or discontinue the non viable RRBs. This came as a wake up call that there is a need to overhaul the model and make them operable.

Non Governmental Organisations (NGOs)

A Non-Governmental Organisation (NGO) is a voluntary organization established to undertake social intermediation like organizing SHGs of micro entrepreneurs and entrusting them to banks for credit linkage or financial intermediation like borrowing bulk funds from banks for on-lending to SHGs. The microfinance sector has emerged from the efforts of Non-Governmental Organisations (NGOs), and as a response to the failure of existing structures to deliver financial services to the poor. The efforts by NGOs have emerged from grassroots and represent diversity.

Kisan Credit Card Scheme

The Kisan Credit Card (KCC) is a credit delivery mechanism to meet the credit requirement of the farmers during various production stages in a timely and easy manner. It has been implemented in the entire economy by using a vast network involving Commercial banks (both public and private), Regional Rural Banks (RRBs) and Cooperative banks, which has received acceptability by both banks and farmers. KCC can be seen as a simple Card- cum- Passbook. Paper looked at the number of the KCC operators region-wise. There is a limit set upto which farmers can withdraw the money. Within that limit there is no limit on the number of transactions that farmers carry out. The limit of KCC is set with certain calculations based on different aspects of production and cost occurred in that production. In order to assess and fix the limit of a farmer, the annual total production credit needs include other auxiliary activities in relation to crop production.

Conclusion

The importance of Agricultural Financing in the country can not be just measured in terms of data. There is clear evidence present in the rural parts of the country that there are not enough sources present in their proximity to avail such services and products. Even when farmers visit these sources, they are disappointed as they need so much documentation which makes it more and more typical to further add to the misery of the farmers. Agricultural credit has played a vital role in supporting agricultural production in India.

The Green Revolution characterised by a greater use of inputs like fertilizers, seeds and other inputs, increased credit requirements which were provided by the agricultural financial institutions. Though the outreach and the amount of agricultural credit have increased over the years, several weaknesses have crept in which have affected the viability and sustainability of these institutions.

The paper has given the basic understanding of the classification and sources which contribute to the Agricultural Financing to the farmers for agriculture and allied activities. The scope of providing loans is extended to traders, and those institutions which are dealing with farm products and tools of cultivation beyond the farmers only.

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