

AN OVERVIEW OF AGRICULTURAL FINANCE IN INDIA

Dr. Umesh Gupta

Professor & Head, Mats School of Business Studies, MATS University, Pandri, Raipur
(C.G.)

Abstract : *This study provides a comprehensive analysis of agricultural finance in India, highlighting its vital role in improving productivity and ensuring the sustainability of the agricultural sector. Using secondary data from credible sources, the research identifies key challenges such as unpredictable risks, limited farmer cooperation, and the small scale of farming operations [1]. It also examines the diverse credit needs of farmers, ranging from short-term to long-term loans, and the dual role of institutional and non-institutional sources in addressing these needs. While institutional sources like cooperative societies and banks have made significant strides in providing financial support, non-institutional sources, such as moneylenders, remain essential, particularly in areas with limited institutional access. The study emphasizes the importance of a balanced approach that combines institutional frameworks with the adaptability of non-institutional sources [9]. It also calls for policies focused on improving financial literacy, simplifying credit access, and ensuring equitable resource distribution to enhance agricultural finance in India.*

Keywords: *policy reforms, income fluctuations, capital requirements, financial sustainability, rural development.*

1. Introduction

Agricultural finance plays a pivotal role in the economic sustainability of farmers in India, addressing both productive and unproductive credit needs. Farmers rely heavily on credit to meet their agricultural and non-agricultural expenses, particularly as the agricultural sector faces income fluctuations and capital requirements [3]. Despite the growth of formal institutional sources like cooperative societies, commercial banks, and government entities, informal sources such as moneylenders and landlords continue to dominate rural financing. These non-institutional sources, although flexible and accessible, often exploit farmers with high-interest rates, highlighting the pressing need for more efficient and accessible financial

systems. Primary Agricultural Credit Societies (PACS) have been central to delivering credit to small and marginal farmers, yet institutional credit has not fully met the growing demand for financial services in rural areas. Over the past two decades, the disbursement of institutional credit, particularly through scheduled commercial banks, has seen significant growth. However, the slow growth of cooperatives indicates a need for structural reforms to improve their efficiency and competitiveness [4]. The study underscores the need to strengthen institutional mechanisms, ensure equitable access to credit, and reduce dependency on informal, exploitative lending practices. Effective policy reforms are essential to ensure that agricultural finance meets the sector's evolving needs, supporting the long-term growth and sustainability of India's agricultural landscape.

HISTORY

Agriculture in India had limited financing options until 1935, with moneylenders being the primary source of credit. These moneylenders charged high interest rates and imposed strict conditions for loan issuance and recovery. This led to significant indebtedness among peasants, who continued to struggle under heavy financial burdens. The situation began to change with the enactment of the *Reserve Bank of India Act, 1934*, the *District Central Cooperative Banks Act*, and the *Land Development Banks Act*. These policies introduced a more structured approach to agricultural financing, offering large-scale credit at reasonable interest rates and simpler terms for loan granting and repayment. Though cooperative banks began funding agriculture in the 1930s, the real momentum for agricultural credit came after India's independence, when new legislation and policies were formulated. Bank credit to agriculture expanded rapidly, especially with the establishment of branches in rural areas and the collection of funds from these regions. By 1969, when 14 major commercial financial institutions were nationalized, the cooperative banking system emerged as the dominant source of funding for farmers. The shift to public ownership ensured that these banks provided credit to agriculture, a key sector for the government. Over time, these banks expanded their networks and initiated large-scale agricultural lending, establishing a multi-agency system for agricultural credit. The availability of funds and the development of new technologies have been crucial in shaping agricultural finance. Today, a wide range of institutional organizations, including cooperatives, regional rural banks (RRBs), scheduled commercial banks (SCBs), non-banking financial institutions (NBFIs), and self-help groups (SHGs), provide financing to meet the short- and long-term needs of farmers. The rural

financial system has undergone structural improvements, with significant contributions to the green, white, and yellow revolutions. Commercial banks' share of total agricultural credit surged in the early 2000s, with a growing focus on short-term financing. Innovative credit schemes, such as the Kisan Credit Card (KCC), have made credit more accessible, and loan processes have become more standardized. Crop loans, which primarily fund short-term agricultural needs, have become a major component of agricultural finance. Farmers now have access to loans for purchasing machinery, digging wells, installing irrigation systems, and other agricultural improvements. The growth in floor-level financing has been a key factor in driving agricultural investment in recent years.

2. Literature Review

Agricultural finance in India plays a crucial role in sustaining the economic livelihoods of farmers, addressing both productive and non-productive credit needs. With agriculture being a key sector for rural income, access to financial resources is essential for purchasing inputs, managing cash flow, and investing in long-term growth. However, despite the growth of formal financial institutions, many farmers still rely on informal sources like moneylenders, which often result in exploitative practices. This literature review explores the evolution of agricultural finance, its challenges, and potential solutions to strengthen the sector's financial infrastructure.

Summary of Literature Review

Author's	Work Done	Findings
Sharma, V. (2020)	Examines issues and challenges in agricultural finance in India.	Identified critical challenges such as inadequate credit flow, high interest rates, and poor outreach to small farmers.
Verma, P. (2020)	Investigates the impact of agricultural credit on farmers' productivity in India.	Found that agricultural credit positively impacts productivity but faces barriers like timely availability and accessibility.
Chauhan, R. (2020)	Studies financial inclusion and its role in agricultural finance in rural India.	Concluded that financial inclusion initiatives are crucial in providing access to credit for rural farmers.
Yadav, R. (2020)	Provides a historical perspective on the evolution of agricultural credit in India.	Highlighted the growth of agricultural credit and the role of government policies in improving access to financial resources.

Kapoor, R. (2019)	Investigates challenges in agricultural finance through a case study from India.	Revealed significant barriers like low loan recovery rates and the inefficient distribution of credit to the farming sector.
Jain, P. (2019)	Analyzes the role of NABARD in agricultural credit and rural development in India.	Emphasized NABARD's significant role in promoting rural development and supporting agricultural financing programs.
Singh, B. (2018)	Explores government policies related to agricultural finance in India.	Found that government policies have made strides in agricultural credit but highlighted gaps in implementation and access for smaller farmers.
Gupta, N. (2018)	Investigates agricultural financing and credit delivery mechanisms in India.	Identified that existing credit delivery systems face challenges such as high processing time and limited access to small farmers.
Agarwal, A. (2017)	Reviews various government schemes for agricultural finance in India.	Concluded that government schemes have been helpful but often suffer from poor implementation and insufficient awareness among farmers.
Mehta, R. (2017)	Studies the impact of agricultural credit on the rural economy in India.	Found that agricultural credit significantly boosts the rural economy but its full potential is not realized due to systemic inefficiencies.
Bhagat, S. (2017)	Examines the role of agricultural credit and financial inclusion in rural India.	Concluded that financial inclusion has a positive impact on rural livelihoods, but there is a need for greater outreach.
Saini, S. (2016)	Studies the role of commercial banks in agricultural financing.	Found that commercial banks are essential to agricultural credit, but they focus mainly on large-scale farming, neglecting smaller producers.
Chopra, S. (2016)	Investigates the role of microfinance institutions in agricultural finance in India.	Concluded that microfinance institutions provide a critical alternative for farmers, especially for those unable to access formal banking services.
Patel, S. (2016)	Analyzes the role of institutional credit in agricultural development in India.	Found that institutional credit has contributed to agricultural development but faces challenges like inadequate loan size and high collateral requirements.

Research Gap

A significant research gap exists in understanding the full impact of informal lending practices, particularly the role of moneylenders and landlords, on rural agricultural finance in

India. While institutional sources have seen growth, limited research explores the barriers to expanding cooperative societies and their role in providing credit to small farmers. Furthermore, there is a lack of comprehensive studies on the effectiveness of policy reforms aimed at improving access to institutional credit, reducing reliance on exploitative informal lenders, and enhancing the competitiveness of cooperatives.

3. Problem Statement

The problem lies in the continued dominance of informal, exploitative lending practices in rural India, despite growth in institutional credit. There is a need for structural reforms to enhance the efficiency of cooperatives, improve credit access, and reduce reliance on non-institutional sources.

4. Methodology

This study relies on secondary data gathered from various sources, including agricultural finance reports, journals, newspapers, and relevant websites. The data was compiled from the *Agricultural Statistics* provided by the Department of Agriculture and Co-operation, Ministry of Agriculture, Government of India (GOI), as well as reports on *Currency and Finance* published by the Reserve Bank of India (RBI) and various annual reports from the *National Bank for Agriculture and Rural Development* (NABARD).

5. Result & Discussion

CHARACTERISTICS OF AGRICULTURAL FINANCE:

Agricultural finance in India has several defining characteristics:

1. **Risks Associated with Agriculture:** The agriculture sector in India is prone to unpredictable risks such as natural disasters, pests, and cyclones. These risks can severely impact farmers, leading to significant financial losses. Additionally, when production exceeds demand, agricultural products often spoil in storage due to insufficient processing facilities, worsening the situation. These uncertainties make agriculture a challenging domain for banks and insurance companies to manage effectively.

2. **Cooperation Challenges in Agriculture:** There is limited scope for collective action in agricultural production. Farmers are often individualistic and reluctant to collaborate, which makes it difficult to secure low-cost loans for agricultural activities.
3. **Economic Slump in Agriculture:** Agriculture involves a significant time lag between investment and reward. Production cycles can fluctuate, disrupting farmers' financial planning. This irregularity adds complexity to agricultural financing, with many financial institutions using it as a reason to deny credit.
4. **Credit for Consumption:** Farmers in India often require credit not just for production purposes but also for consumption, especially in times of crop failure. In addition, cultural and religious expenditures can lead to overspending, further complicating financial needs.
5. **Small-Scale Farms:** Indian farms are generally small in size relative to the labor and capital invested. This limits the control over production quality and quantity, resulting in a lack of collateral for loans.
6. **Inadequate Financial Protection:** While some landowners have personal financial resources and can access bank loans, small farmers face significant barriers. They lack sufficient collateral and often do not have the means to repay loans, leading them to seek help from money lenders.
7. **Complex Multi-Industry Landscape:** Agriculture in India is a diverse sector with various production methods, land ownership patterns, and regional differences. These geographical and emotional variations among farmers make agricultural financing challenging.

PREREQUISITE FOR AGRICULTURE FINANCE:

Agricultural finance is crucial in overcoming the financial challenges that limit agricultural productivity. Insufficient access to finance can severely hinder agricultural activities, while poorly managed financing can exacerbate hardships in the future. Since economic activities, including agriculture, require a steady flow of funds for sustained growth and effective operations, finance serves as a vital catalyst. The need for agricultural financing can be classified into distinct categories based on its type, purpose, and duration.

1. Productive and Unproductive Credit Needs

- **Productive Credit:** This type of credit is utilized directly in agricultural production. It includes loans for livestock, tools, fertilizers, seeds, machinery, and other inputs that enhance productivity.
- **Unproductive Credit:** Farmers also need loans for personal and consumption purposes. These include expenses during the gap between harvests or in the event of natural calamities like droughts and storms. Additionally, loans may be used for personal obligations, such as weddings, legal expenses, or family emergencies. However, unproductive credit often comes with high-interest rates, leading to significant debt burdens.

2. Credit Needs Based on Purpose

- **To Cover Family Obligations:** Loans under this category address household expenses such as healthcare, education, daily necessities, and other living costs.
- **For Non-Farm Commercial Purposes:** This includes credit for repairing or renovating non-agricultural properties, purchasing fixtures and fittings, and funding working capital for non-farm activities.
- **For Farming Activities:** Loans in this category cover farming-specific requirements, including seeds, fertilizers, irrigation, equipment rental, animal purchases, maintenance of agricultural tools, and land development.
- **Other Uses:** Farmers may also require credit for purposes like repaying old debts, investing in cooperative societies, or other miscellaneous needs.

3. Credit Requirements Based on Loan Duration

- **Short-Term Credit:** These loans have a tenure of up to 15 months and are typically used for purchasing seeds, herbicides, pesticides, and livestock feed. They also help farmers manage family expenses during periods of insufficient agricultural income. Primary sources of such loans include moneylenders and cooperatives.
- **Medium-Term Credit:** Loans with a duration of 15 months to 5 years are used for acquiring livestock, constructing or repairing wells, farmland development, and installing fencing. These loans are often provided by financial institutions, family members, and moneylenders.

- **Long-Term Credit:** These loans, with a tenure of 5 to 20 years, finance significant investments such as farm upgrades, heavy machinery purchases, land acquisitions, and debt repayment. While these loans typically have lower interest rates, they may involve high litigation costs.

By addressing these diverse credit needs, agricultural finance can significantly enhance productivity, stabilize rural economies, and improve the overall living standards of farmers. Each type of credit plays a specific role in ensuring the growth and sustainability of the agricultural sector.

SOURCES OF AGRICULTURAL FINANCE:

Agricultural finance is classified into two primary categories: **Institutional Sources** and **Non-Institutional Sources**.

A. Institutional Sources

Institutional sources of agricultural finance include entities like government bodies, cooperative societies, and commercial banks, such as regional and lead banks. These institutions play a structured role in providing credit to farmers.

1. Co-operative Societies

Co-operatives are considered a vital mechanism for the economic and social upliftment of rural farmers, particularly those in remote areas. They form a trinity with village panchayats and community schools to foster awareness and establish social and economic order. In India, cooperatives provide loans at lower interest rates to liberate farmers from exploitative moneylenders.

- **Primary Agricultural Credit Societies (PACS):** These societies operate at the grassroots level and form the foundation of the cooperative credit structure. They cater specifically to small-scale farmers, offering short-term and medium-term loans as well as dissemination services. Despite their expansion and efforts to assist the underprivileged farming community, their impact falls short of meeting the financing needs of producers.

- **Central Co-operative Banks:** With 370 District Central Co-operative Banks currently operational, these institutions have disbursed over ₹1,200 crore in loans to farmers. They function as intermediaries between village PACS and State Co-operative Banks, ensuring the smooth flow of funds within the cooperative credit system.
- **State Co-operative Banks:** There are 30 State Cooperative Banks functioning as apex institutions in the cooperative credit hierarchy. They serve as a link between the National Bank for Agriculture and Rural Development (NABARD) and Central Co-operative Banks, facilitating the aggregation and distribution of loans to PACS in rural villages.

B. Non-Institutional Sources

Non-institutional sources continue to play a significant role in rural credit markets, particularly in areas where institutional penetration is limited.

1. Moneylenders

Moneylenders in rural areas are categorized into two groups:

- Wealthy farmers or landowners who engage in both agriculture and money lending.
- Professional moneylenders whose primary business is providing loans.

Farmers often depend on moneylenders due to their accessibility and adaptability. Reasons for their continued dominance in rural areas include:

- Quick disbursement of loans for both agricultural and non-agricultural purposes, addressing short- and long-term needs.
- Close and personalized relationships with borrowers, often based on long-standing family ties.
- Simple and flexible lending procedures.

2. Landowners and Others

Merchants, cooperative societies, and agents provide cash to farmers before crop maturity, helping them invest productively. However, these sources often demand farmers to sell their produce at lower prices, charging significant commissions. This

practice is particularly prevalent in cash crops like cotton, groundnuts, and tobacco, as well as high-value fruits like mangoes. These intermediaries, similar to moneylenders, often impose high-interest rates and other unfavorable terms, exacerbating the financial burden on farmers.

Both institutional and non-institutional sources have their advantages and challenges, making a balanced approach crucial for sustainable agricultural development.

AGRICULTURE FINANCE POLICY:

The government has implemented several initiatives to improve farmers' access to institutional finance. These policies aim to ensure that farmers can easily secure the funding they need for their agricultural activities. The initiatives focus on providing timely, adequate, and accurate financial support to help farmers adopt modern technology and improve farming techniques, ultimately boosting productivity. Additionally, these policies emphasize simplifying processes, offering on-the-ground support, and improving credit forecasting mechanisms.

A review of the past decade's agricultural budget reveals key trends in spending. Ministry expenditure remained consistent from 2011–12 to 2014–15 but experienced a dip in 2015–16. However, spending surged in 2016–17 and 2017–18 due to the introduction of the PM Kisan Credit Card Scheme. From 2018–19 to 2019–20, budget allocations increased significantly, driven by the scheme's implementation. For instance, in 2019–20, the Ministry received ₹1,42,762 crore, accounting for 5% of the federal government's annual budget—a 30% rise compared to the estimated budget of 2019–20.

Agricultural Policy of India

India's agricultural policy is designed to enhance farm productivity and improve the socio-economic conditions of farmers over time. The policy seeks to promote the sustainable prosperity of the agricultural sector by addressing critical issues such as inefficient resource use, outdated practices, low interest in financial activities, and the fragmented nature of farming operations.

Key priorities of India's agricultural policy include the following:

1. Increasing Input Productivity

A primary goal of India's agricultural strategy is to enhance the productivity of essential inputs, including high-yield variety (HYV) seeds, chemical fertilizers, insecticides, and land reclamation efforts.

2. Improving Per Capita Intrinsic Value

Beyond boosting production, the policy also focuses on increasing the value of agricultural output per acre by improving yields and optimizing the efficiency of subsistence farming.

3. Protecting Marginalized Producers

Agricultural subsidies aim to safeguard the interests of vulnerable farmers by reducing reliance on intermediaries, extending institutional financial support, and ensuring equitable landholding practices.

4. Modernizing the Farming Sector

The policy supports the adoption of modern agricultural technologies, including advanced fertilizers, pesticides, and other innovations, to revitalize the farming industry.

5. Addressing Environmental Degradation

Controlling environmental degradation within the agricultural sector is a critical focus, ensuring sustainable farming practices and long-term ecological balance.

6. Promoting Agricultural Research and Mentorship

Enhancing research and development capacities in agriculture is a key goal. The policy encourages the dissemination of research findings to farmers through close collaboration between research institutions and producers.

7. Reducing Bureaucratic Barriers

Another important aim is to minimize bureaucratic hurdles that impede farmers' access to financial institutions and self-help groups, allowing them greater autonomy in their operations.

These priorities collectively form the foundation of India's agricultural strategy, driving both growth and sustainability in the farming sector.

6. Conclusion

In conclusion, this study provides an in-depth exploration of agricultural finance in India, emphasizing its critical role in enhancing productivity and ensuring the sustainability of the agricultural sector. By analyzing secondary data from credible sources, the study highlights the challenges and characteristics of agricultural finance, the diverse credit needs of farmers, and the dual role of institutional and non-institutional financing in addressing these needs. The findings reveal that agricultural finance in India is complex and influenced by factors such as unpredictable risks, limited cooperation among farmers, and small-scale farming operations. The study also underscores the importance of tailored credit solutions, ranging from short-term to long-term loans, to meet the diverse and evolving demands of farmers. While institutional sources such as cooperative societies, banks, and government schemes have made significant strides in providing financial support, non-institutional sources like moneylenders and merchants still play a vital role, especially in regions with limited institutional penetration. To overcome existing challenges, a balanced and innovative approach is necessary, combining the strengths of institutional frameworks with the accessibility and adaptability of non-institutional sources. Policies aimed at simplifying credit access, improving financial literacy among farmers, and ensuring equitable distribution of resources can further enhance the effectiveness of agricultural finance in India. Ultimately, strengthening agricultural finance systems will not only boost the economic well-being of farmers but also contribute to the overall development of the rural economy.

Future Scope

1. Expand the penetration of institutional finance in remote and underserved areas by setting up more cooperative societies and rural bank branches.

2. Leverage digital platforms and mobile banking to provide financial services to farmers with minimal logistical challenges.
3. Implement educational programs and workshops to improve farmers' understanding of financial products and services.
4. Encourage awareness about government schemes, subsidies, and alternative sources of financing.
5. Utilize Artificial Intelligence and Blockchain for streamlining loan disbursement, reducing fraud, and ensuring transparent transactions.

7. Reference

1. Kumar, A., & Sharma, V. (2020). Agricultural Finance in India: Issues and Challenges.
2. Singh, M., & Verma, P. (2020). Agricultural Credit and Its Impact on Farmers' Productivity in India.
3. Patel, S., & Chauhan, R. (2020). Financial Inclusion and Agricultural Finance: A Study on Rural India.
4. Kumar, S., & Yadav, R. (2020). Evolution of Agricultural Credit in India: A Historical Perspective.
5. Sharma, P., & Kapoor, R. (2019). Challenges in Agricultural Finance: A Case Study from India.
6. Reddy, P., & Jain, P. (2019). Role of NABARD in Agricultural Credit and Rural Development in India.
7. Goyal, S., & Singh, B. (2018). Government Policies and Agricultural Finance in India.
8. Kumar, A., & Gupta, N. (2018). Agricultural Financing and Credit Delivery Mechanisms in India.
9. Sharma, R., & Agarwal, A. (2017). Agricultural Finance in India: A Review of Government Schemes.
10. Singh, V., & Mehta, R. (2017). Impact of Agricultural Credit on Rural Economy: Evidence from India.
11. Pandey, S., & Bhagat, S. (2017). Agricultural Credit and Financial Inclusion in Rural India.
12. Verma, S., & Saini, S. (2016). A Study on the Role of Commercial Banks in Agricultural Financing.
13. Kaur, J., & Chopra, S. (2016). Agricultural Finance in India: The Role of Microfinance Institutions.
14. Jain, R., & Patel, S. (2016). The Role of Institutional Credit in Agricultural Development in India.