

CHAPTER - TWO

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ROLE OF AGRICULTURAL FINANCE
IN AN AGRICULTURAL DEVELOPMENT
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:: CHAPTER - II ::

"ROLE OF AGRICULTURAL FINANCE IN AN AGRICULTURAL DEVELOPMENT"

2.1 SIGNIFICANT ROLE OF AGRICULTURAL FINANCE IN INDIA :

Eight out of every ten Indians draw their livelihood from agriculture directly or indirectly. A little less than one-half of our national income is generated in this field of economic activity. It is a source of raw materials for a significant segment of our industrial structure, and it plays an important role in the structural pattern of our exports. Further agriculture affords the main sustenance to our transport system, generates the purchasing power for our consumers goods industries, and even the finances of the Government, particularly the State Governments are largely dependent upon the state of agricultural activity. Agriculture in India forms therefore the back-bone of its economy.

A strong agricultural base is an essential requirement for the economic development of the country. The agricultural revolution that is taking place in the country on account of the application of science and technology to the agriculture has thrown open new horizons of business enterprise for commercial banks and other financial institutions closely connected with agricultural finance.

The rapid development of agriculture and allied activities, with the effective incorporation of modern science and technology, forms the basis of development. This agriculture is capital-

intensive and farmers require capital for farm machinery, fertilisers, seed, pesticides etc. The more highly developed the agriculture, the greater the amount of credit required, and generally the greater the role of credit agencies in supplying credit.

The All India Rural Credit Survey Committee observed that during 1951-1952, there were only two important sources of rural credit, ^{the moneylenders and} the borrowers' relatives. The sources and the percentage share of each source is given in the following pie chart.

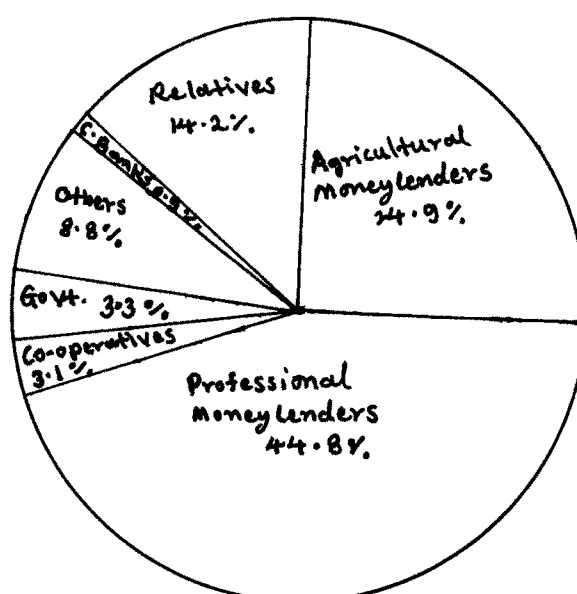


Fig. 2.1 Credit Agencies in the 50s.

During the 50s (fifties) the share of the non-institutional credit was 92.7%, Government 3.3% and institutional credit 4% in total agricultural finance. Non-institutional sector consists relatives, agriculturists, professional moneylenders and others

while institutional sector consists Co-operatives and commercial banks. However, the share of the non-institutional sector in the total borrowings of farmers has recorded a decline from more than 85% in the 1961-1962, 75% in 1971-1972 and to about 60% in 1981-1982.¹

In the seventies, both co-operative and commercial banks have recorded a significant progress. During the seventies commercial banks have given a good account of themselves, both in the field of extension of banking facilities in rural areas and increasing the volume of credit to agriculture. The share of rural offices in the total number of bank offices in the country more than doubled-from 22.2% at the end of June 1969 to 51.2% at the end of December 1981. The share of direct agricultural advances in the total advances of public sector banks, which stood at barely 1.3% at the end of June 1969, shot up to 14% at the end of March 1982.²

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1. Desai Vasant "Issues in Agriculture and Forestry" Himalaya Publishing House, Bombay 1984 P. 210.
 2. Ibid. P. 219.

2.2 PERFORMANCE OF AGRICULTURAL FINANCE IN INDIA.

Agricultural Finance by main agencies during 1951-1952 and 1984-1985 is given in Table No. 2.1

TABLE NO. 2.1

AGRICULTURAL FINANCE BY MAIN AGENCIES DURING 1951-1952³ and 1984-1985⁴

Credit Agency	Proportion in the borrowings (%)	
	1951-1952	1984-1985
1. Government	3.3	3
2. Co-operatives	3.1	25
3. Commercial Banks	0.9	12
4. Relatives	14.2	60
5. Agriculturist money lenders	24.9	
6. Professional money lenders	44.8	
7. Others	8.8	
Total	100.0	100

From the table No. 2.1 it is clear that the relatives, money lenders and others accounted for 92.7% of the total credit during 1951-52 which falls down upto 60% during 1984-85. The Government, Cooperatives and Commercial banks accounted for 3.3%, 3.1 and 0.9% respectively during 1951-52. The share of, Government decreased upto 3% and the share of Cooperatives and Commercial Banks increased upto 25% and 12% respectively in 1984-1985.

3. Source : All India Rural Credit Survey Committee 1951-1952.

4. Source : Padmanabhan K.P. "Rural Financial Intermediation"
Subhada Sarswat Pub., 1986 P. 49.

INSTITUTIONAL FINANCE FOR AGRICULTURE :

At present, cooperative banks commercial banks, regional rural banks and Government Departments provide short-term, medium-term and long-term finance to agriculture. Indirect short-term finance is offered by state Cooperative Banks and Commercial banks. Medium term and long-term indirect finance is given by scheduled commercial banks and the Rural Electrification Corporation Ltd.

The Cooperative Credit sector had its beginning in the first decade of this country. The performance of agricultural Co-operative societies has been erratic, though in some states they have done very well.

Commercial banks entered ⁱⁿ the field of agricultural lending much later with the introduction of social control of banks in 1968. Following the nationalisation of major commercial banks in July 1969, they have pursued their efforts in agricultural lending with vigorous enthusiasm.

In the seventies, both Cooperative and commercial banks have recorded a significant progress. It has been reported that the share of the Cooperatives as a source of cultivators' borrowings has almost doubled. Considerable progress has been made in territorial coverage as well. In 1951-52, the loans (short-term and medium-term) of primary credit societies amounted to only Rs. 23 crores. In 1971-1972 the figure had risen to Rs. 613 crores. By 1975-1976, the figure

crossed Rs. 1,000 crores. At the end of June 1979, the P
societies' advances to agriculture stood at Rs. 1,349 cro
5.16 crore farmers and 36% of the villages.⁵

5. Desai Vasant "Issues In Agriculture And Forestry"
Publishing House, Bombay, 1984. P. 215.

TABLE NO.2.2

INSTITUTIONAL FINANCE FOR AGRICULTURAL DEVELOPMENT 1972 to 1980⁶ (Rs. in crores)

	Loans Outstanding As on 30th June	% to Total 1980	Growth rate (%) between 1972 to 1980
	1972	1980	
1	2	3	4
2	3	4	5
A. DIRECT FINANCE (1 + 2)			
1. Short-term (a to d)	1865.4	6213.0	73.4
a) Primary Agricultural Credit Societies	803.3	2650.0	31.3
b) Government Department Loans	696.0	1625.0	19.2
c) Scheduled Commercial Banks and			
d) Regional Rural Banks	107.3	1025.0	12.1
			32.5
2. Medium-term/Long-term (a to c)	1062.1	3563.0	42.1
a) Primary Agricultural Credit Societies	162.3	639.0	7.6
b) Land Development Banks	739.4	1494.0	17.6
c) Scheduled Commercial Banks	160.4	1430.0	16.9
			31.5
B. INDIRECT FINANCE (1 + 2)			
1. Short-term (a to c)	369.2	2251.0	26.6
a) State Cooperative Banks	200.2	939.0	11.1
b) Central Cooperative Banks	75.9	267.0	3.2
c) Scheduled Commercial Banks	59.2	417.0	4.9
	65.1	255.0	3.0
			25.4
			21.3
			17.0
			27.6
			18.6

that the

This table shows/Institutional Finance For Agricultural Development in the years 1972 to 1980

Table No. 2.2 (Contd.....)

	1	2	3	4	5
2. Medium term/Long term (a + b)		169.0	1312.0	15.5	29.1
a) Scheduled Commercial Banks		107.2	532.0	6.3	22.1
b) Rural Electrification Corporation Ltd.		61.8	780.0	9.2	36.7
<u>TOTAL FINANCE (A + B)</u>		2234.6	8464.0	100.0	18.1
Percentage increase in each Year.		-	21.7	-	-

6. Source : Reserve Bank of India, Report on Currency and Finance 1979-1980, Vol.I, Bombay, 1980 and Previous issues.
- Quoted in Desai Vasant "Issues In Agriculture and Forestry" Himalaya Publishing House; Bombay, 1984, P. 213.

INSTITUTIONAL DIRECT FINANCE FOR AGRICULTURE :

Data on direct finance to the agricultural sector actually disbursed during 1980-1981 by co-operatives, scheduled commercial banks, Regional Rural Bank and State Governments are placed at Rs. 3511 crores, recording a rise of Rs. 569 crores or 19.3% in 1980-81 over the disbursements of Rs. 2942 crores during 1979-1980. Institution-wise, the lead was maintained by co-operatives at Rs. 1912 crores and their share was 54.4% in the total disbursements, followed by commercial banks (Rs. 1,435 crores or 40.8%). In the case of co-operatives, short-term loans continued to form above 70% of their total disbursements. The share of medium-term loans disbursed by commercial banks in their total disbursements which had declined marginally from 50.0% in 1976-1977 to 49.3% in 1977-1978, registered a steady rise to 57.4% in 1980-1981. The aggregate level of outstanding of all institutional agencies as on June 30, 1981 stood at Rs. 7,560 crores, showing a rise of Rs. 1,220 crores (19.3%) over the level a year ago. Of the total outstandings of Rs. 7,531 crores, the share of co-operatives and commercial banks are estimated at Rs. 4,214 crores (55.7%) and Rs. 3060 crores (40.5%) respectively as against Rs. 3,830 crores (60.4%) and Rs. 2,341 crores (36.9%) respectively, at end-June 1980.⁷

7. Desai Vasant "Issues In Agriculture And Forestry" Himalaya Publishing House, Bombay, 1984, PP. 217,218.

INSTITUTIONAL INDIRECT FINANCE FOR AGRICULTURE :

During 1980-1981, the aggregate indirect finance disbursed by cooperatives (State Cooperative Banks and Central Cooperative Banks) Commercial Banks, Regional Rural Banks and the Rural Electrification Corporation Ltd. has been placed at Rs. 889 crores. At Rs. 706 crores, short-term loans by Scheduled Commercial Banks and Central Cooperative Banks continued to account for major share in disbursements during 1980-1981, as during 1979-1980, though their share was marginally lower at 79.4% as compared to 79.9%. Total estimated indirect advances outstanding as at the end of June 1981 at Rs. 2,554 crores registered a rise of Rs. 470 crores (22.6%) over the year. Of this, the share of commercial banks was Rs. 996 crores (39%), that of the Rural Electrification Corporation Ltd, Rs. 932 crores (36.5%), Cooperatives Rs. 610 crores (23.9%) and Regional Rural Banks Rs. 16 crores (0.6%).⁸

The improved performance of the cooperatives in financing agriculture is due to Reserve Bank of India. Reserve Bank of India sanctioned Rs. 1,148 crores to the cooperatives during the year 1980-1981 for financing agricultural operations.⁹

National Bank for Agriculture and Rural Development (NABARD) is an organisational device for providing undivided attention, force full direction and pointed focus to the credit problems arising out

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8. Desai Vasant. "Issues In Agriculture And Forestry" Himalaya Publishing House, Bombay 1984, P. 218.
 9. Desai Vasant "Issues in Agriculture and Forestry" Himalaya Publishing House, Bombay 1984 P. 215.

of integrated approach to rural development. At the end of June 1980, National Bank for Agriculture and Rural Development had adopted 101725 villages and financed 30.8 lakhs accounts involving an amount of Rs. 731 crores.¹⁰

Agricultural Refinance Development Corporation has been playing an active role in promoting viable investments in agriculture and allied activities. Since its inception till end June, 1981, the Agricultural Refinance Development corporation's Commitments aggregated to Rs. 3860 crores, covering, 16,574 schemes and disbursements amounted to Rs. 2,223 crores. With intensive efforts made by the Agricultural Refinance Development corporation, the share of small farmers in Agricultural Refinance Development corporation disbursements increased from 35% in 1975-1976 to Rs 60% in 1980-1981.¹¹

2.3 PROBLEMS OF AGRICULTURAL FINANCE IN INDIA

Though there is considerable progress done by institutional and non-institutional agencies in providing finance to agriculture sector, some problems till now remain in the agriculture finance. These are as follows.

1) LACK OF ADEQUATE, CHEAP AND TIMELY LOANS :

For the smooth conduct of agricultural operations, it is essential that finance should be available in adequate quantities,

10. Desai Vasant. " Issues In Agriculture And Forestry" Himalaya Publishing House, Bombay 1984, P.229.

11. Ibid. P. 225.



in low rate^{of} interest and at proper time when it needed. This problem always arise in agriculture finance to the borrower farmers. This is most unfortunate aspect of agricultural finance in India. Till now this problem make obstacles in the agriculture finance. So agriculturists takes loans from moneylenders at a high rate of interest, because moneylenders provide loans at right time.

II) FINANCE FOR SMALL FARMERS :

India is a country of small farmers (i.e. below 5 acres). The Unit of cultivation in case of an overwhelming number of farmers, is very small. Their need for credit is therefore, all the more urgent and important. But these farmers do not have adequate assets which could be acceptable to financial institutions as security against loans. As a result, these farmers often do not get loans from modern institutions. They have to borrow from moneylenders at very high interest rates. Since such loans carry heavy interest and are often used for non-productive purposes, their return generally becomes impossible. These loans are therefore, passed on from generation to generation. In the process, agriculturists live and die under the dead weight of heavy indebtedness. As against this it is worth pointing out that the big agriculturists who have enough resources can also easily^{get} credit from financial institutions. These institutions are so designed that it is the needs of big farmers that are properly looked after. In order to provide finance

to agriculture in India, it is essential that practices of financial institutions be so modified that financial needs of small farmers are met.

iii) FINANCE FOR SPECIAL AGRICULTURAL NEEDS:

Being different from non agricultural industries, there are certain special and distinct requirements of finance for agriculture. One of that the need for agricultural credit in general remain stable. In other words, there are no quick or big changes in requirements for finance. Secondly, it is difficult to estimate correctly the credit needs in advance as is possible in case of non-agricultural industries. It is so because in case of agriculture which is largely dependent upon nature, one is not sure of the output. It is therefore, not possible to make calculations about credit in terms of the expected output. Thus agriculturists cannot put their credit needs in definite figure. Thirdly, only tangible asset that agriculturists can offer as security against loan is land itself. But it is an asset which cannot be easily and quickly converted into cash. Hence vis-a-vis non agriculturists who can offer an easily encashable security for loan, agriculturists are differently placed. Forthly, as distinct from non-agricultural industries, an agriculturist cannot pass on the risk of his business to other people through the sale of shares. He alone has to organise finance bear the risk of using it, and be responsible for its repayment. Fifthly, an agriculturist being

dependent on nature, has the least command over the quantity and quality of his product. From the viewpoint of conventional finance by banks, it looks as if his occupation is like a gamble. Sixthly, the needs of finance for consumption by agriculturists constitute an important ingredient of the financial requirements. The interval between sowing and harvesting is quite long. Besides, agriculture is a seasonal occupation. But the consumption needs of agriculturists have to be met throughout the year. Irrespective of the production process, finance is needed to meet consumption needs of farmers to sustain than for agricultural work. Thus we see that there are certain peculiarities of agricultural finance which place it on a different footing from that of finance for non-agricultural industries. In order that agriculture gets the finances needed by it, it is of utmost significance that the agencies supplying finance should ensure that the availability of credit corresponds to the special needs of agriculture.

From the above discussion, it is clear that agriculture finance mainly face to threefold problem. In the first place it is a problem of making available adequate finance reasonable, low interest and on time. Secondly that the availability of finance be tailored to the special features of agriculture. Thirdly, it is a problem of how best to meet the credit needs of small farmers.