

# 7. AGRICULTURAL FINANCE

Q:1 Discuss the Need of Agricultural Finance and Explain types of Agricultural Finance?

**(A) AGRICULTURAL FINANCE :-** Agricultural Finance is an important requirement for Agricultural growth. Finance is required to purchase necessary goods and services for production.

Agricultural Policy have been reviewed from Time to Time to provide enough and Timely help of finance to Agriculture Sector.

**(B) Meaning :-** "Agricultural Credit means the amount of investible funds made available to farm business and farmer's family needs".

**(C) NEED FOR FINANCE :-** Credit is the most important input of modern farming which is used to increase Agricultural Productivity. Farmers require finance due to following Reasons:-

1) **Purchase of Inputs :-** The farmers need finance for the purchase of various inputs.  
(e.g) Farmers purchase High Yielding Varieties (HYV) seeds to increase productivity.

2) **Purchase of Tools and Equipments :-** Farmers need credit for the purchase of Tractors, Threshers, Harvestors, water pumping set etc.

3. Improvement on Land :- Easy credit facilities help to farmers to bring improvement in Agricultural Land.

(e.g) Sinking of wells, Land reclamation, Horticulture, rotation of crops. etc.

4. Marketing of Crops :- when credit is available to the farmers, they will not sell their crops immediately after the harvest is over. Credit will help farmers to hold the surplus crops and sell in the market when price is high.

5. Reduced Dependence on Money Lenders :- Credit facilities through Commercial banks and Regional Banks will help to farmers to reduce dependence on money lenders.

6. Increase in Rural Savings :- Agricultural credit may help the farmers to use good quality of inputs which increase their productivity and income. Thus it will increase savings in rural areas.

7. Management of Risks :- Credit help the farmers to manage the risk of uncertainties of price, weather etc. They can borrow money during sowing period but return loans in post-harvest period.

8. Crisis Management :- The credit is required to face crisis (problem) during uncertainty. (e.g) floods, Drought or failure of crops. Crisis management will help to reduce farmers suicides.

# D) TYPES/CLASSIFICATION OF AGRICULTURAL FINANCE :-

## I) According to Tenure (Period)

1. Short-Term :- "It means Loans are provided to Farmers for period upto 15 months".  
Such Loans are required for working capital and after Harvest season it is repaid.  
Loans are required for purchase of HYV seeds, Fertilizers, Pesticides etc.
2. Medium Term :- "It means Loans are provided to Farmers for period upto 5 years".  
Such Loans are required to purchase of cattle, equipments etc.
3. Long Term :- "It means Loans are provided to Farmers for more than 5 years".  
Such Loans are required for purchasing more Land, Tractor, Threshers etc.

## II) According to Purpose

1. Productive Purpose :- Farmers need Loans for purchase of Seeds, Fertilizers, manures, livestock, repair of wells etc. is Productive Loan.
2. Unproductive Purpose :- Loans taken for marriages, social ceremonies on birth and death, festivals etc. are Unproductive Loans.
3. Consumption Purpose :- Credit is required to purchase consumer goods for day-to-day consumption of Life.

4.  
Q:2 Discuss the main sources of institutional finance for agricultural sector?

(A)

## SOURCES OF AGRICULTURAL FINANCE

### I Non-Institutional Credit

1. Money-Lenders
2. Traders and Commission Agents
3. Relatives and Friends
4. Land Lords

### II Institutional Credit

1. Co-operative Bank
2. Commercial Banks
3. RRBs
4. NABARD
5. MFIs
6. Co-operative Agricultural & Rural Development Bank

I Non-Institutional Credit :- Non-Institutional Sources are Unorganised sources of credit. In the beginning of planning period, non-institutional sources were mostly used by farmers. But at present share of Non-institutional finance has reduced.

Following are some of the Non-Institutional sources are-

1. Money Lenders :- Farmers mostly depend on Money-Lenders for their financial needs. But at present the dependence on money lender has reduced due to growth of organised sector.
2. Traders and Commission Agents :- They provide advance loans to farmers against Agricultural Produce. Loans are adjusted against supply of crops.

3. Relatives and Friends :- These Loans are informal and they carry no interest. Normally these Loans are repaid after harvest season.

4. Land Lords :- Land Lords provide Loans to small and marginal farmers for their short term needs. But they charge High Rate Interest.

### (B) MERITS OF NON-INSTITUTIONAL CREDIT :-

- i) It is easy to get Loan as Lender and borrower know each other.
- ii) Simple Procedures are followed.
- iii) Loan is given for Productive as well as Non-Productive Purpose.
- iv) There are Less formalities to get Loans.
- v) Money Lenders maintain good relations with Local Farmers
- vi) During Emergency even at midnight a borrower can obtain Loans.

### (C) DE-MERITS :-

- i) Money Lenders Charges Very high rate of Interest
- ii) Many times Money Lenders grab land of Farmers
- iii) Exploitation of Farmers become easy.
- iv) In debtedness is main problem of Rural credit
- v) In debtedness result in Bonded Labour.
- vi) Failure to pay Loans result in Loss of Land & Property.

6.

II Institutional Credit :- In recent times share of Institutional Credit has increased. Some of the important institutions are —

① Co-Operative Banks :- To provide Rural credit at Low cost, Co-operative Credit Banks were established. It operate on a Three Tier System :-

- a) Primary Agricultural Co-operatives - PACs at Village Level. They provide Loans directly to farmers.
- b) Central co-operative Banks - CBs at District level. They provide Funds to PACs.
- c) State Co-operative Banks at State-level. They finance to CBs & monitor their working

② Commercial Banks :- Commercial banks provide Funds for Productive Farm activities.

In 2016-17, Commercial banks Lending to Agriculture amounted to about 75% of Total institutional Credit to agriculture.

(e.g) As on 30 March, 2018, Commercial banks Lending to agriculture and allied activities was ₹ 10,302 billions.

③ Regional Rural Banks (RRBs) :- RRBs were established in 1975 on the suggestions of M. Narasimha Committee. They were set up to provide direct Loans and advances to Small and marginal Farmers.

Agricultural Labourers, Rural artisans etc.

#### 4.) National Bank For Agriculture & Rural Development

(NABARD) :- NABARD was established in 1982 as an Apex bank for agricultural and Rural Credit. It provide Refinance in respect of agriculture and rural credit to -

- i) Commercial Banks
- ii) RRBs.
- iii) State Co-operative Banks (SCBs) etc.

#### 5. Micro Finance Institutions (MFIs) :- Banks

Provide Concessional interest rate to Farmers for the rural-credit. But in reality small Farmers are Unable to get them because of high transaction cost, inflexibility and delay etc.

So Non-Government Organisation (NGO) provide Micro finance institutions (MFIs) to Poor, Small Farmers

(e.g) SEWA - Self-Employed Women's Association.

MYRADA - Mysore Resettlement and Development Agency

PRADAN - Professional Assistance for Development Action.

#### 6. Co-operative Agricultural and Rural Development

Banks :- These banks provide Medium and Long-term funds. They operate on Two-Tier System :-

- i) PCARDBs - Primary Co-operative Agricultural and Rural Development Banks provide Loans to Farmers

ii) SCARDBs → State Co-operative Agricultural and Rural Development Banks guide and supervise operation of Primary co-operative banks

7) State Government :- State Govt. Provide-

- i) Direct Finance through Emergency Loans, Short-Term, Medium-Term, & Long Term Loans.
- ii) Indirect Finance by subscribing to shares of Co-operative banks and RRBs.

### ★ MERITS OF INSTITUTIONAL SOURCES :-

- a) It provide short-Term, Medium Term, & Long Term Finance to farmers at Low Rate of Interest
- b) Co-operative & other banks provide Inputs- seeds, Fertilizers to Farmers.
- c) Banks provide Marketing advice to farmers.
- d) It provide Research and Development services to farmers.

### ★ DEMERITS :-

- i) It have neglected small and marginal farmers.
- ii) There are many formalities for sanctioning loan.
- iii) Bank staff have Negative attitude towards farmer.
- iv) There is Lot of Political Pressure.
- v) There is Corruption of bank officials to sanction Loans



Q:3 Explain Role and Functions of NABARD?

(A) NABARD → National Bank for Agriculture and Rural Development

The NABARD was established in 1982 as an Apex bank for Agricultural and Rural Credit. It performs various functions of RBI in respect of Agricultural Credit.

Main Headquarter of NABARD is in Mumbai. It has 16 regional offices in the country. It provides refinance to - Commercial banks, RRBs, state co-operative Bank etc.

(B) ROLE AND FUNCTIONS OF NABARD :-

- (1) Short-Term finance :- NABARD provides Short Term finance to Commercial banks, RRBs, state co-operative Banks etc. for a period upto 18 months.
- (2) Medium Term Loans :- NABARD provides Medium Term finance to Commercial banks, RRBs, state co-operative Banks for a period of 18 months to 7 years.
- (3) Long Term Loans :- NABARD provides Long Term Loans to Commercial Banks, RRBs, state co-operative Banks for a period of 7 years to 25 years.
- (4) Loans to state Govt. :- NABARD provides Long Term Loans to state Govt. for a period not more than 20 years.
- (5) Refinance :- NABARD provides Refinance to Commercial Banks, RRBs, state co-operative Banks for Agriculture & Rural Development activities.

- 6) Rural Development :- NABARD finances Rural development activities such as irrigation project, road construction etc. to create more employment in backward areas.
- 7) Monitor Rural Credit :- NABARD monitors all the working of Commercial banks, RRBs, State Co-operative Bank, Central Co-operative banks.
- 8) Research and Development :- NABARD maintains R&D Fund to promote research and innovative methods for Rural Development.
- 9) Training :- NABARD provides Training to Bank Staff to keep positive approach towards Rural Credit & Development.

## (C) Schemes OF NABARD :-

- 1) Self-Help Groups :- NABARD has been active in promoting and Linking more and more Self-Help Groups - SHGs to the banking system. The banks provide finance to SHGs at very low rate of interest.
- 2) Kisan Credit Card (KCC) Scheme :- This scheme was introduced in 1988-99 to provide short-term credit to the farmers. This scheme is operated through - Commercial Banks, RRBs, Co-operative banks etc. KCC provide short-term loan for -
- Cost of inputs
  - Post harvest expenses
  - Marketing of crops
  - working capital of farm assets
  - Consumption Expenditure etc.

### ③ Rural Infrastructure Development Fund (RIDF):-

RIDF was setup in 1995-96 with the fund of ₹ 2000 crores for improving Rural Infrastructure Projects (e.g) Irrigation Projects, Rural Roads, Rural Bridges etc. The RIDF Fund has been increasing for rural development

(e.g) ₹ 25,000 crores were allocated Under RIDF in Budget 2017-18.

### ④ Re-finance Under SGSY :- NABARD has given instructions to Co-operative Banks and RRBs to follow SELF-employment Projects Under- SGSY - Swarnajayanti Gram Swarozgar Yojana.

### ⑤ Rehabilitation of Co-operative Banks Scheme:-

NABARD Undertake rehabilitation Programme for weak - state Co-operative Banks and central Co-operative Banks.

Q: 4 What are Limitations of Institutional Finance? Explain Suggestions to improve Agricultural Finance?

### (A) Limitations of Institutional Finance :-

After Nationalisation of banks Financial Institutions are playing important role to bring dynamic & progressive changes in Agriculture. But still there are some Limitations.

1. Formalities :- There are many formalities to be completed for obtaining loan. Many farmers are still illiterate so they are not willing to take loans from banks.
2. Productive Loans only :- Institutional finance is provided for productive purpose only. But it cannot be given for non-productive purpose like - marriages, sickness expenses etc.
3. Security :- For obtaining institutional finance, farmers have to provide security. But in reality farmers do not have proper papers of land or ownership of land. So they do not get loan without security.
4. Corruption & Red Tapism :- There is no transparency in financial institutions. Red tapism and corruption is found when borrowers are illiterate and ignorant.
- 5) Political Pressure :- Financial institutions come under political pressure. Loans are given as per instruction given by political leaders. It will result in bad debts.

## (B) Suggestions To Reduce Problems :-

1. Extend Credit Facilities :- It is necessary to provide enough finance to farmers for both productive and non-productive purposes.

2. Less Formalities:- Less Formalities must be involved while giving Loans to Farmers.
3. No Security:- If Farmer do not have any Land or assets, then Security should not be demanded.
4. Low Rate of Interest:- Low Rate of Interest must be charged from small and marginal Farmers.
- 5) Kisan Credit Card:- KCC must be issued to all Farmers for providing easy Credit to them.
- 6) Crop Insurance :- Crop insurance must be made compulsory so that all Farmers must be protected against Crop failure.
7. To Improve Credit Co-operativeness:- Co-operative Credit Societies should be improved so that all the Financial needs of Farmers can be easily satisfied.

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