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A Study of Agricultural Finance in Rural India– An Overview

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Abstract—

According to a well-known proverb saying, the Indian peasant is born in debt, lives in debt and dies in debt. The mass illiteracy of Indian people in general and rural people in particular compounded the problems of agricultural credit with around 70 to 80 percent of the farmers being illiteracy. They are unaware of the various source of farm credit, which supply at a lower rate of interest. As a result the farmers were not in a position to judge the source of credit, which supplies the same at the rate, which is lower than the one collected by the private money lenders. Another problem that adds dimension to this situation is even if the institutional sources are known to the farmers, their poor resources endowment base leaves them high and dry to offer anything as security which is a prerequisite in credit transactions of credit Institution, village money lenders exploits this situation by advancing liberal security but compensating the service with higher rates of interest and at times compelling the farmers to resort to forced sales of the harvested produce. In the rural areas of India, where almost a third of the working population is in the agriculture sector, farmer earnings are so low that they sometimes cannot even meet minimum needs for their families.

Keywords— Rural finance, Agricultural condition in India, Agricultural households, terms of loans.

I. INTRODUCTION

Agriculture is just like public service. It aims at conservation of human and natural resources and not their exploitation (or) robbing of nature, farmer produces the basic necessity of life and works with the national resources. His interest is essentially public interest and is very much unlike that of an industrialist who is mainly guided by private profit. Agriculture provides national security and preserves social stability. The rural credit survey report quotes French proverb which says that, "credit supports the farmer as the hangman's rope supports the hanged". Adequate and timely credit to the farmer is, therefore, vital and indispensable for the rehabilitation and progress of agriculture.

Finance in agriculture is an important as the development of new technologies, as technical inputs can be bought and used by the farmer only if he has the means to do so. The average Indian farmer does not have adequate funds, due to which finance (or) credit becomes indispensable for him. In India, agricultural credit is least institutional and most dispersed as the risk involved in providing agricultural credit is greater than in industry, the only security being land which is subject to evaluate it. Most of the farmers operate under different tenures which limit the operation of mortgages. As the farmers do not have the organizing ability and control over producing like industrialist, they are unable to forecast their credit requirements. So much so, agricultural financing has become different from industrial financing.

All India Rural credit survey committee classified the various sources supplying rural credit in the following classes viz. . ., Government, relatives, landlords, Agriculturist, money lenders, professional money enders, traders, co-operatives, commercial banks and others.

Government:

The government loans advanced to the cultivators for production of crops, land improvement and distress relief are known as taccavi loans. Taccavi loans date back to the pre-British era.

Relatives:

Any loan that was taken-free of interest by a farmer was only considered as a loan from relatives.

Landlords:

When leasing out activity prevails in agriculture, these types of loans are often times found, when landlords advances loans to the tenants. Such loans are called loans by landlord.

Agriculturist money lenders:

These are those, who main occupation is agriculture but involved in money lending activity which is of minor importance.

Professional money lenders:

Those who earned substantial part of their income from money lending activity are professional money lenders.

Traders:

These are the individuals who are involved in trading and loans from these persons are called borrowings from traders.

Co-Operatives and commercial banks:

Co-operatives and commercial borrowings from banks are called as borrowings from institutional agencies. Farm finance assumes vital importance in the agro-socio-economic development of the country both at individual/micro level/

and macro level its catalytic role strengthens the farming business and augments the productivity of scarce resources. For instance new potential seeds, when combined with purchased inputs like fertilizers and plant protection chemicals in requisite proportions result in higher productivity of resources. To quote Muniraj (1987); "farm finance is the money extended to the farmers to stimulate the productivity of the limited farm resources. It is not a mere loan (or) credit of advance. It is an instrument to promote the well being of the society. Farm finance is not just a science to manage the money, but is an applied science of allocating scarce resources to derive the optimum output. It is a lever with forward and backward linkages to the economic development both at micro and macro levels". Thus the role of farm finance in strengthening and development of both inputs and outputs markets in agriculture is crucial and significance. Indian agriculture is still traditional, subsistence and stagnant in nature. Hence Agricultural finance is needed to creat3e the supporting infrastructure for adopting of new technology. Massive investment is needed to carryout major and minor irrigation projects, rural electrification, and energisation, installation of fertilizers and chemical plants, execution of agricultural promotional programmes and poverty alleviation programmes in the country.

II. OBJECTIVES OF THE STUDY

1. To study about the Agricultural condition in India.
2. To analysis the problem of Indian agricultural finance.
3. To know the Income and consumption of rural agriculturist in India.
4. To study about the Institutional and non-institution credit system in India.
5. To know about the agricultural sector in rural India.
6. To analysis the flow of credit to Agricultural sector in India.
7. To find out the suggestion of Indian Agricultural sector.

III. RESEARCH METHODOLOGY

The present research article is based on the last ten years in secondary level. The secondary sources used for internet, websites, are various research journals, and various books etc. The secondary data collected from (NSSO) National Sampling Survey Organisation in last ten years just like 2002 to 2012 concerned. The method of research provide in the library research is undertaken for the purpose of taking a survey of both theoretical and empirical evidence of works. This research methodology adopted by previous researchers and the collection of secondary data for analyses are also inclusion.

Analytical Approach:

According to population census of 2001, 58.4% of the total main and marginal workers in India were engaged in agriculture. Besides, a large number earn their living by working in occupations dependent on agriculture; like storage, processing, trade and transport of agricultural products. In villages, about 80% of the people earn their livelihood from cultivation and allied Agro-industries. A large part of the labour force in towns and cities also finds job in agro-based industries and other activities related with agriculture. Thus, the share of agriculture in offering employment is higher in the process of economic development of the country.

Table No: 1 Share of major sectors in total employment

Sectors	1999-2000	2004-2005	2011-12
Agricultural & Allied	59.9%	58.5%	48.9%
Manufacturing	16.4%	18.2%	24.3%
Services	23.7%	23.3%	26.9

Source: Ranjgarajan, C. Seema & Ribeesh (2014)

A trend observed across countries in the course of the development process. However, despite the heavy dependence of Indian agriculture on the monsoon with almost 53% of the gross cropped area rainfed, the production of various crops has grown at a recent rate.

Table No: 2 Income and consumption of Agricultural households

Farm size class	2002-03		2012-13		CAGR%	
<0.01	16560	27564	54732	61296	12.7%	8.3
0.01-0.4	19596	28680	49824	64812	9.8%	8.5
0.41-1	21708	32064	62964	72240	11.2%	8.5
1.01-2	29916	37776	88176	77484	11.4%	7.4
2.01-4	43068	44220	1,28,760	93432	11.6%	7.8
4.01-10	68172	55512	2,35,644	1,21,248	13.2%	8.1
10 above	116004	77016	4,96,656	173364	15.7%	8.5
All sizes	25380	33240	7112	74676	11.8%	8.4

Source: NSSO, situation Assessment Survey, 2003 & 2004.

An average Agricultural household earned Rs 77112 per annum from all his activities during 2012-13. Compared to the year 2000-03, income and consumption grew at 11.8 and 8.4 percent, respectively due to the higher growth of income over consumption during the decade the household could offset the deficit of income over expenditure during 2002-03. Small tiny land holders and the landless have very high propensity to consumer upwards of about 0.90 and hence, they had deficit of income over expenditure, income of highest farm size class as a multiple to the lowest is 9 in 2012-13 compared at the 7 in 2002-03. That is income inequalities have winded between the two years.

Table No: 3 Loan Amount and Purpose

Farm size class	Average loan amount outstanding (RS0		Annual compound growth rate (%)
<0.01	2002	2012	17.7
0.01-0.4	6545	23900	13.8
041-1	8623	35400	15.2
1.01-2	13762	54800	14.8
2.01-4	23456	94900	15.0
4.01-10	42532	1,82,700	15.7
10 & above	76232	2,90,300	14.3
All sizes	12585	47,000	14.1

Source: NSSO, Situation Assessment Survey, 2003 & 2014.

The average loan outstanding is Rs. 47000 ranging from Rs. 31,100 land less farmers and 2,90,300 for farmers having loha (or) above. The average loan outstanding has increased by 3 ½ times Rs. 12585 in 2002. Loan outstanding improved marginally in real terms when we deflated with GDP deflator. The results are disappointing considering several initiatives taken up for credit intensification during the interregnum period.

Table No: 4Terms of loans – interest and duration (rural)

Interest Rate class	Distribution of loans outstanding interest to Institutional		Distribution of loans outstanding interest to Non-institutional	
	2002	2012	2002	2012
Nil	1	0.8	18	18.3
<6	2	7.1	2	2.3
6-10	4	26	1	0.4
10-12	9	12.9	1	0.7
12-15	48	42.6	1	4.1
15-20	34	7.3	3	5.6
20-25	1	2.1	33	33.9
25-30	0	0.1	0	0.6
>30	0	1	40	34.1
Average rate of	14.31	11.67	26.34	25.20

Source: NSSO, Situation Assessment Survey 2003 & 2014.

The distribution of loans outstanding according to interest rate there is a general decline in Interest rates with the decline of average rate from 18.91% in 2002 to 17.0% in 2012. The decline is higher in case of institutional loans by 264 basis points from 14.31% in 2002. Interest rate on non-institutional loans declined but by 114 basis points from 26.34 percent in 2002.

Table No: 5 Distribution of loan outstanding

Duration in Years	Distribution of Loans Outstanding (%)				
	1971	1981	1991	2002	2012
<1	37	36	37	36	45
1-2	23	20	23	23	20
3-4	17	12	14	15	14
3-4	9	7	8	8	6
4-5	4	4	5	6	5
5-10	10	18	9	9	8
10 above	1	2	3	4	2
Average	2.30	2.83	2.46	2.60	2.16

Source: NSSO; All India debt Investment Survey 2003&2014

Most loans are of less than a year duration accounting for 45 percent of the total in 2012. This proportion is higher compared to 36 to 37 percent share in earlier periods.

Findings of Agricultural Sector in India:

1. Educate the farmers:

Many farmers in India are not aware of crop rotation. Through education in urban areas has improved a lot, the government has ignored the same in rural areas in general and agriculture sector in particular. This is the reason why farmers are not adequately aware of the various schemes provided by the government.

2. Multiple Crops:

Cultivation of multiple crops such as Coconut, Turmeric, Pineapple, Banana, Apple, Papaya, Ginger will yield profitable results to the farmers.

3. Alternate Source of Income:

Small farmers should be encouraged to develop alternative source of income and the government should take up the responsibility for providing training to the farmers to acquire new skills. Farmers should be enabled to divide their activities into three parts. One for regular crop production, one for animal husbandry (or) fisheries and another for timber production. These activities complement each other and also alternate source of income of farmers can be ensured.

4. Clubbing of Small Fields may help:

Several farmers who own small piece of land can join together and combine all small fields into one large chunk. This may help in variety of ways.

5. Weed for better water management:

Irrigation facilities that are currently available do not cover the entire cultivable land. In most cases, it is not the lack of water but the lack of proper water management that causes water shortage improved modern methods of rain water harvesting should be developed.

IV. CONCLUSIONS

The role of Agricultural development in overall economic growth, food security, generation of employment opportunities through numerous direct and indirect linkages, alleviation of rural poverty, and in improving overall quality of life of the population is well accepted for rapid, inclusive, equitable and sustainable development. It is therefore crucial not only to put the agriculture on fast growth due to reduce the persisting widespread disparities across regions. The government is trying its best to expand the reach of the institutional credit to the farmers. The strong financial institutions should be developed for rapid financial inclusion of marginal, small, delit and tribal farmers. So far, the banking system has catered the financial needs of the medium and large farmers and the prime concern of credit delivery has been the upliftment of agriculture.

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