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AN ANALYSIS Of AGRICULTURE FINANCE LENDING BY FINANCIAL INSTITUTIONS WITH REFERENCE TO INDIAN AGRICULTURE

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ABSTRACT

This paper examines the agriculture finance system for the inclusive growth of farming, food security and rural development. The scope of Agriculture Finance was limited to production , marketing, and consumption aspects of growing economy. Agricultural finance possesses its effectiveness to the farmers, lenders, and extension workers. The economic values of farm financial management facilitate in obtaining control over the input and its efficient use. Capital earnings are very crucial to the farm as greater proportion of farm earnings are required to pay for purchased inputs on the one hand and also for meeting the consumption expenditure due to rising population on the other. Financial management pertains to the various sectors of the economy, agriculture, industry, lending institutions, rural and urban society. Indian agriculture is purely based on capital exhaustive. The farmer's dependence to lending institutions to supplement the farm finances has considerably risen. The study states that the credit delivery to agriculture sector continue to be inadequate and various efforts are made to provide sufficient finance to agriculture tend to growth of Indian economy.

KEYWORDS: *Agricultural, finance, Capital, earnings, lending institutions, supplement.*

INTRODUCTION:

Agriculture still provides livelihood support about two thirds of the country's population and is the single largest private sector occupation. It also accounts for about 14.7 per cent of the total export earnings and provide raw material to large number of industries. The main objective of priority sector lending s to ensure that timely and adequate credit is available to vulnerable sections of society. Priority sector loans consist of small value loans to farmers for agriculture and allied activities.

Farm finance has become an important input due to the arrival of capital concentrated agricultural technologies. Rural credit in India come into existence in the 19thcentury and culminates in the 21st century but it is primarily concerned with the major episodes of the 20th century. Rural credit emerged in the late colonial period. The problems faced by Indian farmers displayed a remarkable continuity from this situation throughout the period being studied Organized and unorganized credit agencies in rural area provide credit for both development and consumption purposes. Provision of fund by these agencies involved a lot of difficulties to both farmers and borrowers due to differences in banking system followed by bankers, socio-economic conditions of borrowers and infra - structural facilities and institutional support should be a considerable raise in the supply of raw materials required for such industries.

As a result, for the development of farm sector, a stable flow of credit is indispensable and it would enhance overall growth of the economy. Reserve Bank of India (RBI) has played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector. The majority of Agricultural policies in India have been evaluated from time to time to sustain pace with the varying requirements of the agriculture sector, which forms an essential part of the priority sector providing of scheduled commercial banks (SCBs). The eleventh Five Year Plan in India has set a target of 4 per cent for the agriculture sector within the overall GDP growth target of 9 per cent. In this perspective, the need for reasonable, sufficient and timely supply of institutional credit to agriculture has implicit critical importance.

PROBLEMS

There are many institutions viz., Cooperative societies, Commercial Banks, Regional rural banks, rural development banks, farmers service societies, NABARD, lending to agriculturists in India. The commercial banks came into the prospect much later than the cooperatives principally after the nationalization of major commercial banks in 1969. The reserve Bank of India have been asked to priority to agriculture lend. Nevertheless the cooperatives, commercial banks, Regional Rural Banks together not able to eliminate money lenders and indigenous bankers who are financing at usurious rates. But the commercial banks lending to agriculture has helped the agriculture to reduce their scrounge from non-institutional agencies. Although there has been sturdy progress in the performance of the commercial banks in farm credit, the important questions that arise in this circumstance are,

i) To what extent the credit supplied by these banks could meet the credit requirements of farmers ?
ii) How far the institutional credit could manipulate productive competence of the borrowers in the farm sector ?
iii) Whether the loans given are appropriately recovered in time.

SIGNIFICANCE OF THE STUDY

Farmers are the mainstay of the agricultural economy Finance is one of the main significant aspects to increase agricultural output also to get better the socio economic condition of small farmers at all extent. Farmers were unable to invest on their socio-economic improvement. Apart from this , this the informal sector lending loan without taking into account the main concern to productive or non-productive purposes. India is the largest country among the South Asian countries. Agriculture is one of the largest sectors in the Indian economy. Thus recovering the efficiency of the sector requires a better effort either from the government or the NGOs. Accordingly, agriculture is one which could play a greater role to improve the level of agricultural yield.

CATEGORIES OF AGRICULTURE LENDING

The various sources from which the peasantry procures loans can be classified into two groups like Non-institutional agencies and institutional agencies.

Non –Institutional agencies: Local village moneylenders and their agents and landlords.

Institutional agencies: Cooperative societies, Commercial Banks, Regional rural banks, rural development banks, farmers service societies, NABARD

On the basis of the purpose of the credit, it may be classified into three types, Development Credit for effecting improvements in land, Production Credit for cultivation expenses, and Marketing credit. Credit in the agriculture sector, broadly speaking three forms Short-term credit extending over a period of 12 to 15 months, Medium Term Credit extending over 15 months up to five years and Long – Term credit extending from 5 years to 20 years. On the basis of security offered , the credit may be i) Farm mortgage credit, i.e., credit realized against the security of land, (ii) Collateral credit, i.e., credit realized against securities like bonds, insurance policies, etc., and (iii) Chattel credit on the security of farmer's livestock. Crop loan is a short term advance that is given to the farmers and agriculturists by banks and co-operative societies to purchase improved seeds, fertilizers, machinery. Consumer credit includes purchases obtained with credit cards ,lines of credit and some loans and also called consumer debt.

Kisan credit card (KCC) is a credit delivery mechanism that is aimed at enabling farmers to have quick and timely access to affordable credit . It was launched in1998 by the Reserve Bank of India and NABARD.

REVIEW OF LITERATURE

Review of literature shows the previous studies carried out by the researchers in this field in order to gain insight into extent of research. This is also important because it helps the researcher in identifying the research gap which would become the base for selecting issues and dimensions to be under taken in the present research.

Seibel (2000) studied that agriculture farming is seasonal activity. The agricultural credit institutions should raise fund supply during the sowing season, he noted that agricultural finance institutions should give credit for purely agricultural purpose. Such programs have distressed the capability of agricultural development.

Singh and Das (2002) tried to review the banking sector reforms introduced in India. They found that the various reforms undertaken over the past few years indeed effort making an provided the foundation for an efficient and well functioning financial 38 systems thereby facilitating the next stage of the reforms. They opined that Human Resources Development, Technology, Industrial Relations and customer Service are the four pillars of the banking system of the future.

Brent A. *et al.*, (2005) examines how several factors influence the costs and returns of extending agricultural credit. The results provide estimates of die costs and returns of agricultural lending and die extent to which these costs and returns are influenced by factors such as loan volume, lender borrower relationship factors

Charchar (2007) analyzed that credits is the need of both subsistence and economic land holders for production and development. Almost 95 per cent farmers have less than 25 acres land. Generally in rural areas, where the institutional finance are neglected except ZTBL. The small growers are hesitating to avail credit facilities from formal institution due to complicated and time consuming lengthy procedure. They prefer to purchase the input on double prices payable after the marketing of their products

Guirkinger and Boucher, (2008) in all three categories of credit constraints, farmers have a demand for credit but they are limited in accessing credit by a limited capacity to provide collateral, high transaction costs of the credit contact, or a high level of risk associated with the credit contact. In other words, all three types of credit restrictions can direct to an inadequate or even inexistent credit market.

Anjani Kumar, K. M. Singh, Shradhajali Sinha, (2010) researchers have examined the performance of agricultural credit flow and has recognized the determinants of improved use of institutional credit as the farm household level in India. The formation of financial outlets has observered a notable change and commercial banks have appeared as the major source of institutional credit in recent years. But, the declining share of investment loan in the total credit may limit the sustainable agricultural growth. The amount of institutional credit availed by the rural households is overstated by a number of socio-economic factors which include education, farm size, family size, cost, gender, occupation of household, etc.

Kannan,E (2011) has find out that the disbursement of credit through institutional sources had a large impact on improving agricultural productivity. However, it points out inadequacy and thereby urges for widening its coverage both in conditions of the total of credit and the coverage of additional number of marginal and small farmers . As a result of these measure, agricultural credit has doubled over the last 5 years and attained a level of Rs.366919 crores in 2009-10 recording annual compounded growth rate of 18.5 per cent over a period of 5 years (2005 to 2010) (NABARD,2011).

OBJECTIVES OF THE STUDY

The main objective of the study is to evaluate the lending pattern of financial institutions India to the priority sector chiefly agriculture and its allied activities.

The main objectives of the study are given as:-

1) To make a comparative analysis of the trends of Institutional credit to Agriculture- Agency –wise.
2) To assess the growth pattern of FIs and to recommend some workable suggestion to augment the performance of FIs in India.
3) To analyze Purpose-wise Outstanding Loans and Advances of commercial banks
4) To probe into the extent of agricultural loans of NABARDS in its total outstanding loans vis-a-vis credit advanced to non- agriculture sector.
5) To study the correlation between the Loans for Crops (Short-term Loans) and Agriculture and Allied Activities (Term- Loans).
6) To examine Sector-wise Loans issued by FIs.

RESEARCH METHODOLOGY

The methodology used in the study is both descriptive and analytical in nature and makes use of secondary data. The descriptive methodology is used to describe the role played by financial institutions in lending to priority sector with special focus on agriculture and allied activities. The study is also of Analytical nature because the lending to priority sectors by financial institutions has to be appraised in view of the recent developmental trends.

SOURCES OF DATA

The study is primarily descriptive and evaluative based on secondary data analysis. The secondary data been collected mainly through the data bases of Reserve Bank of India (RBI), National Bank for Agricultural and Rural Development (NABARD), Banking and Financial Statistics, Annual Monetary Policy Statements and Annual Reports of RBI and NABARD, Economic Surveys of the Ministry of Finance The journals like the Banker and the Journal of Indian Institute of Bankers have also been referred.

STATISTICAL TECHNIQUES USED

The trends in the movement of the advances given by financial institutions to the priority sector are examined through charts and tables with the help of Microsoft Excel.

SCOPE AND LIMITATIONS

The study is prepared based on the data collected from the secondary sources and documents published by the government. So, any manipulation in secondary data will lead to wrong analysis.

- The study does not cover all the issues of financial institutions because of time constraint but an attempt is made to cover all the important issues in this study.
- The results can be contradictory if it is obtained from the other source of information.

DATA ANALYSIS AND INTERPRETATION

The analysis of the data is processed step by step as per the objectives of the study.

AGRICULTURAL CREDIT POLICY

Agricultural policy of a nation is mostly planned by the Government for increasing agricultural production and productivity and also for raising the level of income and standard of living of farmer the main objectives of agricultural policy is to remove the major problems of agricultural sector related to improper and inefficient uses of natural resources, predominance of low-value agriculture. The NDA Government made public a National Agriculture Policy envisaging over 4 per cent annual growth through efficient use of resources and technology and increased private investment while emphasizing on price safeguard to farmers in the WTO regime. The policy aimed at catapulting agricultural growth to over 4 per cent per annum by 2005. This growth is to be attained through a combination of measures including structural, institutional, agronomic, environmental, economical and tax reforms. For the Tenth Plan period (2002-07), the credit flow into agriculture and allied activities from all banking agencies is estimated at Rs. 7,36,370 crore, which is more than three times the credit flow for the duration of the Ninth Plan.

Distribution of agriculture credit to SCBs (Small and Marginal farmers) March 2016

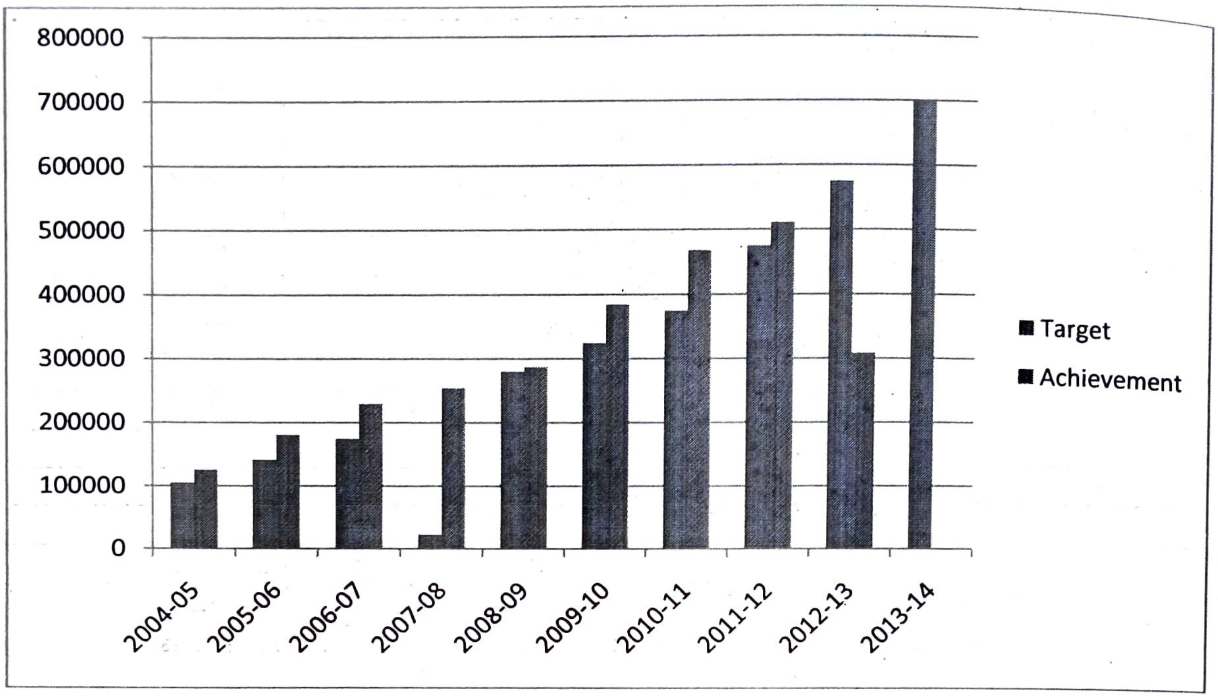
Amount outstanding range	Number of accounts (in lakh)				Amount outstanding (in crore)			
	Allied Activity	Crop Loan	Investment Loan	Grand Total	Allied Activity	Crop Loan	Investmen Loan	Grand Total
Up to 1 Lakh	46	380	121	547	12882	167580	48377	228839
Morethan 1.0 Lakh and up to 1.5 Lakh	2	64	18	84	2748	74329	21489	98567
Morethan 1.5 Lakh and up to 2.0 Lakh	1	27	9	37	1987	46287	16230	64504
More than 2.0 Lakh	3	69	28	101	34988	316036	151525	502549
Grand Total	53	539	176	768	52605	604233	237620	894459

Source: Basic Statistical Return of SCBs in India for agricultural credit.

The above table stated that here were nearly 77 million agriculture credit accounts with SCBs as on March 2016 with the average size of credit at 1.16 lakh. Around 70 per cent of these are crop loans, which account for nearly 67 per cent of the outstanding loan amount. As on the cut-off date, a majority of these crop loan recipients (38 million) had outstanding loans up to 1 lakh and their average loan amount was Rs. 44,088. The loans for investment in equipment (e.g., tractors) had a share of nearly 27 per cent and 23 per cent in the number of accounts and the loan amount respective of the total 77 million agriculture credit accounts under consideration, about 39 million accounts were held by small and marginal farmers having land holding up to 2 hectares. For small and marginal farmers, crop loans constituted over 75 per cent of their total loan amount. The size of the crop loans is normally small – around 74% of crop loan accounts of small and marginal farmers were 'up to 1 lakh'.

Information about Finance towards Agriculture Sector

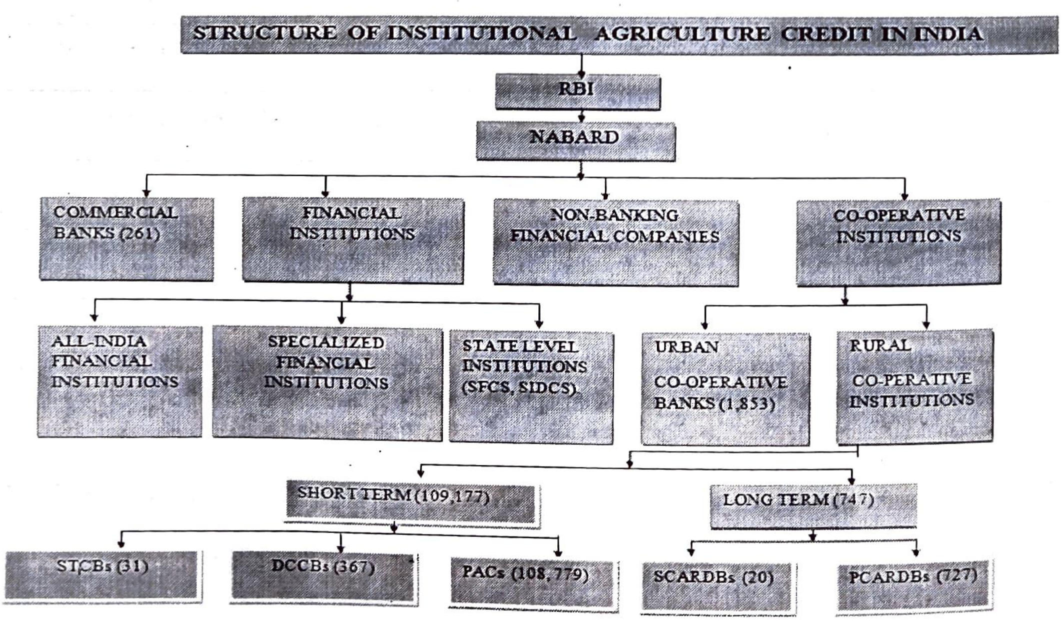
SL. No	Years	Target	Achievement
1	2004-05	105000	125309
2	2005-06	141000	180486
3	2006-07	175000	229400
4	2007-08	225000	254658
5	2008-09	280000	287149
6	2009-10	325000	384514
7	2010-11	375000	468291
8	2011-12	475000	511029
9	2012-13	575000	308025*
10	2013-14	700000	-----------



*As on 31 October, 2012

Source: Department of agriculture &cooperation, ministry of agriculture, Govt. of India

The above figures shows that the percentage of agriculture finance in India is continuously increase and it is positively effect on production of agriculture goods in India. The amount of short term finance provided to agricultural sector during 2004-05 to 2013-14. It shows that the overall loans issued is increased from 125309 crores to 308025 from 2004-05 to 2012-14 respectively. The increase in loans issued amount to almost 90 percent during ten years. Even in each sub grouping the granted amount for agricultural purpose is also increased. The highest increase in reported in case of SCBs for agricultural purpose.



TOTAL DIRECT AND INDIRECT CREDIT FOR AGRICULTURE BY COMMERCIAL BANKS

YEARS	DIRECT FINANCE	INDIRECT FINANCE	TOTAL CREDIT
1970-71	2.35	1.43	3.78
1975-76	7.51	3.05	10.56
1980-81	28.88	8.83	37.71
1985-86	91.60	14.25	105.85
1990-91	161.45	11.89	173.34
1995-96	238.14	36.74	274.88
2000-01	404.85	188.25	593.10
2005-06	1347.98	571.75	1919.73
2010-11	3602.53	1469.23	5071.76
2015-16	5343.31	1111.02	6454.33

Source: Basic Statistical Returns of Scheduled Commercial Banks in India.

The above table revealed that the amount of agriculture loans disbursed by the financial institutions give the impression to have improved according to the regulatory filing by the banks. As the banks are required to meet the regulatory requirement of per cent of total credit portfolio to agriculture.

AGENCY –WISE DISBURSEMENT OF REFINANCE (RS in crore)

Agency	2012-13			2013-14			2014-15		
	Target	Disbursement	%Share	Target	Disbursement	%Share	Target	Disbursement	%Share
CBs	9900.00	8708.77	49.27	8500	13254.62	61.69	9900	13675.20	43.51
RRBs	5138.00	4753.66	26.90	3915	4303.67	20.03	8000	10220.91	32.52
StCBs	2378.00	2071.06	11.72	1975	1713.32	7.97	3500	3818.09	12.16
SCARDBs	2300.00	1741.31	9.85	2000	1814.95	8.45	2600	2923.97	9.30
PUCBs	100.00	69.29	0.39	100	30.00	0.14	100	0.00	0.00
ADFCs/	500.00	330.20	1.87	500	369.60	1.72	890	789.13	2.51
NEDFi	50.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	16990.00	17674.30	100.00	16990	21486.20	100.00	24990	31427.30	100.00

The above table indicates that the total disbursement of refinance during 2014-15 stood Rs.31,427.30 crore registering 46.3 percent growth over the previous year. This achieved against a target of Rs.25,000 crore. Commercial banks were the biggest channel for invent credit, followed by RRBs, together accounting Rs.75 per cent of disbursement. The extent of refinance availed of by various RFIs during the financial year Commercial banks

DISCUSSIONS

It is noticed from the above tables that the sum issued in form of loans and advances to the farm sector is increased during last decade. In totaling to that for rising access of credit to the farmers of country, government has taken a number of initiatives. Government has also launched

Farm Credit Package, Interest Subvention to Farmers, Extensions of Interest subvention scheme to post harvest loans, Collateral free loans, Interest subvention for loan restructure in the drought exaggerated states, Kisan Credit Card Scheme, Agriculture Debt Waiver, Debt Relief Scheme, etc. make available to offer Agriculture Finance.

The payout pattern of agro credit, which is accelerated in the last quarter of every fiscal year, also shows that banks are motivated to lend to agriculture to meet the regulatory target of priority sector lending. The increasing share of institutional credit as the source of finance for farmers shows that formalization of agriculture credit is progressing notwithstanding in slow manner. Moreover, the slump in credit to the sector post liberalization and deregulation of financial system in 1990s and succeeding pick up show that the agriculture credit will undergo if left to free market. It is understood from the above data that though the amount granted to agriculture sector is increased year on year the target for growth of agriculture is still not achieved after six decades of independence.

SUGGESTIONS AND RECOMMENDATIONS

Growth in Agricultural productivity is very important not only to attain self-reliance but also to carry about equity in distribution of income and wealth resulting in drop of poverty levels. However, bold action from policymakers is required for achieving a highly productive, globally competitive, and diversified agricultural sector.

1) Cooperative societies may be allowed to sponsor or co-sponsor with commercial banks in the founding of the Regional Rural Banks. Government should support and motivate banks to take suitable measures in rural development.

2)Efforts be supposed to ensure that the non-interest cost of credit to small borrowers is kept as low down as possible.

3) The Government should regularly create policies for opening new and more branches in weaker and rural backward areas of the state.

4) The RRBs have to give due preference to the micro-credit scheme and encourage in the development of self help group for uplifting poverty and empowering women.

5) Government should take rigid action against the defaulters and shouldn't make popular proclamation like waiving of loans.

6) An identical pattern of interest rate structure should be worked out for the rural financial agencies.

7) The RRB must strengthen effective credit administration by way of credit appraisal, observing the progress of loans and their efficient revival.

8) The credit policy of the Commercial Banks should be based on the group approach of financing rural behavior.

9) The FIs should relax their lending procedures and make them easier for village borrowers.

10) Follow up actions are necessary for watching the loan utilization by the borrowers.

CONCLUSIONS

The above study clearly mentioned that credit make some positive and negative impact on agriculture sector of India. In last few year percentage of agriculture sector in GDP is decrease but at equal time production of agriculture sector is also enhance with investment. To make stronger the economy it is important to eliminate poverty, food insecurity and unemployment in India. This difficulty can be resolved by targeting Agriculture Finance issue. Since commencement of Agriculture Finance strategy was focused on addressing institutionalization of credit at farmers' level in marketing, trade, and processing and agriculture business. The increase in population and inflation is evaluating factor for low down contribution of agriculture sector in India GDP. But agriculture credit play critical role in growth of agriculture sector in India. Lacking help of financial assistance, development of agriculture sector is very complicated. Even today rural credit for infrastructural supplies for production, dispensation, advertising, allocation, consumption, trade with value added service required serious attention of government. The study reveals that though the institutional credit in India to agriculture sector is increased in quantum particularly to the small and marginal farmers of the economy.

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