

# A Study on the Agricultural Finance in India: Future Prospects

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**Abstract:** Indian agriculture plays an important role in the development of the country; is the main source of livelihood of majority of Indian population. Credit is one of the critical inputs for agricultural development. It capitalizes farmers to undertake new investments and adopt new technologies, production and marketing activities. Also agricultural credit is an important input for improving agricultural production and productivity and mitigating farmer distress. Bank credit is available to the farmers in the form of short-term credit for financing crop production programs and in the form of medium-term/long-term credit for financing capital investment in agriculture and allied activities. In this research paper researchers focused on Indian agricultural credit and credit prospects, by analyzing the past 10 years agricultural credit flow and its agricultural production there by identifying the future prospects of agricultural finance in India.

## 1. INTRODUCTION

Agriculture plays a vital role in India's economy. Over 58 per cent of the rural households depend on agriculture as their principal means of livelihood. Agriculture, along with fisheries and forestry, is one of the largest contributors to the Gross Domestic Product (GDP). As per the 2nd advised estimates by the Central Statistics Office (CSO), the share of agriculture and allied sectors (including agriculture, livestock, forestry and fishery) is expected to be 17.3 per cent of the Gross Value Added (GVA) during 2016-17 at 2011-12 prices.

India is the largest producer, consumer and exporter of spices and spice products. India's fruit production has grown faster than vegetables, making it the second largest fruit producer in the world. India's horticulture output, is estimated to be 287.3 million tonnes (MT) in 2016-17 after the first advance estimate. It ranks third in farm and agriculture outputs. Agricultural export constitutes 10 per cent of the country's exports and is the fourth-largest exported principal commodity. The agro industry in India is divided into several sub segments such as canned, dairy, processed, frozen food to fisheries, meat, poultry, and food grains.

Agricultural credit is considered as one of the most basic inputs for conducting all agricultural development programmes. In India there is an immense need for proper agricultural credit as Indian farmers are very poor. From the very beginning the prime source of agricultural credit in India was money lenders. With the passing of Reserve Bank of India

Act 1934, District Central Cooperative Banks and Land Development Banks, agricultural credit received impetus and there were improvements in agricultural credit. A powerful alternative agency came into being through the initiative of the government. Large-scale credit was available with reasonable rates of interest at easy

terms, both in terms of granting loans and recovery of them. The cooperative banks advance credit mostly to agriculture. First bank advanced short-term and medium term loans while the second banks advance long term loans. The Reserve Bank of India as the Central bank of the country took lead in making credit available to agriculture through these banks by laying down suitable policies. Although the cooperative banks started financing agriculture with their establishments in 1930's real impetus was received only after Independence when suitable legislations were passed and policies were formulated. Thereafter, bank credit to agriculture has made a phenomenal progress by opening branches in rural areas and attracting deposits. Till 1969, cooperative banks were the main institutional agencies providing finance to agriculture. After nationalization, it was made mandatory for these banks to provide finance to agriculture as a priority sector. These banks undertook special programs of branch expansion and created a network of banking services throughout the country and started financing agriculture on large scale. Thus agriculture credit acquired multi-agency dimension. In bringing "Green Revolution", "White Revolution" and now "Yellow Revolution" finance has played a crucial role. Now the agriculture credit, through multi agency approach has come to stay. The procedures and amount of loans for various purposes have been standardized. Among the various purposes "Crop loan" (Short-term loan) has the major share. In addition, farmers get loans for the purchase of electric motor with pump, tractor and other machinery, digging wells or boring wells, installation of pipe, drip irrigation, planting fruit orchards, purchase of dairy animals and feeds/fodder for them, poultry, sheep/goat keeping and for many other allied enterprises.

## 2. TYPES OF AGRICULTURAL LOANS IN INDIA

We can categorize agricultural loans in 5 categories

1. **Farm Storage Facilities Loans or warehousing loan** provided by government and banks for storage of farm or agriculture commodities for non-perishable commodities.
2. **Farm Operating Loans:** Agriculture loans for day-to-day needs or expansion requirements.
3. **Farm Ownership Loans:** These include loans for buying agriculture or farming machinery, livestock, tractors etc.
4. **Fisheries Finance Program:** This program is designed for specific projects in fisheries that qualify under the direction of Congress. A qualified program is eligible for up to 80 percent financing through a direct loan program. This loan program is designed to refinance a private debt on a fishing vessel or to provide for maintenance and repairs on an existing vessel.
5. **Other Agriculture Loans:** such as housing loans, grants, subsidy from government for loss of crop, crop damage, whether based agriculture subsidy etc.

State bank of India is a nationalized bank which channelizes all governmental schemes to farmers. Various banks in India provide different crop loans, Kisan credit cards, and agriculture insurance schemes. Agricultural schemes for farmers are as follows.

1. **Crop loans:** for raising various crops or development of crops.
2. **Produce Marketing Loan Scheme:** provides short term credit during requirement at the time of crop selling.
3. **Loan against Warehouse Receipts:** farmer can get loans up to 70% of the value of goods for storage of agriculture commodities.
4. **Kisan Credit Card Scheme:** The Kisan Credit Card is a unique scheme for farmers through which they can draw a cash loan for crop production as well as domestic needs from the card-issuing branch within the sanctioned limit.
5. **Kisan Shakti Yojana:** provides farm investment credit, as well as personal/domestic loans including repayment of debt to moneylenders. The permissible loan limit will be 50 per cent of the value of land or 5 times the net farm income, whichever is lower, less the outstanding amount.
6. **Land Development Scheme:** scheme for performing various activities for developing existing land such as land leveling, reclamation of soil, bunding and any other soil conservation measures etc.
7. **Minor Irrigation Scheme:** loans provided for digging new wells (open/ bore wells), deepening existing wells, setting lift irrigation etc.

8. **Farm Mechanization Scheme:** various banks provide loans for purchasing agriculture equipments, small and large farming machinery, tractors etc.
9. **Financing of Combine Harvesters:** provide loan for one farmer or group of farmers for purchasing combine harvesters, heavy harvesting machines.
10. **Land Purchase Scheme:** the scheme assist small, marginal and landless farmers or labourers for purchasing land.
11. **Dairy Plus Scheme:** scheme for establishment of dairy farm including construction of shed, purchase of milch animals, milking machine and buying other dairy equipments.
12. **Broiler Plus Scheme:** scheme for construction of poultry shed, feeding room and establishment of layer or broiler poultry farm.
13. **Horticulture finance:** include loans for development of fruit orchard, such as mango, chikoo, grapes, pomegranate, apple etc. Also include loans for polyhouse, green house development and marketing of such produce.
14. **Agri Business Heads Scheme:** the scheme provides self-employment opportunity to technically trained people for setting new agribusiness, purchasing farm machinery etc.

#### **Cost Associated with Agriculture Finance or Loan**

Reserve bank of India released circular regarding loans in India which states that processing fee for agriculture loans should not be exceeding 1% of the gross loan amount and processing fee should not be included in the margin cap or the interest cap of 26%.

Agriculture Loans are either direct or indirect. Direct agriculture loans include loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data on such loans], directly engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture. Indirect agriculture loans include loans to corporate including farmers' producer companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture.

Processing fee of Kisan Gold card (sarl) by HDFC is Rs 250/-. Repayment schedule charges for the same are Rs 200/- per request. Late payment penalty for KGC types varies from 1.33 % to 2 %

p.m. on overdue payment. Supervision charges of KGC types ranges Rs. 500/- to Rs. 2000/-.

Processing fee of Agriculture term loan from JK bank- Rs. 0.05 % of the amount sanctioned with a minimum cap of Rs. 25/- to be paid up front.

Processing charges of agriculture gold loan by Canara Bank varies from no charges (loan upto Rs 25000/-) to Rs. 900/- (Loan up to Rs. 3 lakh). Handling charges differ from nil to Rs. 100/-. Mortgage charges varies from no charges to Rs. 30000/-. However processing charges cannot collected under conditions such as government sponsored schemes, self-help groups or agriculture loans given to employees.

Processing fee of agriculture loan from ICICI bank is up to 4 % of the loan amount.

Late payment penalty is 2 % p.m. on unpaid installment.

Processing fee of agriculture loan in rural from Vijaya bank ranges from nil (Rs.25000/-) to 0.16 % i.e. Rs. 102/- (Rs.25000/- to 2 lakh).

There is no processing fee for agriculture loan up to 10 lakh and no documentation charges for credit limit up to Rs. 2 lakh.

There are no processing and documentation charges for Kisan credit card-central bank of India and no collateral security for loan up to 1 lakh.

Government of India has exempted farmers from paying stamp duty on agriculture loan up to Rs. 5 lakh.

### Statement of Problem

Farmer Suicides in India has seen an increase over the period of time. The main reason for this is farmer's inability to pay debt. That is why Non - Performing Assets of banks increases day by day. So banks hesitate to give credit to the farmers. Through this research paper analyze the agricultural finance, agricultural production and NPA of agricultural loans. This helps to identify the future prospects of agriculture finance in India to increase the agricultural production.

### Objectives of the Study

- To study the growth of agricultural finance in India.

- To compare the growth of agricultural finance and agricultural production.

### 3. RESEARCH METHODOLOGY

**TYPE OF RESEARCH:** Descriptive Research

**DATA SOURCE:** Secondary data

**DATA COLLECTION TOOL:** Websites and Journals

**Tools for Analysis:** Simple Linear Regression, Index Method

#### Data Analysis:

Agricultural Credit Flow in India		
Year	Total Disbursement (₹ in Billion)	Index Value
2007-2008	1949.53	100
2008-2009	2459.76	126.1719
2009-2010	2863.9	146.9021
2010-2011	3448.78	176.9032
2011-2012	4538.98	232.8243
2012-2013	6593.83	338.2266
2013-2014	2026.16	103.9307
2014-2015	2409.51	123.5944
2015-2016	2725.54	139.805
2016-2017	2659.74	136.4298

#### Interpretations:

It shows that there is an increase of agricultural credit throughout the year in 2011-

2013 there is a rapid increase in agricultural credit but in 2013 there was a fall in agricultural

credit and from 2014 to 2017 shows an increase

Agricultural Production In India In Tones		Index Value for Production
Year	Production in Tones	
2007-2008	1895.28	100
2008-2009	1815.51	95.79112
2009-2010	1852.6	97.74809
2010-2011	1932.58	101.968
2011-2012	2106.94	111.1677
2012-2013	2128.35	112.2974
2013-2014	2210.8	116.6477
2014-2015	120732.8	6370.183
2015-2016	2243.76	118.3867
2016-2017	2225.38	117.417

2013-2014	7369.83	244.2946
2014-2015	9508.58	315.1897
2015-2016	11043.62	366.0731
2016-2017	3801.13	125.9996

Ministry of Agriculture & Farmers Welfare,  
Government of India.

Agricultural production shows only slight variation from 2009 - 2010 there is a decrease in production of agriculture. After that there is an increase of agricultural production.

LOAN OUTSATANDING		Index Value for Loan Outstanding
YEAR	AMOUNT	
2007-2008	3016.78	100
2008-2009	3575.31	118.5141
2009-2010	4215.09	139.7215
2010-2011	4893.25	162.2011
2011-2012	5796.66	192.1473
2012-2013	7217.52	239.2458

Throughout the loan outstanding shows an increase. In 2016-2017 loan outstanding shows a decrease.

Year	Agricultural Loan	Agricultural Production
2007-2008	1949.53	1895.28
2008-2009	2459.76	1815.51
2009-2010	2863.9	1852.6
2010-2011	3448.78	1932.58
2011-2012	4538.98	2106.94
2012-2013	6593.83	2128.35
2013-2014	2026.16	2210.8
2014-2015	2409.51	120732.8
2015-2016	2725.54	2243.76
2016-2017	2659.74	2225.38

a. Dependent Variable: AGRICULTURAL PRODUCTION

b. Predictors: (Constant), AGRICULTURAL LOAN

Coefficients<sup>a</sup>

Model	Unstandardized		Standardized Coefficients	t	Sig.
	B	Std. Error			
(Constant)	29588.865	31629.117		.935	.377
1 AGRICULTURAL LOAN	-4.948	9.190	-.187	-.538	.605

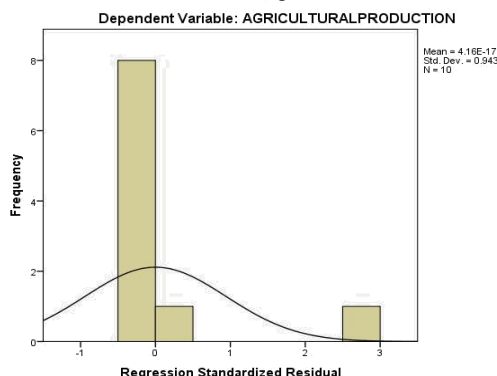
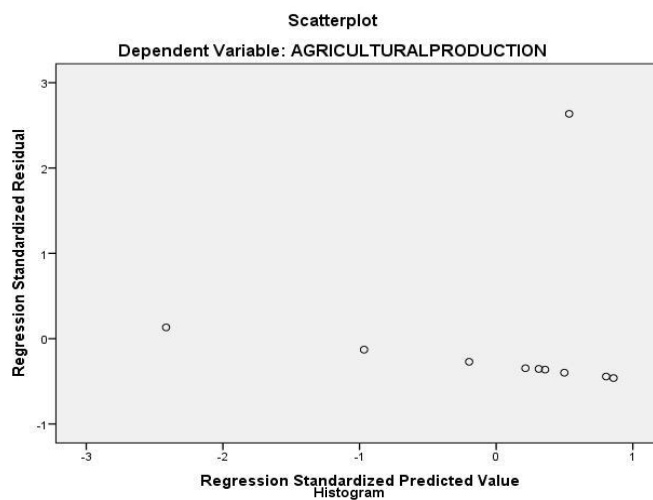
a. Dependent Variable: AGRICULTURAL PRODUCTION

**Comparing Agricultural Credit and Agricultural Finance Descriptive Statistics**

	Mean	Std. Deviation	N
AGRICULTURAL PRODUCTION	13914.4000	37532.50792	10
AGRICULTURAL LOAN	3167.5730	1418.39845	10

ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	443374985.783	1	443374985.783	.290	.605 <sup>b</sup>
	Residual	12234827373.120	8	1529353421.640		
	Total	12678202358.903	9			



### **Conclusion**

From this it shows that 2007 to 2017 overall agricultural credits shows an increase at the same time NPA also increase that is why agricultural finance is not so good. Agricultural production shows only a slight increase