Agricultural Finance by Commercial Banks: Momentum towards Economic Development

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Abstract:
Agriculture is the backbone for Indian economy. More than 70% population is directly or indirectly involved in agriculture and allied activities. The agriculture sector continuously contributing in the national income and GDP of the country. Today, agricultural finance and its effective utilization is a matter of concern. In fact agricultural finance is a major source to boost the economy. The said research is conducted at Amravati district of Maharashtra state. Amravati is a land of agricultural and a major marketplace for agricultural products. Financial institutions play a vital role in the process of disbursement of agricultural finance. The Government along with RBI took efforts to strengthen the agricultural sector from time to time. Agricultural finance and its utilization considered to be a new dawn for future. Here the role of financial institutions should be in prominent way as the farmers should get sufficient and time bound finance as and when need. This research work is carried out mainly to analyze the flow of agricultural finance by financial institutions like commercial banks, Regional Rural Banks and cooperatives.
Keywords: Agricultural finance, Financial Institutions, Economic development.

Introduction:
Agricultural sector forms the sound base for the Indian economy. The significant the agriculture sector reflects in the Indian economy since it contributes largely to the national income as well as GDP of the country and also offers various employment opportunities to the people in the country. Agricultural sector provides a raw material to the most of industries. This is the reason that the development of this sector is necessary for the overall economic progress of the country. Agriculture is become a means of livelihood for many people in the country. Now a days this occupation is suffering from various difficulties like low production due to lack of investment. Low farm income generate the low investment in the agriculture. Therefore farmers are largely depends borrowed funds. It also noted that that use of latest technology changes many things and improve productivity. But to bring the use of technology it requires a hugh fund which can’t collect from day to day income of farmers. To purchase the fertilizers, farm machineries and equipments, seeds and other inputs, requires a lot of capital. This need of fund generate the demand for the agricultural finance. It is necessary to use the financial resources properly. The role of finance in agriculture is having immense importance. The requirement should be well justified as per the need. There is no business in the world where the source of investment is only own fund, borrowed fund is necessary to run the business.

Review of Literature
Abhiman Das, Manjusha Senapati, Joice John (2009) argued that the agricultural finance create

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the positive impact on the agricultural productivity. The number of accounts of the indirect agriculture credit also has a positive impact on agriculture output but with a year lag. These results explained that even though there are several gaps in the present institutional credit disbursement system like inadequate provision of credit to small and marginal farmers, scarcity of medium and long-term lending and limited deposit mobilization and heavy dependence on borrowed funds by major agricultural credit purveyors, agriculture credit is still playing a critical role in supporting agriculture production in India.

Anjani Kumar, K. M. Singh and Shradhajali Sinha (2010) examined that the flow of agricultural finance has been increasing for the past four decades. Commercial banks is an important source of agricultural finance. It is necessary to create awareness about the procedure to get agricultural finance for easy access to farmers. The procedure of getting loan should be simple so that less educated farmers can easily access to loan.

Kannan, E (2011), found that the disbursement of loan through institutional sources had a large impact on improving agricultural productivity. However, it is necessary to increased the volume of credit which covers the large number of farmers.

R. Govindasamy (2013) examined that financial Institutions act as an effective means of credit for agriculture and allied activities. These credit institutions have played a significant role in the rural as well as agricultural development in Tamil Nadu state.

Rajiben Solanki (2016) conducted study to analyze the agricultural advances by commercial banks and argued that the flow of agricultural finance in India has been increased during the study period. The agricultural finance provided by the bank has increased its advances. Therefore it is necessary to take efforts by bank to reduce its outstanding, so that the recovered agricultural finance can be again utilized in to agriculture sector for its development.

Objectives of the study

- To study the concept of agricultural finance
- To study the flow of agricultural finance by financial institutions
- To study the institutional credit for agriculture and allied activities (short tand long term)

Research Methodology

The present study is based on available literature and secondary sources. This secondary source of data is obtained from internet websites, study on various research journals, different reference books, annual reports and news paper articles.

Role of Agricultural Finance

In the traditional approach, agricultural finance was used for maintenance of agricultural and somehow for the expansion purpose only. It is used for storage and selling of agriculture products to generate the steady flow of income to farmers throughout the year. In the modern approach the agricultural finance is used for purchasing of high productive seeds, fertilizers, modern farm equipments, improved irrigation technology and many more.

Further to use the modern technology for agriculture development it requires to do

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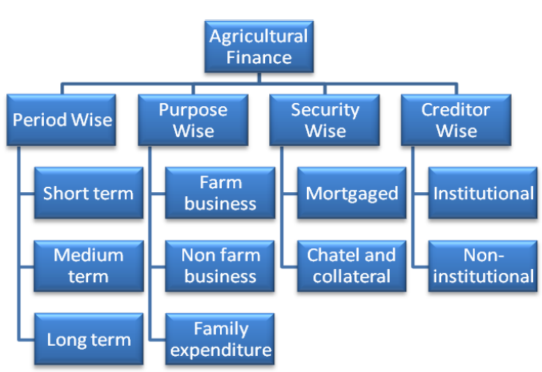
number of activities to be done, where agricultural finance plays a significant role.

1. Agricultural finance helps to increase the investment required in farming business that leads to improve the productivity that ultimately contribute in the national income.
2. Agriculture sector becomes the largest employment generation sector as there are many opportunities in the sector in many ways.
3. Agricultural finance assist in formation of capital which is required to purchase fertilizers, seeds, farm equipments and investment generation to expand the agriculture activities.
4. As this the largest sector in the country provides the consistent supply of food to population in the country.
5. It provides raw materials to many industries in the country and as a result of this it helps in the agricultural as well as economic development of the country.
6. This sector is also contributes in the international trade activities which helps to increase the export activities.

Classification of Agricultural Finance

Generally agricultural finance is classified in two types direct and indirect. In direct agricultural finance, amount of loan is directly provided to farmers. In indirect finance, the amount of loan is not given directly to the farmers, but to the institutions involve in the supply of production inputs and other related services to farmers. Following is the classification of agricultural finance:



Period Wise Agricultural finance

This type is based on the length of period for which the finance is required. The length of period is associated with the purpose and performance of finance is required for. According to period wise requirement, it is further divided as under:

a) Short term finance: this type provide farmers their working capital requirement to run their day to day activities. Farmer can purchase seeds, fertilizers and insecticides with the help of short term finance. The period of this type does not more than fifteen months.

b) Medium term finance: this type of finance assist farmers to purchase the live stock, farm equipments. This is also known as term credit as the period is longer than fifteen months.

c) Long term finance: Such finance is used for the permanent improvement in the land holdings i.e. new land, purchase of machineries, construction of well, drainage, store house and other farm infrastructure. Farmers can purchase the small or medium holdings. The period for such credit is longer than five years.

I. **Purpose wise agricultural finance:** This can be classified as under

a) Finance for farm business: this type of finance is used for farm business activities like purchase of seeds, fertilizers, labour, purchase of machineries, livestock, construction of well, farm house, cattle shed and many more.

b) Finance for non farm business: such kind of finance is used for repair of farm equipments, buildings etc.

c) Finance for Family expenditure: Such finance is required for the purpose of meeting the household expenses like clothing, education, medicine, marriage expenses and many more.

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II. Security wise Classification: Agricultural finance may be of secured and unsecured. The financial institutions always believes in secured finance. This is further classified

a) Mortgaged Finance: it is secured against the mortgaged security.

b) Chattel and Collateral Finance: It is obtained against some tangible property of the borrower.

In the unsecured finance the personal property of the borrower is offered as a security.

III. Creditor wise classification: this type of classification is done on the basis of volume of credit. There are two sources like institutional which includes cooperative, commercial banks, regional rural banks and also non institutional sources of finance includes private money lenders, landlords, commission agents etc.

DIRECT INSTITUTIONAL CREDIT FOR AGRICULTURE AND ALLIED ACTIVITIES - TOTAL (Short-Term and Long-Term)

Details of Loan Issued (for the year 2005-06 to 2011-12)

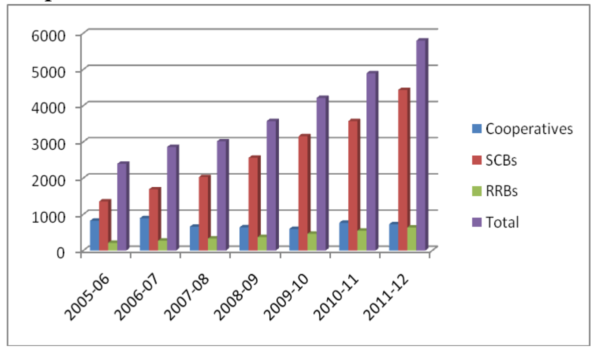
(In Billion)

Year	Cooperatives	SCBs	RRBs	Total
2005-06	481.23	805.99	153.00	1440.21
2006-07	540.19	1152.66	202.28	1895.13
2007-08	576.43	1134.72	238.38	1949.53
2008-09	587.87	1606.90	264.99	2459.76
2009-10	634.97	1882.53	346.40	2863.90
2010-11	781.21	2227.92	439.65	3448.78
2011-12	879.63	3178.57	530.58	4538.98

SCBs : Scheduled Commercial Banks. RRBs : Regional Rural Banks

Sources : 1. Reserve Bank of India. 2. National Bank for Agriculture and Rural Development.

Graph on amount of Loan Issued



Graph: Details of Loan Issued

The above table and graph shows the details of loan issued by cooperatives, Scheduled commercial banks and regional rural banks. In the year 2005-06 the total amount of loan issued by cooperatives, Scheduled commercial banks and regional rural banks were 1440.21 billion and in the year 2011-12 the flow of credit increase up to 4538.98 billion.

Details of Loan Outstanding (for the year 2005-06 to 2011-12)

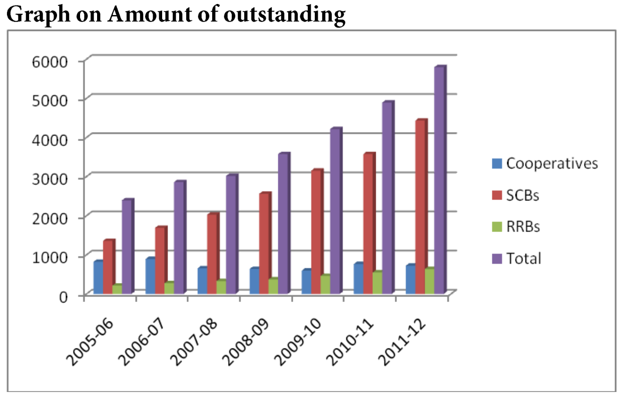
(In Billion)

Year	Cooperatives	SCBs	RRBs	Total
2005-06	823.27	1356.03	215.10	2394.39
2006-07	894.43	1690.18	274.52	2859.13
2007-08	656.66	2027.96	332.16	3016.78
2008-09	640.45	2561.19	373.67	3575.31
2009-10	597.91	3154.36	462.82	4215.09
2010-11	766.74	3575.84	550.67	4893.25
2011-12	725.45	4432.98	638.23	5796.66

SCBs : Scheduled Commercial Banks. RRBs : Regional Rural Banks

Sources : 1. Reserve Bank of India. 2. National Bank for Agriculture and Rural Development

Graph on Amount of outstanding



Graph: Loan Outstanding Details

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SCHEDULED COMMERCIAL BANKS' DIRECT FINANCE TO FARMERS ACCORDING TO SIZE OF LAND HOLDINGS (OUTSTANDING) SHORT-TERM AND LONG-TERM LOANS

(Number of accounts in thousands; Amount in ₹ Billion)

Year (end-June)	Up to 2.5 Acres		Above 2.5 acres to 5 Acres		Above 5 Acres		Total	
	Number of Accounts	Amount	Number of Accounts	Amount	Number of Accounts	Amount	Number of Accounts	Amount
1	2	3	4	5	6	7	8	9
1985-86	5104	15.26	3557	14.83	3135	36.78	**11796**	**66.87**
1986-87	5227	16.82	3707	16.83	3116	40.23	**12050**	**73.88**
1987-88	5871	20.15	4190	20.44	3542	50.29	**13603**	**90.88**
1988-89	6073	23.24	4354	23.12	3593	54.60	**14020**	**100.96**
1989-90	6082	27.27	4351	26.73	3706	64.94	**14140**	**118.94**
1990-91	6137	28.95	4346	28.70	3563	66.24	**14045**	**123.89**
1991-92	6063	32.39	4439	30.50	3669	70.58	**14170**	**133.46**
1992-93	6057	34.37	4460	33.28	3878	74.44	**14395**	**142.10**
1993-94	6007	35.95	4282	34.11	3637	79.02	**13926**	**149.08**
1994-95	5463	38.89	4047	36.59	3492	83.59	**13002**	**159.06**
1995-96	5557	43.26	4255	42.95	3461	92.65	**13273**	**178.85**
1996-97	5296	48.94	4219	50.33	3575	104.69	**13090**	**203.96**
1997-98	4890	50.58	4034	54.42	3354	117.52	**12278**	**222.52**
1998-99	4408	55.11	3711	56.80	3389	126.51	**11507**	**238.42**
1999-00	4544	61.85	3777	64.45	3379	147.19	**11700**	**273.49**
2000-01	4600	72.15	3689	73.08	3555	169.63	**11844**	**314.86**
2001-02	4902	87.59	3961	96.86	3394	190.83	**12257**	**375.29**
2002-03	4749	98.13	4092	113.16	3835	238.31	**12676**	**449.61**
2003-04	6086	148.05	4806	139.74	4377	287.86	**15268**	**575.65**
2004-05	7299	204.99	5874	207.59	5274	372.18	**18447**	**784.76**
2005-06	8239	297.19	6677	292.55	6321	527.69	**21237**	**1117.43**
2006-07	9954	373.36	7548	378.15	6985	648.10	**24487**	**1399.61**
2007-08	11345	464.57	9512	466.31	8739	809.56	**29596**	**1740.44**
2008-09	11708	601.99	9570	597.92	10884	993.49	**32162**	**2193.40**
2009-10	17321	779.52	14220	729.16	17657	1195.00	**49198**	**2703.68**
2010-11	12567	887.12	12900	951.20	8292	1254.60	**33759**	**3092.92**
2011-12	16423	1244.39	14441	1263.65	9645	1405.85	**40509**	**3913.89**

Notes : On account of rervised reporting system effective April 1, 2013 break-up for loans issued and also data on holding wise direct finance not available.

Source : Reserve Bank of India.

The above table and graph shows the details of loan outstanding at cooperatives, Scheduled commercial banks and regional rural banks. In the year 2005-06 the total amount of loan outstanding at cooperatives, Scheduled commercial banks and regional rural banks were 2394.39 billion and in the year 2011-12 the flow of credit increase up to 5796.66 billion.The above table is related to the commercial banks direct finance to farmers according to the size of land holdings short term and long term. It is

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clear that the flow of agricultural finance is increasing year by year.

Conclusion: Agricultural finance, particularly commercial bank finance, promoted agricultural development and assist to meet their various day-to-day agricultural expenses. Along with this it had also motivated farmers to adopt modern technology for farming and high volume of production. The flow of agricultural finance by financial institutions is increasing day by day to strengthening the growth of agriculture sector which ultimately helps in economic development of the country and there should be an effective mechanism to evaluate the performance and assist to minimize the outstandings. Further there should be some modifications in the procedure of getting the agricultural finance, so that majority of farmers will get benefit of this simple procedure. This will help to minimize the role of non institutional sources like money lenders, landlords and traders.

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