



A study on agricultural finance and its role in rural development in India

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Abstract

Agriculture has long been the backbone of India's economy, employing a significant portion of the population and contributing substantially to the nation's GDP. Rural development, therefore, hinges on the growth and sustainability of the agricultural sector. One critical aspect of agricultural development is access to finance, which plays a pivotal role in enabling farmers to invest in modern farming practices, improve productivity, and enhance their overall standard of living. This study aims to explore the intricate relationship between agricultural finance and rural development in India. It delves into the various financial instruments and mechanisms available to farmers, including formal banking channels, government-sponsored schemes, and microfinance institutions. Additionally, it investigates the challenges and constraints that hinder the effective deployment of agricultural finance in rural areas. The research employs a mixed-method approach, combining quantitative analysis of financial data and qualitative assessment through interviews and surveys with farmers, financial institutions, and government officials.

INTRODUCTION:

Agriculture is an unorganized profession. Its success and failure depends, to a large extent, on climate factors. If the climate/monsoon is adequate, the crop will grow as per the expectations of the farmers. But if it is not satisfactory then farmers' livelihood has to face various problems. Agricultural finance is a critical component of rural development, playing a pivotal role in promoting economic growth, reducing poverty, and improving

the livelihoods of rural populations. It encompasses a range of financial services and products tailored to meet the unique needs of farmers, agribusinesses, and rural communities. This introduction explores the concept of agricultural finance and its fundamental role in rural development.

Agricultural Finance Defined: Agricultural finance refers to the financial services and products specifically designed to support agricultural

activities, including crop production, livestock farming, agribusiness ventures, and related rural development initiatives. It encompasses various financial instruments such as loans, credit lines, insurance, savings accounts, and investment vehicles, all aimed at facilitating agricultural development.

Need for agricultural Loan:

Agricultural loans serve several important purposes and are essential for the development and sustainability of the agricultural sector. Here are some key reasons why agricultural loans are needed:

Investment in Farming Infrastructure: Farmers often require loans to invest in essential farming infrastructure such as irrigation systems, greenhouses, barns, and storage facilities. These investments can increase productivity and reduce post-harvest losses.

Purchase of Equipment and Machinery: Modern farming often requires specialized equipment and machinery, such as tractors, harvesters, and plowing equipment. Agricultural loans enable farmers to acquire these assets, which can lead to more efficient and cost-effective farming practices.

Working Capital: Farming is subject to seasonal and cyclical variations, with significant expenses incurred before the harvest. Agricultural loans provide working capital to cover operational expenses like seeds, fertilizers, pesticides, labor, and fuel, ensuring that farmers can plant and cultivate their crops.

Crop Production: Agricultural loans are crucial for financing crop production. Farmers use these loans to purchase seeds, fertilizers, pesticides, and other inputs required for planting, growing, and harvesting crops. This financing is especially important for small and marginal farmers.

Livestock and Poultry Farming: Livestock and poultry farming require capital for purchasing animals, feed, veterinary care, and shelter. Loans enable farmers to establish or expand their livestock operations.

Diversification and Innovation: Agricultural loans support diversification of agricultural activities. Farmers can use the funds to explore new crops, livestock breeds, or farming techniques that may be

RESEARCH METHODOLOGY

The present study is of analytical in nature and makes use of secondary data, which is procured through books, magazines, newspapers and internet etc. **SOURCES OF AGRICULTURAL FINANCE**

more resilient to changing climate conditions or market demand.

Risk Management: Agricultural loans can be used to invest in risk management measures, such as crop insurance, to protect against losses caused by natural disasters, pests, diseases, or adverse market conditions.

Market Access and Post-Harvest Facilities: Loans can be used to build or improve post-harvest facilities like cold storage, packaging, and transportation infrastructure. This helps farmers preserve the quality of their produce and access better markets.

Capacity Building: Some agricultural loans may be tied to capacity-building initiatives, providing farmers with training and education in modern agricultural practices and business management.

Rural Development: Agriculture is often the backbone of rural economies. Access to agricultural credit can stimulate economic growth in rural areas, create jobs, and improve living standards.

Food Security: Ensuring that farmers have access to financing is critical for maintaining food security. Adequate production of crops and livestock is essential to meet the nutritional needs of a growing population.

Reducing Dependence on Informal Credit: In many rural areas, farmers rely on informal sources of credit, which can come with high-interest rates and exploitative terms. Formal agricultural loans can help reduce dependence on such costly sources. In summary, agricultural loans are vital for the sustainability and growth of the agricultural sector, as they provide farmers with the necessary capital to invest in their farms, manage risks, and improve productivity. Access to affordable and timely credit can have a significant positive impact on food production, rural development, and the livelihoods of farmers and their communities.

1. **OBJECTIVES OF THE STUDY** To know various aspects of agriculture loan.
2. To examine the role of Agriculture Development financial Institutions in raising the agriculture productivity
3. To know the role of agriculture finance in the development of rural areas.
4. To know the role of government in agriculture sector.

Agricultural finance can be obtained from various sources, including formal financial institutions, government programs, non-governmental organizations (NGOs), and informal sources. Here are some of the primary sources of agricultural finance:

Commercial Banks: Commercial banks offer a range of agricultural loan products, including crop production loans, livestock loans, and equipment financing. Farmers can apply for loans, credit lines, or other financial products from these banks.

Cooperative Banks: Cooperative banks are financial institutions owned and operated by their members, typically farmers or agricultural cooperatives. They often provide specialized financial services to farmers, such as crop loans and rural development loans.

Regional Rural Banks (RRBs): RRBs are government-owned banks established to promote rural and agricultural development. They focus on providing credit and banking services in rural areas.

Nationalized Banks: In some countries, nationalized banks play a significant role in providing agricultural finance and implementing government-sponsored agricultural credit programs.

Agricultural Development Banks: Some countries have specialized agricultural development banks or institutions that focus exclusively on providing financial services to the agricultural sector. These banks are often government-owned.

Microfinance Institutions: Microfinance institutions (MFIs) cater to the financial needs of smallholder farmers and rural entrepreneurs by offering microloans, savings accounts, and other financial services. They are especially important in regions with limited access to formal banking.

Government Agricultural Credit Programs: Many governments run agricultural credit programs aimed at providing subsidized loans and financial support to farmers. These programs often have specific targets and terms to promote agricultural development and food security.

Agricultural Credit Cooperatives: Farmer cooperatives sometimes offer credit facilities to their members as part of their services. These cooperatives pool resources and provide loans to members at favorable terms.

Non-Governmental Organizations (NGOs): Some NGOs working in rural and agricultural development provide financial services to farmers, either through direct lending or by facilitating access to credit from other sources. They often focus on underserved or marginalized communities.

Private Agribusinesses: Agribusiness companies and suppliers of agricultural inputs (e.g., seed and fertilizer companies) may offer credit or input financing to farmers. These arrangements can be a part of contract farming agreements.

Self-Help Groups (SHGs): In some regions, self-help groups of farmers pool their savings and

resources to provide credit to members. These groups are often supported by NGOs or government programs.

Informal Sources: In many rural areas, farmers rely on informal sources of finance, such as moneylenders and local traders. These sources can be costly and may trap farmers in cycles of debt.

Mobile Banking and Digital Financial Services: The use of mobile banking and digital financial services is expanding in rural areas, providing farmers with access to credit, savings, and payment services.

Access to agricultural finance varies by region and country, and it often depends on the specific needs and circumstances of the farmers involved. Increasing access to affordable and timely agricultural finance is a critical component of promoting agricultural development and food security.

Kisan Credit Card (KCC): A Kisan Credit Card (KCC) is a specialized credit card scheme in India designed to provide farmers with convenient and affordable access to credit for their agricultural and related needs. This scheme was introduced by the Indian Government to help farmers meet their agricultural expenses without relying on expensive informal sources of credit.

IMPORTANCE OF AGRICULTURAL FINANCE

- A major sector like agriculture in our country if kept underdeveloped only because of lack of finance, no justice is made to the cultivators & a major population which depends on this sector as a source of livelihood.
- As per the directives of Reserve Bank of India many of the financial institutes are offering their support to agriculture sector. Large number of investments are made in the same.
- Farmers need to purchase new inputs, such as seeds, fertilizers, pesticides, irrigation water and more. Agricultural finance can help to make these purchases easier for farmers.
- The scope for extensive agriculture in India is limited. Therefore, increase in agricultural production is possible only by intensification and diversification of farming. Intensive agriculture needs huge capital.
- Farmer's economic condition is subject to frequent onslaught of flood, drought, famine etc. Therefore, either the continuance of cultivation of crops or making improvements on the farms depends on the nature and availability of finance.

- In recent years, more area is brought under irrigation which in turn would increase the use of inputs like fertilizer and plant protection chemicals. In order to accomplish this, external finance is needed.

- In order to sustain the development of agro-based industries, there should be a substantial increase in the supply of raw materials needed for such industries. Therefore, for the development of farm sector, a constant flow of credit is essential and it would enhance overall growth of the economy.

- In agriculture, fixed capital is locked up in permanent investments like land, well, buildings, etc. Moreover, it takes a long time to get returns from farm. Hence, farmers need finance to continue their farm operations.

- The weaker sections of the farming community should be motivated to participate in development programs by giving financial assistance to acquire productive assets.

- Small and marginal farmers are trapped in the vicious cycle of poverty i.e., low returns → low saving → low investment → low return. To break this cycle, credit has to be injected in agricultural sector.

Limitations:

Agricultural finance plays a crucial role in rural development in India. It is essential for providing farmers with the necessary funds to invest in their agricultural activities, purchase inputs, and improve their farming techniques. However, like any other system, agricultural finance in India also has its limitations. Here are some of the key limitations:

- **Limited Accessibility:** Access to formal financial institutions such as banks and credit cooperatives is limited in many rural areas. This forces farmers to rely on informal sources of credit, often at higher interest rates, leading to debt traps.

- **High Interest Rates:** Even when farmers can access formal credit, the interest rates are often high. This reduces the profitability of farming and can lead to debt burdens, especially during crop failures.

- **Collateral Requirements:** Many financial institutions in India require collateral for loans, which can be challenging for small and marginal farmers who often lack substantial assets to pledge as collateral.

- **Seasonal Nature of Agriculture:** Agriculture is a seasonal activity, and the income generated is not evenly distributed throughout the year. Loan repayment schedules may not align with the farming cycle, making it difficult for farmers to repay loans on time.

- **Lack of Financial Literacy:** Many rural farmers lack financial literacy and are not aware of the

various financial products and services available to them. This hinders their ability to make informed financial decisions.

- **Risk Factors:** Agriculture is susceptible to various risks, including weather-related risks, pests, and diseases. When farmers face losses due to these factors, repaying loans becomes challenging, leading to defaults.

- **Administrative Bottlenecks:** The process of obtaining agricultural loans can be cumbersome due to administrative inefficiencies, paperwork, and red tape, which discourage farmers from seeking formal credit.

- **Dependency on Moneylenders:** In the absence of formal credit, many farmers turn to local moneylenders who charge exorbitant interest rates, trapping farmers in a cycle of debt.

- **Inadequate Investment in Agriculture:** The allocation of credit to the agricultural sector is often inadequate, given the significance of agriculture in India's economy. This can limit the sector's growth potential.

- **Political Interference:** Sometimes, political interference in the allocation of agricultural loans can lead to loans being disbursed based on political considerations rather than the actual needs of farmers.

- **Lack of Diversification:** Many farmers in India rely on a few staple crops, and limited access to finance can hinder their ability to diversify into more profitable crops or adopt modern farming practices.

- **Infrastructure and Supply Chain Issues:** Even with financial support, farmers may face challenges in accessing markets, storage facilities, and transportation, which can affect their income.

- **Loan Waivers:** The periodic announcements of loan waivers by governments can create moral hazard problems, as farmers may be less motivated to repay loans if they believe they will be waived in the future.

CONCLUSION:

The rural credit is provided to the farmers by the cooperative banks, commercial banks, regional rural bank, Kisan Credit Card, NABARD. It helps the farmers for making improvements in the farms. In my opinion the banks should provide more credit to the farmers for productive purposes rather than unproductive purposes so that there may not be the incidences of Indebtedness. The farmers must be guided with some legislation because they are ignorant of such legislations or they are afraid of the money lenders.

The government should provide more loans to the farmers for the rural development through institutional sources so that the farmers will not have to make use of non-institutional sources for taking loans. There is a need for Agricultural financing programs through which farmer's access easily to agricultural financing. The government should make necessary arrangements for giving loans to the farmers at low rates of interest. Efforts should be made to desist ruralizes from undertaking unproductive and wasteful expenditure. Hence they ought to be educated about the harmful consequences of unproductive debts. In order to reduce the dependence of the ruralizes on local money-lenders, the network of institutional credit structure comprising cooperatives, commercial banks and regional rural banks should be rapidly expanded throughout the country to cater to the credit needs of the small farmers and artisans. In order to make loans available to the villagers, the formal procedure for the grant of loans in the co-operative societies and banks should be made as simple as possible.

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