

Importance of Agriculture Financing with Special Reference to India

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Abstract: Producing food items through farming and forestry is called agriculture. The existence of the entire human race is dependent on agriculture itself. The basic requirement of our life is fulfilled by the agriculture sector. In agriculture, the practice of growing crops or raising animals is described. India is an agricultural dominated country, and it is the foundation of our country's economy. In India agriculture is not just farming, but an art of living. The entire country depends on agriculture. The hunger of the people is eradicated only through agriculture. Despite being the main economic activity, productivity of production factors involved in agriculture is very low compared to developed nations. Economists have proved that agriculture and farmers are pioneers of economic development, who contribute immensely in its development. Such as by supplying wage goods to industrial workers, transferring surplus from agriculture to finance, for industrialization, using the product of industry as an investment for the agricultural sector, and transferring excess labour from agriculture to industrial jobs. It is very sad that the farmer who feeds the people is facing economic difficulty due to low productivity. Government of India, State governments, National Bank of Agriculture and Rural Development and other financial institutions continuously working to enhance the livelihood of farmers. Agricultural finance is a finance system related to the execution of works related to rural development and agriculture related activities which are known as a department dedicated to the financing of its supply, wholesale, distribution, processing and marketing. Despite many financial inclusion programs, about 44% of rural households take loans from informal sources. Additionally, the majority of the debt is taken over by affluent farmers and is used for consumption as opposed to productive purposes. This paper looks at different types of finances available, importance of Agriculture financing, various initiatives taken by the government and financial institutions to uplift the agriculture sector and various challenges facing by agriculture sector.

Key words: Agriculture, Financing, Economy, Rural Development, Financial Institutions

Introduction

Agricultural loans are offered by traditional loan providers such as banks as well as government agencies dedicated to facilitating various agricultural activities. Loans provided by commercial banks are classified under two categories namely **Direct Finance** and **Indirect Finance**. Loans can be availed by farmers for agricultural projects such as purchase of new land, purchase of new agricultural machinery or, construction of irrigation channel, construction of grain storage shed, etc. which fall under the category of Direct Finance. And under the Indirect Finance category, Loans are given to the farmers for financing the distribution of fertilizers, pesticides, seeds etc.

The benefit of an agricultural loan can be availed to meet various expenses related to agricultural activities, such as to purchase new farming / cattle or to manage costs and other activities. Many types of agricultural loans exist on the basis of end use as well as repayment period. Generally, agricultural loans can be taken with simple and easy processing by banks. Both secured and unsecured agricultural loans are offered based on loan volume and applicant profile.

Types of Agriculture Loans

Following are the major types of agricultural loans offered by various banks and other lenders in India.

1. **Crop Loan** : Kisan Credit Card / Kisan Card is an ideal agricultural loan option to meet short term requirements, such as cultivation of crops, post harvest activities, maintenance of agricultural equipment. , Etc. card is generally available as an electronic RuPay card, using which farmers can withdraw money from ATMs to make purchases. Thus, it provides a convenient loan to meet your daily agricultural needs.
2. **Agricultural Term Loan**: This refers to the 48 months long term loan given by various loan providers to meet the expenses of Agriculture Loan which are usually not seasonal in nature. Loan amount can be used to buy new machinery or upgrade existing ones, install solar power, windmills etc. Banks generally offer a repayment period of 3 to 4 years for this loan, so that you can pay the borrowed amount in monthly EMI.
3. **Farm Machinery Loan**: This loan can be used to purchase new machinery, repair / replace old ones, buy tractors or harvesters or any other agricultural equipment. While some banks offer a common loan, others have classified these loans into different types based on usage. For example, State Bank of India offers tractor loans, harvester loans and loans for irrigation equipment.
4. **Solar Pump Set Loan**: This agricultural loan is given for purchase of photo voltaic pumping system for minor irrigation projects. It is generally a long term loan with an option of tenure up to 10 years.
5. **Loan for allied agricultural activities**: This loan is given to farmers to meet the working capital requirements and short term investment requirements for related agricultural activities.
6. **Horticultural loan**: This agricultural loan is given for the development of land, establishment of orchards or vegetable fields, cleaning of underground or wooded trees, minor irrigation activities, boundary walls / fencing and other horticultural reasons.

Importance of Agriculture Financing:

The place of agriculture is very important in India's economy. The percentage of agriculturally produced goods in the total export trade of the country is quite high. Almost all the essential food grains in India are supplied through agriculture. Even today, a very large population is employed through agriculture. This becomes very important in such a situation, when the problem of unemployment in the country is increasing day by day. Indian agriculture has been considered as the 'backbone of the country', because it is the remedy which is very important for the well-being of the country.

The agricultural industry provides employment to most of the people of India. More than 60 percent of the population of this country is directly dependent on agriculture. Millions of people get employment by using agricultural products as raw materials in many industries. Apart from this, there is also a huge income in transporting agricultural produce like food grains, cotton, jute, sugarcane, oilseeds, etc. from one place to another. Thus, Indian agriculture is the most important means of sustenance for the people of the country.

Almost entire India's food requirement is met by Indian agriculture. Apart from this, industries like sugar, textiles, jute, oil etc. often depend entirely on Indian agriculture raw material produce as their requirement of raw material is met mainly by domestic production except shortage of cotton and jute of some long fiber, which is imported from overseas market.

The contribution of the agricultural sector in India, one of the world's largest agricultural economies, stood at 37 percent of the gross domestic product. However, there are challenges also in the Indian Agricultural Sector. One of the main challenges that Indian agriculture is still dependent on the monsoon. For this reason, Indian agriculture has often been called 'Monsoon Gambling'. If the monsoon arrives in time, then agricultural production is also positively affected, which fulfills the requirement of food grains in the country and industries also get sufficient raw material. In such a situation, the government can decide its tax system accordingly.

Market Size of Indian Agricultural Products

Year	2015	2016	2017	2018
Total Exports (Units: \$ billions)	35.2	33.7	39.5	39.4

Source: Directorate General of Foreign Trade, Ministry of Agriculture & Farmers Welfare, Global Trade Atlas

The percentage of agricultural commodities in India's total export trade in terms of its contribution is quite high. The exports of agricultural and allied products increased to Rs 77.783 crore in the year 2018-2019, which is 29.1 percent of the total exports of the country.

India ranks second in terms of global food production and is the world's largest producer of many commodities.

The reason for the importance of agriculture in India is that it provides raw material to many major industries. Industries like cotton, jute, sugar, vegetable etc. are dependent on agriculture.

Government Initiatives:

The Current Central Government is committed to uplift the agriculture sector. It has decided to double the income of the farmers by year 2022. To achieve this goal, Central Government has taken measures like introduction of **The new Countrywide Central Sector Scheme-Agricultural Infrastructure Fund** which

has since been approved. The scheme will facilitate medium-long-term debt financing through interest grants and financial support, post-harvest infrastructure management and investment in viable projects for community agricultural assets. Under this scheme, Primary Agricultural Credit Societies (PACs), Marketing Cooperative Societies, Farmer Producer Organizations (FPOs), Self Help Groups (SHGs), Farmers, Joint Liability Groups, in the form of loans of one lakh crore rupees by banks and financial institutions. (JLCs), public-private partnership projects sponsored by multipurpose cooperatives, agricultural entrepreneurs, startups, stored infrastructure providers and central / state agencies or local bodies.

The Reserve Bank of India (RBI) has raised the limit for non-guaranteed agricultural loans to Rs 1.60 lakh. Farmers now get loans up to one lakh rupees without any guarantee. Recently the Central Government has also announced the Prime Minister Kisan Samman Nidhi in the budget. Under this scheme, the government will give Rs 6000 annually to the farmers directly in their account.

The loan will be disbursed in four years. Approval of Rs 10,000 crore in the current financial year and Rs 30,000 crore in the next three financial years respectively.

Under this financing facility, a rebate of 3% will be provided in all types of loans up to a limit of Rs 2 crore per year. This rebate will be available for a maximum period of 7 years. In addition, credit guarantee coverage will also be available to eligible borrowers through this financing facility under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) scheme for loans up to Rs 2 crore. The government will pay a fee for this coverage. In case of FPOs, the benefit of credit guarantee can be availed from this facility created under the FPO Promotion Scheme of Department of Agriculture, Cooperation and Farmers Welfare (DACFW). The total outflow will be Rs 10,736 crore as budgetary support from the Government of India.

Under this financing facility, the moratorium for repayment can be for a minimum of 6 months and maximum of 2 years. Through the formal credit facility for agriculture and agro-processing based activities, this project is likely to generate many employment opportunities in rural areas. The management and monitoring of agricultural infrastructure funds will be done through the Online Management Information System (MIS) platform. This will make all eligible institutions eligible to apply for loan under the fund. This online platform will provide benefits such as transparency in interest rates offered by many banks, plan details including interest grant and credit guarantee, minimum documentation, faster process of approval as well as integration with other plan benefits. Monitoring committees will be set up at the national, state and district levels to ensure timely monitoring and receipt of effective feedback.

Challenges

Inadequate availability: In view of the requirements of agriculture, the achievement of agriculture is insufficient. Although there has been a huge increase in the amount of agricultural credit, but considering the increase in our population and the huge increase in the value of agricultural equipment, fertilizers and seeds etc., this amount is still much less than our agricultural credit requirements.

Less Recovery of Agricultural Credit: Reduction in recovery of agricultural loans and increase in outstanding loans have also affected agricultural credit. In the last three-four years, 40 to 42 percent of the loan amount has been in arrears. This has hindered cooperative institutions and banks in providing agricultural credit facilities to other individuals.

Inadequate Amount of Loans: One of the main problems of agricultural credit is insufficient quantity of loans. It is generally seen that farmers do not get adequate amount of credit. For this reason, they do not use that loan for agricultural purposes, but instead to fulfill their social needs. As a result of which the objective of agricultural credit is not fulfilled and the problem of agricultural debt collection arises.

Delayed Action : The paperwork of the problems of agriculture is so long and complicated that it becomes difficult for the poor and uneducated farmers of the village to complete all the loan related formalities. This makes it difficult for farmers to get loans.

Uncertain Capacity of Refunding Loans: The ability of most farmers to repay loans is uncertain. Due to lack of adequate irrigation facilities, agriculture is still a gambling monsoon. Even if the farmer gets a loan, but even if the rainfall is not enough, his ability to repay the loan will be affected. As a result, banks will have difficulty in providing new credit facilities.

Inadequate Institutional Credit Facilities: There are still insufficient institutional credit facilities in India. The number of branches of primary agricultural credit societies, rural banks and commercial banks are still insufficient. Many rural areas are deprived of their facilities. Residents there face considerable difficulties in obtaining agricultural loans.

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