HISTORY OF FINANCING AGRICULTURE IN INDIA

Finance in agriculture is as important as other inputs being used in agricultural production. Technical inputs can be purchased and used by farmer only if he has money (funds). But his own money is always inadequate and he needs outside finance or credit. Professional money lenders were the only source of credit to agriculture till 1935. They used to charge unduly high rates of interest and follow serious practices while giving loans and recovering them. As a result, farmers were heavily burdened with debts and many of them perpetuated debts. With the passing of Reserve Bank of India Act 1934, District Central Co-op. Banks Act and Land Development Banks Act, agricultural credit received impetus and there were improvements in agricultural credit. A powerful alternative agency came into being. Large-scale credit became available with reasonable rates of interest at easy terms, both in terms of granting loans and recovery of them. Although the co-operative banks started financing agriculture with their establishments in 1930's real impetus was received only after Independence when suitable legislation were passed and policies were formulated. Thereafter, bank credit to agriculture made phenomenal progress by opening branches in rural areas and attracting deposits.

Till 14 major commercial banks were nationalized in 1969, co-operative 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. Development and adoption of new technologies and availability of finance go hand in hand. In bringing "Green Revolution", "White Revolution" and "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 loans" (Short-term loan) has the major share. In addition, farmers get loans for purchase of electric motor with pump, tractor and other machinery, digging wells or boring wells, installation of pipe lines, drip irrigation, planting fruit orchards, purchase of dairy animals and feeds/fodder for them, poultry, sheep/goat keeping and for many other allied enterprises.

Agricultural Credit System in India

Farmers get external financial assistance from two sources namely, i) non-institutional or unorganized agencies, and ii) institutional or organized agencies. It is a fact that agriculture has been financed by non-institutional agencies for a long time and institutional agencies were started functioning only during the early part of this century.

Non-Institutional Sources of Finance in India

Non-institutional sources include money lenders, land lords, traders, commission agents, friends and relatives.

i) Money Lenders

There are two types of money lenders in rural areas. a) agricultural money lenders and b) professional money lender. Agricultural money lender's main occupation is farming and money lending is secondary one. Professional money lender's main profession is money lending. Although the reliance on money lender by rural poor declined over the years, the credit disbursed by money lenders still forms a major portion of the total credit obtained by the farmers.

Agricultural money lender's main occupation is farming and money lending is secondary one while the Professional money lender's main profession is money lending. Although the reliance on agricultural and professional money lenders by rural poor declined over the years, i.e., from 80 per cent of their total credit requirement in 1951 to 30 per cent in 2002, the credit disbursed by money lenders still forms a major portion of the total credit obtained by the farmers.

Advantages

i. Unrestricted supply of credit for any purpose..
ii. Easy access by farmers as money lenders maintain close relationship with rural families.
iii. Method of business adopted are simple and flexible.
iv. Timely availability of credit without much formalities.
v. Knowledge on local conditions and experience of money lender facilitate his business.
vi. Money lenders do not insist upon any particular type of security for the grant of loans.

Unfair Practices of Money Lenders

Money lenders deceive the farmers through many ways such as:

a. They manipulate bonds and promissory notes obtained from debtors and enter large sum than actually lent.
b. They give no receipt for repayments and often they deny such repayments.
c. They charge very high rate of interest
d. They give loans for both productive and unproductive purposes which results in indebtedness

Proportion of Borrowing* by Farmers from Organized and Unorganized Lending Agencies

(percentages)

Lending Agencies	**1951**	**1961**	**1971**	**1981**	**1991**	**2002**
I Organized Agencies						
1.Government	3.3	6.7	7.1	4.0	6.1	2.3
2. Co-operatives	3.1	11.4	22.0	29.0	21.6	27.3
3.Commercial Banks	0.9	0.3	2.4	28.0	33.7	24.5
4. Insurance, Provident Fund and Other Institutions	-	-	0.2	-	2.6	3.0
Sub-Total	**7.3**	**18.4**	**31.7**	**61.0**	**64.0**	**57.1**
II Unorganized Agencies						
1. Land Lords	1.5	0.9	8.1	4.0	4.0	1.0
2. Agricultural Money lenders	24.9	48.1	23.0	9.0	7.0	10.0
3. Professional Money lenders	44.8	13.8	13.1	8.0	10.5	19.6
4. Traders and Commission Agents	5.5	7.1	8.4	3.0	2.2	2.6
5. Friends and Relatives	14.2	5.2	13.1	9.0	5.5	7.1
6. Others	1.8	6.5	2.6	6.0	6.8	2.6
Sub-Total	**92.7**	**81.6**	**68.3**	**39.0**	**36.0**	**42.9**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Borrowing refers to outstanding cash dues.

Sources: a) Reserve Bank of India, All India Rural Credit Survey Committee Report, 1951-52.

b) Reserve Bank of India, All India Debt and Investment Survey Report, 1961-62,1971-72, 1981-82, 1991-92 and 2003.

ii) Land Lords

Small farmers and tenants rely on land lords for finance to meet out their productive and unproductive expenses. This source of finance has all the defects associated with money lenders. Interest rates are exorbitant. Often small farmers are forced to sell out their lands to these land lords and they become land less labourers. Landless labourers bonded labourers. The reliance on this agency by farmers has been decreased over years, i.e., from 1.5 per cent in 1951 to 1.0 per cent in 2002.

iii) Traders and Commission Agents

They are functioning either to get regular supply of products for their trade or to have a control over the provision of credit by other creditors. Though the rate of interest charged by them is not as high as charged by the money lenders, they charge more in the form of concessions and service chages, They mostly finance for the cultivation of commercial crops like sugarcane, cotton, ground-nut, tobacco, onion, etc. The share of credit provided by these agencies to total credit decreased from 5.5 per cent in 1951 to 2.5 per cent in 2002.

iv) Relatives

Farmers borrow from their relatives for temporary exigencies. It is simply a mutual help. Since all farmers are living under similar conditions, they can not lend large sums as loans. Normally, no interest is paid on such loans. Although, the private agencies satisfied some of the criteria of a good system of credit,their loan were not related to production purposes, they never cared for the end use of the loan extended and the loan is often used for wasteful purposes. However, institutions adopt a productive and purpose oriented credit policy while providing credit. So this policy made the institutions to discourage the provision of credit to consumption purpose. But it is evident that the need for consumption loan in rural households continues to persist. As the institutions deny consumption loans to farmer's, the non-institutional agency continues to dominate the rural credit system. Moreover, the institutional agencies could not provide more than 60-65 per cent of the total credit needs of the farmers. Therefore, the private credit agencies should be brought under a more realistic system of state regulation. Otherwise, the rural people would continue to suffer from indebtedness in spite of various efforts taken by the government to uplift their economic conditions. Their share has declined from 14.2 per cent in 1951 to 7.1 per cent in 2002.

Institutional Credit Agencies

As compared to the quantum of credit requirement and the capacity of institutions to meet these credit demands under multiagency system, it is impossible to completely wipe out the private agencies from the rural scene. The Banking committee, (1931) and the Banking Commission (1972) offered suggestions toget over the evil aspects of private lending agencies and bring them under sound credit system.These suggestions may be adopted till the institutional agencies attain the capacity to meet the full demand for credit.

The major institutions supplying credit to agricultural sector are : i) Government, ii) Co-operatives, iii) Commercial Banks, iv) Regional Rural Banks, v) Reserve Bank of India (National Bank for Agricultural and Rural Development)

i) Government The Government provides both direct and indirect finance to farming sector.

Direct Finance The government provides taccavi loans in times of distress like famine, flood, drought etc. Land Improvement Act of 1883 and the Agriculturists Loans Act of 1984 were enacted to extend long and short term financial assistance to farmers for agricultural development and also an relief measures during distress times.

Merits

1. They are granted for long period of time.
2. Low interest is charged.
3. The repayment plan is convenient, i.e., repayment in equal annual installments.

Demerits

1) Quantum of loan is determined an the basis of value of security offered, by which, large farmers receive more credit than small and marginal farmers.
2) As these loans are not production oriented, they do not satisfy the standard needed for sound system of form credit.
3) The loan amount is inadequate.
4) The land less labourers were left out in the lurch at the time of distress.
5) The taccavi loans are not popular among farmers due to

- inordinate delay in sanctioning of loan.
- imposition of irrelevant conditions.
- incompetent supervision
- in convenient recovery methods.

In view of these demerits, it was recommended to channalise these loans through co-operatives.

a) Indirect Finance to Agriculture by Government

1) It allocates subsidized fertilizer to states according to their needs.
2) It provides technical assistance to farmers through Tamil Nadu agricultural Development Programme.
3) It implements price stabilization schemes for various crops.
4) In consultation with the RBI, the government prescribes the rates of interest to be charged on loans granted to weaker sections of rural areas.
5) It contributes to the share capital and debentures of co-operatives.

Instead of playing direct role in providing form credit, the government may play a vital role in creating conditions or infra-structural facilities to the promotion of institutional credit.