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Role of Finance in Agriculture Development

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Abstract:
Agriculture finance is the most important factor in agriculyure and rural development in developing economy like india. In India approximately more than two third of the population engaged in agriculture related activities. Around 56 percent work force is engaged in agriculture. Development of Agriculture sector and rural economy depends on good development and flow of credit system. Credit supply is an important Determinant of investment in agriculture. In india ,access to credit remains significant challenge for farmers .Finance in agriculture is as important as development of technologies .Technical inputs can be purchased and used by farmers only if sufficient money is available with farmers .Most of the times farmers suffer from the problem of inadequate financial state. agriculture has greater role in the development of industries such as textiles ,sugar and many agro based industries..The analysis states that despite the significant strides achieved in terms of spread network and outreach of institutions, the qualities of flow of financial resources to agriculture continue to be inadequate .It appears that banking system is still hesitant on various grounds to provide credit to small and marginal farmers

Key Words : Agriculture finance, marginal and small farmers, Agricultural inputs

Introduction : Agriculture finance is in India is one of the most important factors of its economy. It is the means of livelihood of almost two thirds of the work force in the country and according to the economic data for the financial year 2006-07, agriculture accounts for 18% of India's GDP. About 43 % of India's geographical area is used for agricultural activity. Though the share of Indian agriculture in the GDP has steadily declined, it is still the single largest contributor to the GDP and plays a vital role in the overall socio-economic development of India. Agricultural credit provide exposure to the extension worker about the structure and functioning of lending institutions which in turn helps him to guide the borrower to choose the cheap lender in acquisition of credit. Besides, he can also advise on most efficient use of credit, i.e., to maximize the returns to limited

Capital Resources. Thus, the extension advisory service has important role in the production planning with the farmers on the one hand while on consequential plans for the acquisition and use of limited funds on the other.

Objectives of the Study:
1)Agricultural credit becomes a strong force to enhance the production level, productivity and income of the farmers, which play important role to alleviate rural poverty.
2)The need of agriculture credit arises because capital is one of the vital inputs for the development of agriculture.
3) As we know that Indian economy is based on agriculture, so financial inclusion in agriculture may be a better way to empower the Indian farmer

Research Methodology: This a descriptive research paper based on secondary data. Data have been found out from R.B.I, NABARD, Commercial Bank, Cooperative Banks and RRBs on different view point.

Sources of Agriculture Credit:
There are mainly two source of credit to agriculture (a) Non-Institutional/informal sources.
(b) Institutional/ Formal sources Non-Institutional:- They include money lends traders, commission agents, relatives and land lords. There are rich farmers or land lords, who combine

farming with money lending, freely supply credit to farmers for productive and non-productive purpose. Traders and commission agents supply funds to farmers for productive purpose especially for crop production. These types of sources of finance are important in the case of cash crops. Farmer often borrows from their own relatives in cash or kind for various purposes. Institutional: - Earlier agriculture credit requirement was depends upon private money lender and they charged high interest rate and land or other assets were kept as collateral. This arise the need for institutional credit arrangement for agriculture. The institutional arrangement for agriculture credit comprises cooperatives, commercial banks, RRBs, NABARD and micro Finance Institution in India.

Cooperative credit Societies – Commonly known as the primary agricultural credit society, is the gross root arm of the short term credit structure, dealing directly with farmer borrowers and also undertaking farm input marketing and distribution function. Commercial Banks – They are providing direct and indirect finance to the farmers and distribution firms or agencies and cooperative engaged in supply of farm implements and machinery on a hire purchase basis. They finance the operations of state and central government for procurement and storage of food grains. Co-operative Agriculture and Rural Development Banks – They grant loans on the basis of agricultural properties. They provide credit for a variety of purpose such as redemption of old debts, land improvement, to purchase expensive agricultural machinery and construction of wells. Regional Rural Banks (RRBs) – RRBs were setup under the recommendation of the working group on rural banks headed by M.Narsimham in 1975 to provide banking facilities in rural and backward areas. The main objective of RRBs is to provide credit and other banking facilities particularly small and marginal farmers, agricultural labourers and rural artisan. National Bank for Agricultural and Rural Development (NABARD) – Recommendation of the committee to review arrangements for institutional credit for agricultural and rural development, The NABARD was set up in 1982 as the apex of rural institutional credit network.

Agricultural Credit: A Review

As we see today, the rural credit system has evolved over the last six decade. During this course, the system witnessed many reforms as recommended and suggested by various committees and expert group appointed by government of India and R.B.I. from time to time.The agriculture credit system received its first and significant policy direction from All India Rural Credit Survey (AIRCS) committee, 1954. The committee highlighted that share of institutional and non-institutional credit was 7.3% and 92.7% respectively and proposed new initiatives and financial support to agriculture. The committee recognized the existence of cooperative structure and recommended the establishment of large sized multipurpose credit societies and extending banking services in rural areas. The emergence of green revolution in the mid 1960 demonstrated the need for effective credit support to farmers and also explored the inability of credit cooperatives to meet the challenge. Consequently, the Government of India intervened to encourage commercial banks to play a major role in providing agriculture credit by nationalization of commercial banks in 1969 and 1980.The other major development in agriculture credit from the supply side were establishment of RRBs in 1975 and Establishment of NABARD in 1982.All these institutional development of the rural credit structure and initiative brought out significant changes in agriculture credit delivery.

Status of Institutional Credit to Agriculture and Allied Sector: As a result of the institutional expansion policy thousands of bank branches were opened in rural and semi urban areas and government established a new network of RRBs in 1975 for strengthening the rural credit delivery

mechanism. Consequently, RBI in 1982 transformed its agricultural credit department with a new bank-NABARD. The opening up of rural bank branches was not only the supply side push of credit but increase in demand side due to population increase and diversification of agriculture in the post-Green Revolution era. In order to expand the credit and financial services to the wider sections of the population, a wide network of financial institutions has been established over the years. The initiatives taken by the Reserve Bank and the Government of India towards promoting financial inclusion since the late 1960s have considerably improved the access to the formal financial institutions. Banking sector plays considerable role in bringing financially excluded people in to formal financial sector as policies of the government and Reserve Bank towards financial inclusion are implemented through banking sector. Distribution of banking system is another indicator of level of financial inclusion in a country.

Conclusion: It is now an established fact that without access to formal finance at an affordable cost, inclusive growth is not possible. In order to provide credit to the productive sector, which has the potential for employment generation, government should adopt multi channel credit policy involving SHGs and Micro-Finance institution.

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