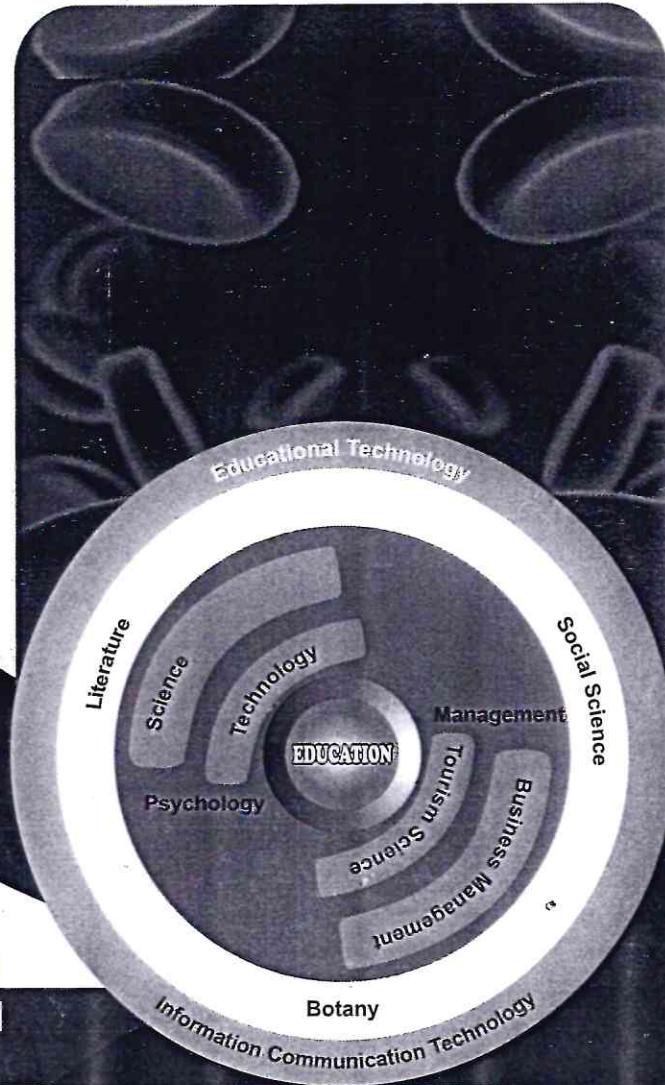


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AGRICULTURAL ECONOMICS – AGRICULTURAL CREDIT**Prof. Pravin More***Assistant Professor, Dept of Economics, Shri Padmamani Jain college Of Arts & Commerce, Pabal. Tal-Shirur. Dist-Pune*

INTRODUCTION Agriculture in India is one of the most important sectors 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) To study status and problems of agricultural credit
- 2) To study sources and mechanism of agricultural credit
- 3) To understand concept of agricultural finance

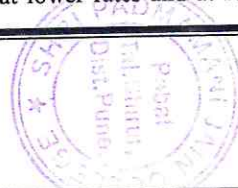
Research methodology

For the said research study the secondary data is collected from various state and national journals which are related to economics commerce marketing and finance. For the study the literature was collected by visiting various libraries and various websites.

Meaning and Importance of agricultural credit –Agricultural finance is the study of financing and liquidity services credit provides to farm borrowers. It is also considered as the study of those financial intermediaries who provide loan funds to agriculture and the financial markets in which these intermediaries obtain their loanable funds

Importance of agriculture finance- Agriculture production in this country depends upon millions of small farmers. Their intensity, effort and efficiency have helped in raising yields per acre. Finance in agriculture act as a key to farmers. But farmers' money is always inadequate and he needs outside finance or credit. Because of inadequate financial resources and absence of timely credit facilities at reasonable rates, many of the farmers, are unable to go in for improved seeds and manures or to introduce better methods or techniques. The farming community must be kept informed about the various sources of agriculture finance. Agricultural finance possesses its usefulness to the farmers, lenders and extension workers. The knowledge of lending institutions, their legal and regulatory environment helps in selecting the appropriate lender who can adequately provide the credit with terms and related services needed to finance the farm business

Role of agriculture finance - Agriculture plays a crucial role in the development of the Indian economy. It accounts for about 19 per cent of GDP and about two thirds of the population is dependent on this sector. Agricultural finance is a subset of rural finance dedicated to financing agricultural related activities such as input supply, production, distribution, wholesale, processing and marketing. Financial service providers face distinct challenges when dealing with this sector. For example, the seasonal nature of production and the dependence on biological processes and natural resources leave producers subject to events beyond their control such as droughts, floods or diseases. The modern agriculture has increased the use of inputs specially for seed, fertilizers, irrigational water, machineries and implements, which has increased demand for agricultural credit. The adoption of modern technology, which is capital intensive, has commercialized agricultural production in India. Besides, the farmers' income is seasonal while his working expenses are spread over time. In addition, farmer's inadequate savings require the uses of more credit to meet the increasing capital requirements. Furthermore, credit is a unique resource, since it provides the opportunity to use additional inputs and capital items now and to pay for them from future earnings. The rural population in India suffers from a great deal of indebtedness and is subject to exploitation in the credit market due to high interest rates and the lack of convenient access to credit. Rural households need credit for investing in agriculture and smoothening out seasonal fluctuations in earnings. Since cash flows and savings in rural areas for the majority of households are small, rural households typically tend to rely on credit. Rural households need access to financial institutions that can provide them with credit at lower rates and at reasonable terms than the traditional



money-lender and thereby help them avoid debt-traps that are common in rural India. Timely and adequate agricultural credit is important for the increase in fixed and working capital for farmers. In order to provide sufficient credit to the farmers, many institutional and non-institutional agencies are working. Under institutional agencies cooperative, commercial, regional rural banks and different Government organizations are supplying credit to the needy farmers on priority basis

Types of agriculture credit : The agriculture credit can be classified on the basis of:

(1) **According to Tenure of Agricultural Credit** i.e. the credit requirement based on the time-period of loans. It can of three types: (a) **Short-Term:** It refers to the loans required for meeting the short-term requirements of the cultivators. These loans are generally for a period not exceeding and repaid after the harvest. For example loans required for the purchase of fertilizers, HYV seed, for meeting expense on religious or social ceremonies etc. (b) **Medium-Term:** These loans are for a period up to 5 years. These are the financial requirements to make improvements on land, buying cattle or agricultural equipments, digging up of canals etc (c) **Long-Term:** These loans are for a period of more than 5 years and are generally required to buy additional land or tractor or making permanent improvements on land.

(2) **According to Purpose of Agriculture Credit:** The agriculture credit on the basis of purpose for which the credit is used can be of two types :a) **Productive:** Productive loans are the loans hat are related to agricultural production and economically justified. For example purchase of tractor, land, seeds etc b) **Unproductive:** Unproductive credit are used for personal consumption and unrelated to productive activity for example loans for expenditure on marriages, religious ceremonies etc.

Source of Agricultural Credit in India:

There are two broad sources of agricultural credit in India:

(1) Non-Institutional Sources (2) Institutional Sources

(1) **Non-Institutional Sources:** The non-institutional finance forms an important source of rural credit in India, constituting around 40 percent of total credit in India. The interest charged by the non-institutional lenders is usually very high. The land or other assets are kept as collateral. The important sources of non-institutional credit are as follows :i) **Money-Lenders:** Money-lending has been the widely prevalent profession in the rural areas. The money-lenders charge huge rate of interest and mortgage the property of the cultivators and in some cases even the peasants and members of his family are kept as collateral.(ii) **Other Private Sources:**a) **Traders, landlords and commission agents:** The agents give credit on the hypothecation of crops which when harvested is used to repay loans(b) **Credit from relatives:** These credits are generally used for meeting personal expenditure.

(2) **Institutional Sources:** The general policy on agricultural credit has been one of progressive institutionalization aimed at providing timely and adequate credit to farmers for increasing agricultural production and productivity. Providing better access to institutional credit for the small and marginal farmers and other weaker sections to enable them to adopt modern technology and improved agricultural practices has been a major thrust of the policy. National Bank for Agriculture and Rural Development (NABARD) is an apex institution established in 1982 for rural credit in India. It doesn't directly finance farmers and other rural people.

Table 1: Relative Share of Borrowing of Cultivator Households from Different

(Figures are in Per cent)

| Sources | 1951 | 1961 | 1971 | 1981 | 1991 | 2002 |
|--------------------------------|------|------|------|------|------|------|
| Sources Credit | | | | | | |
| Non-Institutional | 92.7 | 81.3 | 68.3 | 36.8 | 30.6 | 38.9 |
| <i>of which</i> | | | | | | |
| Money Lenders | 69.7 | 49.2 | 36.1 | 16.1 | 17.5 | 26.8 |
| Institutional | 7.3 | 18.7 | 31.7 | 63.2 | 66.3 | 61.1 |
| <i>of which</i> | | | | | | |
| Cooperatives Societies / Banks | 3.3 | 2.6 | 22.0 | 29.8 | 23.6 | 30.2 |
| Commercial Banks | 0.9 | 0.6 | 2.4 | 28.8 | 35.2 | 26.3 |
| Unspecified | — | — | — | — | 3.1 | — |

| | | | | | | |
|-------|-------|-------|-------|-------|-------|-------|
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
|-------|-------|-------|-------|-------|-------|-------|

Source : All India Debt and Investment Survey and NSSO.

Conclusion – from above table it is concluded that still non institutional sources are contributing more to agriculture sector more than institutional sources Farmers are still facing many types of problems to get credit

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