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A Study on Financing of Agriculture by Banks in India

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Abstract:

The study is empirical in nature, and it intended to assess different types of loans available for farmers and ratio of institutional credit to output for agriculture in India. The study concludes that there are several schemes and types of loans available for farmers of India. In the year 2022, the ratio of institutional credit provided to the total output in agriculture was 1.28. The total amount distributed in the year 2020-21 is Rs-190682. In the year 2021-22 it seen the highest achievement of distribution as the distribution amounted to 217849 and 94.5%. In 2023 75 % of the total loan disbursal is higher rate loans (more than 7%) and lower rate loans got very less disbursal.

1. Introduction

For a considerable section of the population and a big amount of the country's GDP, agriculture has long been the backbone of India's economy. Nevertheless, the industry faces a number of difficulties, such as erratic weather patterns and fluctuating market prices, underscoring the necessity of strong financial support mechanisms (Mohanty et al., 2021). Acknowledging the crucial function of agriculture and its innate difficulties, several Indian banks have started programs to offer customized financing options to farmers and agribusinesses.

Selected Indian banks finance agriculture with a multimodal strategy that considers the various demands of farmers in various areas and with various agricultural techniques. These institutions are essential to expanding loan availability, encouraging technological innovation, and supporting environmentally friendly farming methods.

Giving farmers loans to cover their input needs is the foundation of agricultural finance. A variety of loan packages are available from a few Indian banks to help farmers purchase necessary inputs including machinery, fertilizer, seeds, and pesticides. These loans are frequently given out on favourable terms, with adjustable payback plans that take into account the cyclical nature of farming operations (Mohanty et al., 2023). Banks enable farmers to make vital investments in their crops, increasing production and guaranteeing food security, by providing prompt and reasonably priced finance.

Additionally, a few Indian banks have created customized lending programs to meet the unique requirements of farmers. For example, crop loans are short-term credit arrangements given to farmers to help them finance their crop-growing endeavours. Usually, these loans pay for planting, irrigation, harvesting, and land preparation costs (Mohapatra et al., 2024). Banks help farmers by offering crop loans, which relieve them of some of the financial strain during the cropping season and allow them to concentrate on increasing yields and streamlining farm operations.

Banks provide term loans in addition to crop loans for the acquisition of infrastructure and capital goods necessary for agricultural output. These might include loans for the purchase of irrigation systems, storage facilities, and agricultural machines. Through the provision of sophisticated farming equipment, banks help to improve the productivity and efficiency of agricultural operations. Additionally, banks provide loans for related industries like horticulture, dairy farming, and chicken production, which encourages value addition and diversification in the agricultural industry (Matta et al., 2022).

The importance of using technology to modernize Indian agriculture and solve new issues has grown in recent years. Seeing the possibilities of tech-enabled solutions, several banks have launched creative finance programs designed to encourage the adoption of contemporary agricultural techniques. Financing for the acquisition of agricultural automation equipment, precision agriculture technology, and high-yielding crops are some examples of these programs. Banks enable farmers to increase agricultural yields, maximize resource usage, and reduce risks related to climate unpredictability by investing in technology-driven solutions.

Additionally, a few banks in India are aggressively working to advance financial inclusion in rural regions, which are the hub of most agricultural activity. The goal of bank outreach to marginalized and distant farming areas is achieved through programs including digital lending platforms, branch development, and mobile banking. Banks facilitate inclusive growth and poverty alleviation by enabling excluded populations, including smallholder farmers, to participate more effectively in agricultural value chains through the provision of accessible and inexpensive financial services.

2. Review of Literature

Studies by scholars like Das et al. (2020) highlight how important banks are in helping India's agriculture industry financially. They emphasize how banks are farmers' main source of credit, allowing them to finance investments in cutting-edge farming technologies and satisfy their input needs.

The effect of agricultural financing on farm production in India is examined by Kumar et al. (2021). Their results point to a favorable relationship between farm production and loan availability, with timely financing availability enabling farmers to improve agricultural methods and increase yields. Research by Patel and Saravanan (2018) investigate how Indian banks' disbursement of agricultural loans is influenced by national policy. They examine programs like interest subsidy plans and the Kisan finance Card (KCC) to see how well they work to increase farmers' access to finance and advance agricultural growth.

Mishra and Sahoo (2017) talk about the difficulties banks in India have funding agriculture. The authors highlight many obstacles to the effective distribution of agricultural finance, including elevated transaction expenses, information asymmetry, and insufficient infrastructure in rural areas. Research by Singh and Sinha (2019) look at creative financing strategies used by a few Indian banks to support the growth of agriculture. They talk about programs including value chain finance, warehouse receipt financing, and joint liability groups (JLGs), emphasizing how they may be used to meet the various financial needs of agribusinesses and farmers.

The impact of banks' efforts to promote financial inclusion in rural regions and its influence on agricultural growth are examined in research by Kumar et al. (2021). They evaluate how well programs like digital lending platforms, branch development, and mobile banking reach underprivileged rural communities and improve their access to formal financial services.

Research conducted by Rao et al. (2018) explores how banks might use creative financing methods to support sustainable farming practices. They emphasize the value of funding programs that promote the use of renewable energy sources, organic farming, and water conservation as means of promoting environmental sustainability and long-term agricultural resilience. Mahapatra et al. (2019) study looks at how Indian banks handle risk while lending to farmers. They go over tactics to reduce credit risk and improve the stability of agricultural loan portfolios, include crop insurance plans, collateral replacements, and credit rating models.

3. Objectives of the Study

The study has the following objectives:

- To assess different types of loans available for farmers of India
- To identify the ratio of institutional credit to output for agriculture in India.
- To assess distribution of Interest rates on Farm Loan.

4. Methodology

The study is empirical in nature. The data has been collected from different secondary sources like websites and periodicals. The websites of govt. institutions are given more importance.

5. Analysis and Interpretation

5.1 Agriculture Loans in India

Types of Agricultural Loans in India

One can avail a loan for the following activities related to agriculture:

- Running day to day operations
- Buying farm machinery such as tractors, harvesters, et cetera
- Purchasing land
- Storage purposes
- Product marketing loans
- Expansion

In India, agricultural loans are extended to individuals involved in various agriculture-related fields such as horticulture, aquaculture, animal husbandry, silk farming, apiculture, and floriculture, in addition to farmers who are cultivating food crops.

National Bank for Agriculture and Rural Development (NABARD)

Farmers in India receive substantial financial assistance from all tiers of elite banks and financial institutions. However, the National Bank for Agriculture and Rural Development (NABARD) initiated this trend of using financial lending to support agriculture and the rural economy back in the early 1980s. Regarding lending for the agricultural industry, the NABARD oversees all other banks in the nation.
The Indian government and this financial organization are collaborating to strengthen the agriculture industry. It is recognized for having created a number of ground-breaking programs that have greatly benefited farmers across the nation. The Kisan Credit Card is the most well-known program that NABARD has introduced (KCC).

Kisan Credit Card Scheme

In an effort to meet the financial needs of the agriculture industry, Indian banks introduced the Kisan Credit Card program in 1998. This is accomplished by providing farmers with financial help, which has several advantages and benefits of its own. The cost of farming, farm maintenance, and other factors all affect how much the loan is for.

Farmers who are unaware of the banking procedures have benefited the most from this. Additionally, it is designed to shield farmers against unforgiving and unreliable creditors who may leave them deeply in debt. Farmers can take out cash using their KCC cards to meet their own needs and for crop production. The Kisan Credit Card application procedure is easy to complete and needs little paperwork. In addition, it provides interest payment subsidies and crop insurance coverage. In relation to interest, farmers who request for loans under the KCC plan may do so for up to Rs. 3 lakh at a rate of 7% annually.

The farmer's savings account is connected to the Kisan Credit Card, allowing for the processing of all transactions through a single account. In addition, interest is paid on any credit balance in the KCC account. A KCC is available to all farmers; for further information and to apply, go to the bank that is closest to you.

Other Similar Types of Agricultural Loan Schemes

A few additional projects that target certain sectors have also benefited immensely from the development work done by the NABARD. Listed below are a select handful of them:

Scheme to Foster Dairy Entrepreneurship Development: With modernized dairy farms, calf raising, infrastructure provision, improved logistical operations to enhance the product on a commercial scale, and self-employment, this project aims to boost the dairy industry.

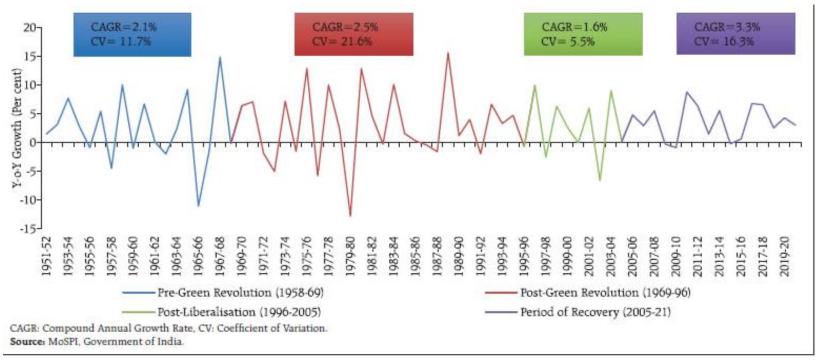
Rural Godowns: This program's primary goal is to assist farmers across the nation by giving them access to godowns. Consequently, this will significantly increase their holding capacity, allowing them to sell their goods at reasonable prices as opposed to distressed sales. Furthermore, the implementation of a nationalized warehousing system facilitates the sale of agricultural products.

Loan Against Warehouse Receipts: The best defense against distressed sales is warehouse receipt financing. After harvest, all a farmer needs to do to get funding is store his produce in a warehouse authorized by the Warehousing

Development and Regulatory Authority (WDRA), which will then provide him with a receipt. This warehouse receipt, which includes crucial information on the amount and quality of the goods, can be utilized to get bank credit for up to 70% of the collateral.

Solar Schemes: These programs were put in place to encourage the adoption of solar technology and lessen reliance on grid electricity. Here, solar pumps are intended to take the place of diesel pumps since they are more environmentally friendly and have lower running expenses.

Image 1: Different phases of Agriculture Growth



Source: RBI bulletin (2022)

Following the green revolution in the 1960s, Indian agriculture saw a noticeable acceleration in production growth, driven by intense input utilization and technical improvement, which was maintained during the 1970s and 1980s (Image 1). The average production of foodgrains has increased dramatically over the past ten years, despite a slight slowdown in the early 2000s. This increase has been facilitated by increased agricultural credit, public and private investment, increased use of high-quality seeds and fertilizers, increased acreage under irrigation, and increased cropping intensity (Chand and Parappurathu, 2012).

5.2 Institutional Credit to Output for Agriculture in India

The three primary rural financial institutions (RFIs) that use their geographic and demographic reach to offer loans to the agricultural industry at the village level are SCBs, RRBs, and cooperatives. institutional credit's percentage grew from 7% in 1951 to 67% in 2018. At a rate of 19.5% year, the credit to the agricultural industry grew from Rs. 46268 crore in 1999–2000 to Rs. 1863363 crore in 2021–2022. The institutional credit to total agricultural output ratio in the 2022 fiscal year was 1.28. Stated differently, the credit amount exceeded 50% of the overall output achieved throughout the fiscal year.

Image 1: Ratio of institutional credit to output for agriculture in India from financial year 2016 to 2022

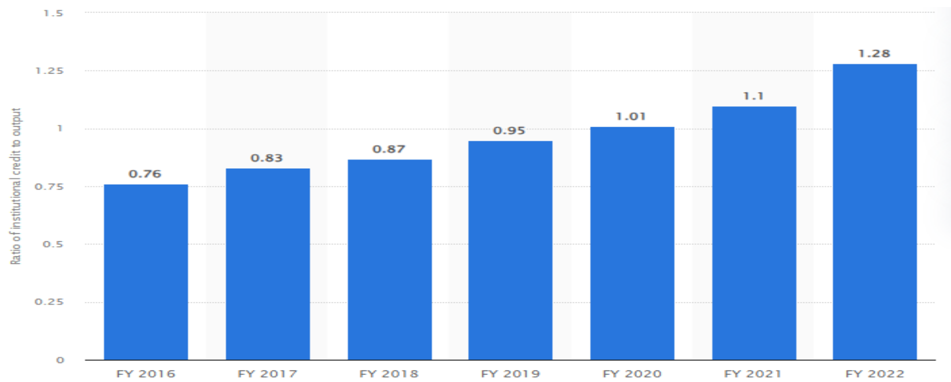
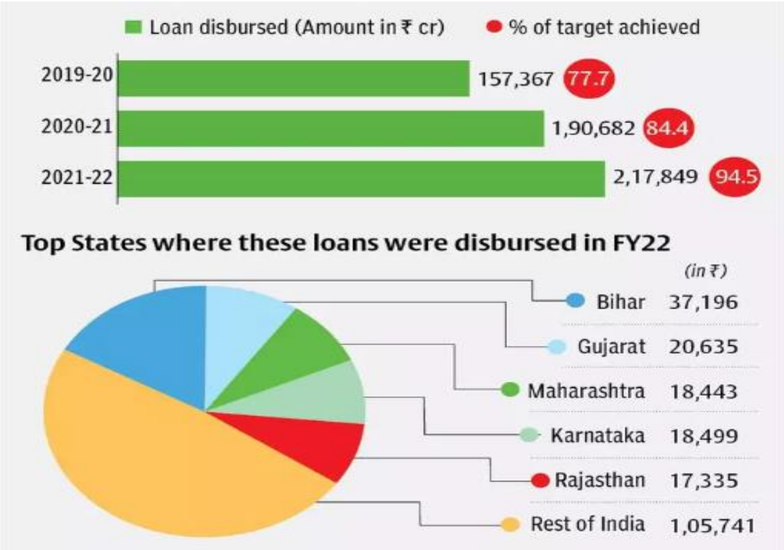


Image 2: Agriculture Loans Distributed through Cooperative Banks



Year by year credit distributed to agriculture sector by cooperative banks increased. In the year 2019-20 it was Rs- 157367 Cr. And the target distribution was achieved in the year 77.7%. The very next year the distribution jumped to 84.4%. The total amount distributed in the year 2020-21 is Rs-190682. In the year 2021-22 it seen the highest achievement of distribution as the distribution amounted to 217849 and 94.5%. The highest disbursed in the state of Bihar among all the states and followed by Gujarat and Maharashtra.

Image 3: Distribution of Interest rates on Farm Loan

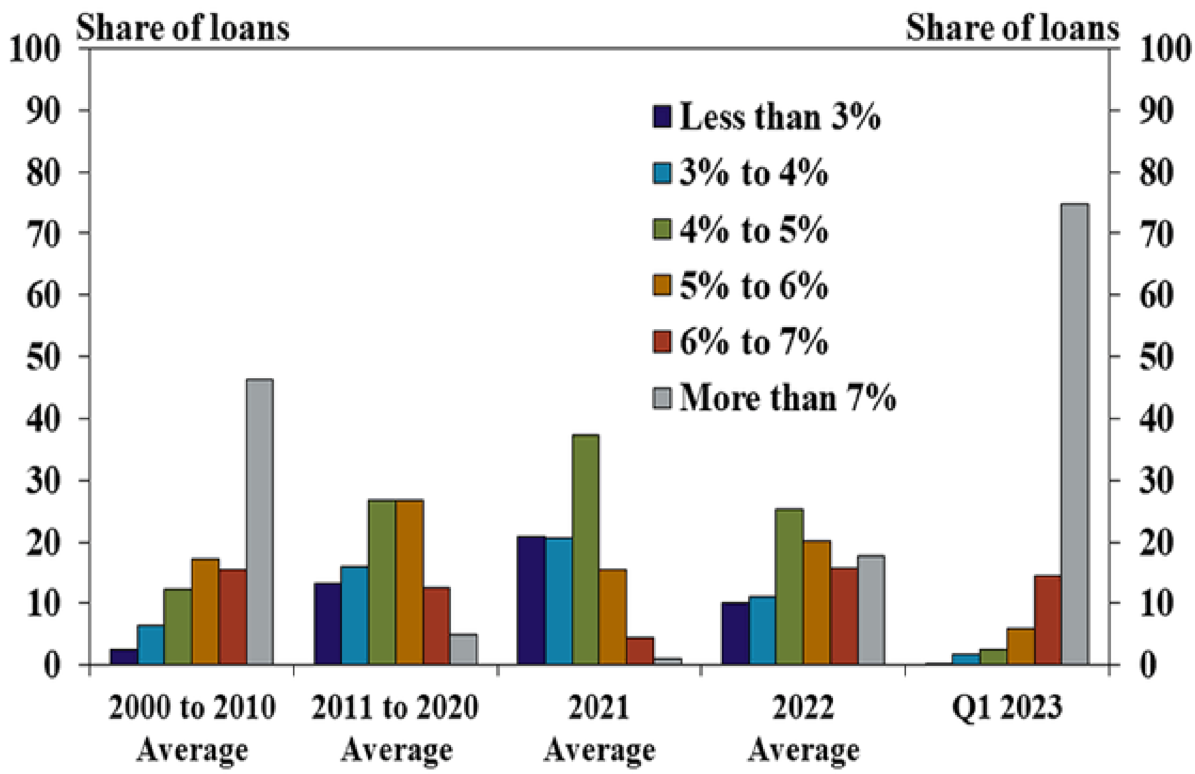


Image 3 describes about interest rates distribution in the firm loan. From 2000 to 2010 the loans carries highest interest (more than 7%) occupies the highest percentage where as low interest rate (less than 3%) loans disbursal occupies the lowest position. During the year 2011 to 2020 average rates were in the top disbursal. In the year 2021 loan carries 4%-5% interest rates got the highest disbursal. In 2023 75 % of the total loan disbursal is higher rate loans (more than 7%) and lower rate loans got very less disbursal.

6. Conclusion

The study's objective is to assess different types of loans available for farmers and ratio of institutional credit to output for agriculture in India. The credit to agricultural sector increased from Rs. 46268 crore in 1999-2000 to Rs. 1863363 crore in 2021-22 at an annual growth of 19.5% . In financial year 2022, the ratio of institutional credit provided to the total output in agriculture was 1.28. In other words, the credit given was greater than half of the total output obtained in the fiscal year. In the year 2021 loan carries 4%-5% interest rates got the highest disbursal. In 2023 75 % of the total loan disbursal is higher rate loans (more than 7%) and lower rate loans got very less disbursal.

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