

AGRICULTURAL POLICY AND NEED FOR AGRICULTURAL FINANCING IN INDIA

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Abstract:

Agriculture is the mainstay of the Indian economy engaging about 60 percent of the population and contributing 16 percent of GDP. In fact, agriculture is the way of life, a tradition, which for centuries, has shaped the thought, the outlook, the culture and the economic life of the people of India. Indian society is one of the oldest living civilizations of the world. It has a long history of about 5000 years in which the development of agriculture is also interwoven. India being rich in natural resources and manpower, its economy is characterized by too much dependence on agriculture and thus, it is a primary producing economy.

INTRODUCTION

First effort to frame agriculture policies in India was made during 1926 by appointing Royal Commission on Agriculture. The Commission was required to examine and report on existing condition of agriculture. It was asked to investigate particularly: (i) the measures taken for the promotion of agriculture and veterinary research, the compilation of agricultural statistics, introduction of new and better crops and improvement in agricultural practices, dairy farming; (ii) the existing methods for transport and marketing of agricultural produce and stock; (iii) the methods by which agricultural operations were financed and credit afforded to agriculture; (iv) main factors affecting the rural prosperity and welfare of the agricultural population. The recommendation of Commission included the aspects like fragmentation and sub-division of holdings, irrigation, and improvement of livestock, rural education, co-operation and marketing. One of the basic recommendations of the Commission was to make agriculture a profitable industry rather than a mode of living. It also suggested to form a committee for the periodically review of the problems and administration of agriculture. This Commission's report is still considered as a reference publication on agricultural policy. After Royal Commission, a number of committees were constituted from time to time to study the problem of agriculture administration and machinery. Sir John Russell Report, 1936 recommended the need for research in agriculture, Patel Committee, 1945-46 recommended the establishment of the Directorate of economics and statistics as a separate unit of Ministry. The study made by N. Gopalswami Ayyangar, 1949 recommended the need to create Bureau of Natural Resources and Agriculture. The Foodgrains Policy Committee, 1947, The Grow More Food Committee, 1952 and Balwantrai Mehta Committee, 1957 have made recommendations for the reorganization of the machinery of agricultural administration at different levels. Agricultural Production Board was set up by the Government of India in 1963 in order to streamline the agricultural production.

The National Commission on Agriculture was also constituted during 1970 to investigate and report on the pattern on land utilization, development of irrigation facilities and utilization of the science of soil conservation and land shaping. The National Commission on Agriculture frames the policies on agriculture from time to time. These policies cover various areas like production and productivity, land reforms, credit policies, pricing, trade policies, and other policies for development of infrastructural facilities for agricultural activities. The Commission announced a National Agriculture Policy (NAP) as per the instruction of the Government of India on 28th July, 2000. It was the first comprehensive agricultural policy statement of India which aims at attaining: (i) a growth rate in excess of 4 per cent per annum in the agriculture sector; (ii) growth based on efficient use of resources and conserving soil, water and bio-diversity; (iii) growth with equity i.e., growth which is widespread across regions and farmers; (iv) growth

i.e., demand driven and caters to domestic markets and maximizes benefits from exports of agricultural products in the face of challenges arising from economic liberalization (National Agriculture Policy, 2000). The 2007 draft of the 11th five-year plan (2008-13) acknowledges the agri-food sector's growing subsidy bill and declining investment but doesn't outline substantive approaches to reverse these trends. There has been continuous decline in the plan outlays for agriculture. During the 6th Five-Year Plan, the share was 5.8 percent, the same declined to 4.9 percent during 9th Plan and further come down to 3.9 percent during the 10th Plan. India has, however, taken some steps to make the agricultural markets more responsive such as revising the Agricultural Produce Market Committee (APMC) Act; to allow contract farming; removing the reservations for small scale firms on food processing industries; removing restrictions on futures trading on many commodities; allowing up to 100 percent foreign ownership in many agribusiness sectors.

The Government of India accords high priority to agriculture. The Government also plans to achieve a targeted growth rate through agricultural development. Knowledge will be the key catalyst of growth, besides the traditional source of growth like land and other sources. This policy seeks to actualize the vast untapped growth of Indian agriculture. The most significant change will, however, be witnessed in the institutions dealing with creation, protection, exchange and application of new knowledge and technologies (Rai, 2003).

NEED FOR AGRICULTURAL FINANCING

Modernization of agriculture is essential for strengthening of Indian agriculture which requires heavy investment in agriculture. Adequate and timely credit to the farmers is indispensable for agricultural development. It is no wonder that all farmers, especially the small and marginal peasants, borrow at one time or the other and in case of non-repayment, pass on the burden of debt to the next generation. The magnitude of rural indebtedness in the country clearly indicates that the Indian peasant is no exception. The adage that, "the Indian farmer is born in debt, lives in debt and dies in debt, still holds good. Cultivators are extremely poor and they are forced to depend on outside sources of finance for meeting their essential needs. They have to pay interest at very high rate on these loans and this eats up a very large slice of their small income. As a result, most of them are heavily involved in debts and cannot afford to spend money for making improvements in land. Lack of finance is also responsible for another defects in the agricultural organization. As most of the cultivators are heavily indebted to the *Mahajans*, they are often obliged to sell their produce to the latter at reduced prices or they have to sell in the market immediately after the harvest when the prices or crops are usually lower in order to meet the demand of the *Mahajans* for repayment.

Agriculture in India needs finance for various purposes at different intervals. Most of the needs for finances are linked to production processes. The farmers require money for the purchase of tools and equipments, seeds, fertilizers, improvement of land, labour charges and meet other expenses. For the fulfillment of these objectives several purchases have to be made involving huge payments. The credit needs of the farmers can be examined from two different angles:

- I. On the basis of time
- II. On the basis of purpose

I. On the basis of time

On the basis of time, the agricultural needs of the farmers can be classified into three categories:

a) Short-term finance

These loans are needed for the purchase of seeds, fertilizers, pesticides, feeds and fodder of live stock marketing of agricultural produce, payment of wages of hired labour, litigation and a variety of consumption and unproductive purposes. The period of such loans is less than 15 months. These are the loans that can usually be repaid fully out of the current income of the farmers when the crops are sold. These loans are expected to be available at short notice so as to enable the farmers to take the advantage of rains, do the ploughing and transplantation.

According to the All India Rural Credit Review Committee 1969, the short term credit is, "a kind of lump sum accommodation to fill up the gap in outlay which could be met from the cultivator's own resources during the non-income period between the harvests." There is long time interval between the sale of two crops and most of the farmers do not have sufficient income to sustain them during this time. Besides, current expenditure such as payment of taxes and rents are also met out of these loans. These loans

may be taken for productive as well as unproductive purposes. Main agencies for the grant of these loans are the money lenders and cooperative societies.

b) Medium-term finance

Farmers generally obtain these loans for the purchase of livestock, small agricultural implements, repair and construction of wells, installation of tube wells, repayment of old debts, meeting expenses of social functions, construction of farm house and cattle shed, reclamation of land, fencing etc. The period of these loans ranges from 15 months to 5 years. These loans are provided by money lenders, relatives of farmers, cooperative societies and commercial banks. A part of such loans may be repaid out of current income of the farmers every year.

c) Long-term finance

In case of long-term loans the period involved is more than 5 years and may be as long as 15 to 20 years or even more. It includes the loans for making improvement on land, purchase of expensive machinery like tractors, harvesters etc., purchase of additional land, land leveling, fencing and permanent improvement on land, digging of wells, repayment of old loans. The amount involved in such loans is very large. Hence, these loans are used for such purposes as contribute to agricultural production for many years. Such loans are normally taken from Primary Cooperative Agricultural and Rural Development Banks (PCARDBs) and Commercial Banks.

II. On the basis of Purpose

On the basis of purpose, agricultural credit needs of the farmers can be classified into following categories:

a) Productive Purpose

Under productive needs we can include all credit requirements which directly affect the agricultural productivity. To carry out the activities of production, an agriculturist has to purchase seeds, fertilizers, manures, water implements etc. He has to make payment to workers in the form of wages. He has to make expenditure as payment of taxes to the Government and in case of land on lease, rent has to be paid. Similarly, farmers have to find finance for such permanent improvements on the land as digging wells, fencing the land, clearing marshy areas etc. The finance for such purpose is productive in nature resulting in no difficulty being faced by the farmers in repayment of these loans.

b) Consumption Purpose

Farmers often require loans for consumption purposes. Between the period of marketing of agriculture production and harvesting of next crop, there is a long interval of time and most of the farmers do not have sufficient income to sustain them in this period. Therefore, they have to take loans for meeting their consumption needs. In the time of droughts or floods, the crops are totally damaged and farmers who otherwise avoid taking loans for consumption, also have to avail such loans. Institutional credit agencies rarely provide loans for consumption purposes. Accordingly, farmers are forced to fall back upon moneylenders and *Mahajans* to such requirements.

c) Unproductive Purpose

In addition to consumption requirements, farmers also require loans for a multiplicity of other unproductive purposes such as performance of marriages, social ceremonies on the birth or death of any family member, religious functions, festivals etc. Litigation, too forces the farmers to take loans. Since institutional agencies do not provide credit for such unproductive purposes, farmers have to seek assistance from moneylenders and *Mahajans*. As a result, a heavy amount as interest on such loans has to be paid by them. The repayment of loans and interest become almost impossible because they do not contribute to the productivity of farms.

To meet the above-mentioned needs, agricultural loans can broadly be classified into following two broad categories:

1. Direct Agricultural Loan

An agricultural loan is said to be direct if it is extended to the farmers directly to carry on their agricultural operations. In other words, the relationship between the bank and the farmer for such loan is established directly. The following activities can be included under direct lending to agriculture:

- (a) Production Finance:

It is used to meet cultivation expenses of crops, improvements of land, improvement of irrigational facilities etc.

(b) Equipment Finance:

Purchase of agricultural implements such as tractors, pump-sets, oil-engines etc.

(c) Processing Finance:

Certain crops require to be processed (e.g. tobacco, turmeric) before they could be marketed. The crop for seed production will also like-wise require to be processed.

(d) Construction of godowns including storage.

(e) Transportation

(f) Marketing

(g) Special farming activities such as Dairy/Poultry/Sheep/Pig farming/ Goat rearing.

(h) Plantation of crops

2. Indirect Agricultural Loan

An agricultural loan is said to be indirect if it is extended through an intermediary such as co-operatives, Farmers Service Societies (FSS) and also the fertilizer companies which in turn pass on the benefit to the farmers. Following is the list of activities under indirect lending:

(a) Financing of co-operatives

(b) Financing of agricultural machinery on hire purchase basis.

(c) Financing of custom service units, agro-industries, corporations etc.

(d) Assisting to farmers through intermediaries such as sugar factories etc.

(e) Financing of rural electrification schemes undertaken by State Electricity Board.

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