

# The Role of Agricultural Finance in Sustainable Rural Development: Sources, Structure, and Challenges in India

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## **Abstract:**

Credit is indispensable for every sector of the economy to grow. It provides additional oxygen to breath for better health of the economy. Schumpeter referred to 'Credit' as a phenomenon of development and considered the banking system along with entrepreneurship as a key input in the process of development. The succinctly brings out the importance of credit an input in development. Though credit in every sector of the economy is indispensable yet its role in agriculture is crucial. Agricultural credit has played a great role in increasing the agriculture production and also to improve the standard of living of rural population. In other words, agricultural credit may be defined as the amount of investible funds made available for farm business. In fact, it is a unique source since it provides the opportunity to use additional inputs and capital items now and to pay the cost from future earnings.

**Key words:** Sustainable, phenomenon, opportunity.

## **INTRODUCTION**

The importance of agricultural credit as a critical input to agriculture is reinforced by the unique role of Indian agriculture in the macroeconomic framework and its role in poverty alleviation. Agricultural credit is one of the most crucial inputs in all agricultural development programs. For a long time, the major source of agriculture credit was the private money lenders. However, this was inadequate, expensive and exploitative source of credit.

The success of agricultural sector in India depends not only on the use of new technology like use of better seeds, fertilizers and plant protection method, development of water resources but also on the availability of adequate credit at proper time. Though the agriculture is dependent on nature to a great extent, it also depends upon men and material inputs. The transportation and growth of this sector requires extensive adoption of a variety of inputs such as high yielding variety seeds, fertilizers, insecticides, pesticides, irrigation facilities and mechanization etc. In present time all these inputs are quite costly and sometimes beyond the reach of the poor farmers who constitute two-third of our farming community. In this backdrop the role of finance assumes more significance. The need of the agricultural finance can hardly be overemphasized in a developing country like India. This is particularly true in the context of the economy of Haryana where agriculture productivity has made significant contribution in the overall development of state economy. Thus, adequate and timely credit to the farmers is vital and indispensable for their rehabilitation and progress. Agricultural development is possible only if adequate capital and modern technology are used. The changes in technology of agriculture enhanced the need of credit. Farmers' inability or least ability to save does not allow him to finance his pursuits and raise better production from his farms. Agricultural credit through institutional channels is the only way to break agricultural stagnation as private funding agencies play a limited role keeping in view the larger vested interests. Credit plays a pivotal role in the agricultural development.

Credit acts as a catalyst to move the farmers from traditional to modern agriculture. It provides a command over resources and needed liquidity to farmers who do not have sufficient funds to exploit opportunities.

The farmers in the developing countries like India cannot expect their capital needs to be fulfilled from savings because their income from farm operations is barely sufficient to provide the minimum necessities of life. Now-a-days adequate credit serves as an elevator. In brief, it can be said that without adequate facilities a farmer cannot attain their production targets. A proper flow of credit, if the farmer avails at the proper time, can do much for development of agriculture.

### **SOURCES AND STRUCTURE OF AGRICULTURAL FINANCING:**

There are different sources to meet the requirements of agricultural financing. Broadly, the sources of agricultural finance can be divided into two categories:

#### **Non-institutional Sources**

The non-institutional sources are the following – (A) Moneylenders (B) Landlords (C) Traders and Commission-agents (D) Relatives.

(A) **Moneylenders:** At the time of Independence, the most important source of agricultural credit was the moneylenders. The moneylenders continue to exist in the Indian economy because it has got an important place in the scheme of rural credit structure. According to All India Credit Survey in 1951-52, moneylenders accounted for nearly 70% rural credit. As per the report of Reserve Bank survey in 1961-62, they accounted for about 49% of the rural credit. Thus, it is obvious that moneylenders have played a vital role in financing the agricultural sector. The significant position of the moneylenders in the rural money market was because of the following reasons:

- (i) The moneylenders provide credit for different purposes whether productive or non-productive and short-term or long-term.
- (ii) The money lending procedure is very informal, simple and elastic.
- (iii) They have much knowledge about the financing position of the borrower farmer.
- (iv) Another cause of the important position of the money lending class is the ultimate knowledge and relations with the debtors from generations.
- (v) Their willingness to lend on personal security is also one of the reasons of the success of moneylenders.

The moneylenders have often been not only criticized but condemned because of charging exorbitant interest rates ranging from 18 per cent to 50 per cent or even more, unscrupulous acts as well as malpractices followed by them. The following are the most common malpractices followed by them:

- (i) At the time of advancing money, the moneylenders usually deduct in advance the total interest of the year from the principal amount. He makes the borrower sign a bond to the effect that the full amount has been received. The moneylender can easily demand payment of the interest after a year because no receipt is given for the interest in advance.
- (ii) Many moneylenders get the thumb impression or signature of the borrower on blank sheets of paper before lending money. Later on they enter more than the actual amount if the debtors are not regular in the payment.
- (iii) Moneylenders generally manipulate the figures in registers in such a way as to show a larger amount than actually lent.
- (iv) Whenever the borrower is illiterate, the sum, inserted in written documents, is very often shown to be larger than what is actually lent.
- (v) Not only that, some moneylenders also do not take the trouble of entering in their books some installments of the money received as interest.
- (vi) Some moneylender charge “*Girah Khulai*” (purse opening) before any business is transacted. Many other charges such as ‘*Gaddi Kharcha*’ ‘*Salami*’ and ‘*Katauti*’.
- (vii) Lastly, sometimes conditional sale deeds are also made by some of the moneylenders to ensure against the possible evasion of payment by the debtors.

The high interest rates and malpractices were common because of various reasons. The absence of any effective alternative source of credit, greater risks which agricultural credit entails, small sized farm-holdings, the absence of ownership of occupancy rights in land in some cases are said to be the causes of high rate of interest. Besides, there is a lack of contact between the town and remote areas as supplying

credit to agriculture tends to become more difficult and costlier. It has rightly been said that the cumulative effect of exorbitant rates of interest paid by cultivators, low prices received from the sale of agricultural commodities and the effect of various malpractices by moneylenders who are also dealers in agricultural produce is that debt once contracted keeps on accumulating.

The need was, therefore, felt to amend the style of functioning of the moneylenders. The Agricultural Finance Sub-Committee was constituted to study the problem. As per report submitted in 1945, the Committee recommended mainly for: (a) registration and licensing of moneylenders, (b) maintenance of accounts in prescribed form, (c) prohibition against showing in books of account a sum larger than what has been actually lent, (d) furnishing of periodical statements of accounts to the debtors, (e) issue of receipts to the debtors for every payment received, (f) limitation of rate of interest (g) prohibition against taking unlawful charges for expenses, (h) provision to deposit in part or in full payment of a loan in a court of law, (i) protection of debtors from intimidation, and (j) institutional credit should be developed for this purpose and marketing should be regulated by law.

In view of the recommendations, the Government of India took steps to regulate the activities and operations of moneylenders through legislative enactments. The main objectives of such legislative enactments are (i) to bring about an improvement in the terms on which private credit was available to agriculturists, (ii) to place legal restrictions on the unreasonable extortion of moneylenders, and (iii) to enable civil courts to do greater justice to both the lenders and borrowers (Memoria, 1973).

(B) **Landlords:** Small farmers and tenants depend on *zamindars* and landlords in order to meet their day to day financial requirements. They borrow huge lump sum amount from landlords to meet their requirements like celebration of social functions, litigation, repayment of old debts etc. To recover these debts, landlords force them to be bounded labour and exploit them accordingly. The landless labourers also have been forced to become bounded slaves. The share of this source to rural credit was 14.5% in 1961-62 and it declined to 10% in 1995-96. Now, the *zamindari* system in India is decreasing day by day.

(C) **Traders and Commission-agents:** They supply funds to the farmers for productive purposes before the crops mature. They force the farmers to sell their produce at low prices and they charge a heavy commission on sale of agricultural produce. They also charge heavy rate of interest and exploit the farmers.

(D) **Relatives:** Farmers generally borrow money from their relatives in cash in order to tide over temporary difficulties. These loans are generally contracted in an informal way. They charge low or no interest and borrowed money is generally returned immediately soon after the harvest.

## INSTITUTIONAL SOURCES

The institutional sources comprise Co-operatives, Commercial Banks, Regional Rural Banks (RRBs), and the Government. As far as cooperatives are concerned, the Primary Agricultural Credit Societies (PACSS) provide mainly short and medium-term loans and the Primary Cooperative Agricultural Rural Development Banks (PCARDBs) provide long-term loans to agriculture. The commercial banks including RRBs provide both short and medium-term loans for agriculture and allied activities. The National Bank for Agriculture and Rural Development (NABARD) is the apex institution at the national level for agricultural credit and provides refinance assistance to the agencies mentioned above. The Reserve Bank of India as the central bank of the country plays a crucial role in this sphere by giving overall direction to rural credit and financial support to NABARD for its operations.

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